

## **South Yorkshire MCA Franchising Assessment - Independent Review**

### **Background**

This Independent Review letter has been prepared in accordance with the terms of our call off contract dated 13th June 2024 (under the Audit and Assurance Services Framework Agreement (RM6188)). The purpose of this letter is to provide South Yorkshire Mayoral Combined Authority (“SYMCA”, or the “Authority”) with the outcome of our Independent Review of the Authority’s Bus Franchising Assessment (as required by section 123D of the Transport Act 2000 (the “Act”)).

This letter is supported by our **Independent Review Report (Appendix A)** which sets out the process followed and outlines our findings and recommendations.

### **Scope of the Independent Review**

PwC (supported by Steer Davies & Gleave Limited) is engaged to undertake an Independent Review of SYMCA’s Bus Franchising Assessment, and to provide a report and express an opinion\* in relation to the following areas required by section 123D of the Act:

- Whether the information relied on by the Authority in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality;
- Whether the analysis of that information in the Assessment is of sufficient quality; and
- Whether the Authority had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.

In forming a view as to whether the information relied upon, and the analysis of the information by SYMCA is of sufficient quality, our review has taken into account the quality and timeliness of any information received from bus operators and the following criteria:

- whether there are any significant and material gaps in the information used
- whether the information used generally comes from recognised sources
- whether the information used appears to have been selected objectively, rather than to support the arguments in favour, or against, any particular option
- whether the Assessment takes into account any effects or potential effects from the COVID-19 pandemic
- whether the information used, collectively, is relevant and not significantly out of date
- whether the assumptions used in the Assessment are recorded and, where reasonably possible, supported by recognised sources

- whether, where information and evidence is less well defined, but would otherwise lead to an absence of data from the Assessment, the authority's approach is not unreasonable and potential risks associated with the assumptions made are identified
- whether appropriate ranges have been used for forecasts and associated uncertainties identified in the Assessment
- the mathematical and modelling accuracy of the analytical methods used to calculate the impacts of the options
- whether the authority's assumptions on the costs and benefits of the best EP reflect the evidence available of what could realistically be delivered through an EP at the point at which the Assessment was developed
- the availability, quality and – where relevant – timeliness of receipt from bus operators of the information available to the authority

PwC's role as reviewer is not to report or pass judgement on the decisions taken by SYMCA or the outcomes of the Assessment – it is purely to consider the process that has been followed, the accuracy and robustness of the information that has been used to support the Assessment, and to ensure the process has been carried out in accordance with the Guidance.

#### **Review process:**

As outlined in detail within the **Independent Review Report (Appendix A)**, our review was comprised of the following elements:

1. Reviewing the quality and sufficiency of data and information (Section 3 of the Independent Review Report)
2. Review of the Affordability and Value for Money Analysis and Modelling (Section 4 of the Independent Review Report)
3. Review process and compliance against Bus Services Act and DfT Guidance (Section 5 of the Independent Review Report)

In undertaking the independent review, we adopted a consultative approach with SYMCA and its advisory team which is characterised by the following stages:

1. Initial briefing with SYMCA and its advisory team - SYMCA and its advisors hosted a number of briefing sessions to describe the approach to the analysis, key assumptions and resulting findings;
2. Detailed review - PwC has undertaken a detailed review of the Assessment, with each case being reviewed relative to the guidance. This stage included a detailed review of the financial and economic models underpinning the Assessment.
3. Clarification process - following a detailed review, a clarification process commenced which set out a series of clarification questions for SYMCA and its advisors, including:

- a. Round 1 - focused on a review of the extent to which the Assessment followed the requirements of the Guidance
- b. Round 2 - focused on affordability, value for money analysis and underlying financial and economic modelling
- c. Round 3 - focused on a review of the supporting information, and close out of outstanding questions.

Additional analysis and sensitivities were provided by SYMCA where this was required to address any identified uncertainties or to provide additional clarity to the review team.

4. Recommendations and findings from the review were developed following the conclusion of the Clarification process outlined above. These findings are outlined within the Independent Review Report through Sections 3-5.

## **Conclusion**

The Independent Review concludes that, in all material respects:

- the information relied on by SYMCA in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality
- the analysis of that information in the Assessment is of sufficient quality
- SYMCA had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.



**\* Exclusions and Limitations:** The following exclusions and limitations apply to this letter and the Independent Review Report:

- This Independent Review does not constitute Independent Audit or Assurance, and it shall not be referred to as such by SYMCA in publishing the Assessment with the exception of where SYMCA is required to cite or refer directly to the terminology used in the Act and the Guidance.
- While the output includes an opinion on the extent to which the Assessment meets the requirements of the Act and the Guidance, it does not constitute an independent assurance engagement in accordance with professional audit or assurance standards (including but not limited to International Standards on Auditing (ISA) and International Standards on Assurance Engagements (ISAEs) and accordingly PwC will not issue an audit opinion or assurance conclusion.

### **Use of our this letter and our report**

This document has been prepared only for South Yorkshire Mayoral Combined Authority ('SYMCA') and solely for the purpose and on the terms agreed with SYMCA. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

This is a draft prepared for discussion purposes only and should not be relied upon; the contents are subject to amendment or withdrawal and our final conclusions and findings will be set out in our final deliverable.

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# SYMCA Bus Franchising Assessment

## Independent Review

Final Report  
August 2024

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# 1. Introduction

## Context

South Yorkshire Mayoral Combined Authority (“the MCA”) is undertaking a Bus Reform project which involves developing a Bus Franchising Assessment (“the Assessment”) in line with the Transport Act 2000 (as amended by the Bus Services Act 2017). The Assessment considers the extent to which the introduction of Franchising could address market failure and optimise the network for the region.

In line with the Act and Bus Franchising Guidance, following the completion of a draft Assessment, Authorities are required to commission an independent review of the Assessment, following which they can proceed to a public consultation. Taken together, the findings from each stage are presented to the Mayor to make a decision as to whether to implement Franchising.

Following the completion of a draft Assessment, on 24th March 2024, the MCA Board took the decision to approve the draft Assessment and proceed to procurement of a suitably qualified organisation to undertake an independent review of the Assessment.

On 11th June 2024, the MCA appointed PwC (supported by Steer Davies & Gleave Limited) to undertake the independent review over an 8 week period.

## Purpose of the Report

The purpose of this report is to set out the process undertaken by PwC in conducting the independent review as well as setting out the key findings. In line with Section 123D of the Act, the review has sought to assess:

- Whether the information relied on by the Authority in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality;
- Whether the analysis of that information in the Assessment is of sufficient quality; and
- Whether the Authority had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.

As specified in paragraph 1.87 of the statutory franchise scheme guidance (the "Guidance"), the Auditor's role is not to report or pass judgement on the decisions taken by the MCA or the outcomes of the Assessment – its role is purely to consider the process that has been followed, the accuracy and robustness of the information that has been used in the analysis and that the mechanics of the process have been carried out correctly. As set out in paragraph 1.85 of the Guidance, when forming its opinion as to whether the information relied upon, and the analysis of the information by the MCA, is of sufficient quality, the Auditor must take into account the quality and timeliness of any information received from bus operators and the following criteria:

- whether there are any significant and material gaps in the information used

- whether the information used generally comes from recognised sources
- whether the information used appears to have been selected objectively, rather than to support the arguments in favour, or against, any particular option
- whether the Assessment takes into account any effects or potential effects from the COVID-19 pandemic
- whether the information used, collectively, is relevant and not significantly out of date
- whether the assumptions used in the Assessment are recorded and, where reasonably possible, supported by recognised sources
- whether, where information and evidence is less well defined, but would otherwise lead to an absence of data from the Assessment, the authority's approach is not unreasonable and potential risks associated with the assumptions made are identified
- whether appropriate ranges have been used for forecasts and associated uncertainties identified in the Assessment
- the mathematical and modelling accuracy of the analytical methods used to calculate the impacts of the options
- whether the authority's assumptions on the costs and benefits of the best EP reflect the evidence available of what could realistically be delivered through an EP at the point at which the Assessment was developed
- the availability, quality and – where relevant – timeliness of receipt from bus operators of the information available to the authority

## **Approach to the review**

In undertaking the independent review, we have adopted a consultative approach with the MCA and its advisory team which is characterised by the following stages:

1. Initial briefing with the MCA and its advisory team - the MCA and its advisors hosted a number of briefing sessions to describe the approach to the analysis, key assumptions and resulting findings;
2. Detailed review - PwC has undertaken a detailed review of the Assessment, with each case being reviewed by a case lead, relative to the guidance. This stage included a detailed review of the financial and economic models underpinning the Assessment.
3. Clarification process - following a detailed review, a clarification process commenced which set out a series of clarification questions for the MCA and its advisors, including:
  - a. Round 1 - focused on a review of the extent to which the Assessment followed the requirements of the Guidance



- b. Round 2 - focused on affordability, value for money analysis and underlying financial and economic modelling
- c. Round 3 - focused on a review of the supporting information, and close out of outstanding questions.

Additional analysis and sensitivities were provided by the MCA where this was required to address any identified uncertainties or to provide additional clarity to the review team.

4. Recommendations and findings from the review were developed following the conclusion of the Clarification process outlined above, noting that a series of recommendations made throughout the review were to be captured as part of an updated Assessment document.

## Outputs

The outputs of this Independent Review include:

- **PwC Independent Review Letter** - which sets out the outcome of the Independent Review
- **Appendix A: Independent Review Report** - this report, which sets out our detailed approach and findings of the Independent Review.

***Note:** Whilst the outputs include an opinion on the extent to which the Assessment meets the requirements of the Act and the Guidance, this does not constitute an independent assurance engagement in accordance with professional audit or assurance standards (including but not limited to International Standards on Auditing (“ISA”) and International Standards on Assurance Engagements (“ISAEs”).*

## Report Structure

This report is structured as follows:

**Section 2: Executive summary of review** - Section 2 outlines the key findings of our report, alongside a number of recommendations;

**Section 3. Reviewing the quality and sufficiency of data and information** - Section 3 outlines the review of the quality and sufficiency of the data and information relied upon by the MCA as part of its Franchising Assessment as per the requirements of **123D(5) of the Statutory Guidance**;

**Section 4. Review of the Affordability and Value for Money Analysis (Modelling)** - Section 4 outlines the review of the quality of analysis undertaken by the MCA in respect of the affordability and value for money of the Franchising Scheme (**123B(3)(d/e)**).

**Section 5. Review process and compliance against Bus Services Act and DfT Guidance** - Section 5 outlines. The review has considered the extent to which the MCA followed the Bus Services Act 2017 and the Department for Transport's (“DfT”) Franchising Scheme Guidance, which requires a comprehensive and robust Assessment across five cases included in the business case.

## 2. Executive Summary of review

The South Yorkshire Mayoral Combined Authority (SYMCA) has conducted a comprehensive Bus Franchising Assessment to evaluate the potential implementation of a franchising model for the region's bus services. This assessment was carried out in accordance with the Transport Act 2000, as amended by the Bus Services Act 2017, and followed the DfT's statutory guidance for Bus Franchising.

### Key Findings:

- The findings set out within Section 3 confirmed that the **data and information** used in the assessment were **derived from recognised sources and is deemed to be of sufficient quality**.
- Section 4 confirms the review of the **Affordability and Value for Money** (including modelling) is deemed to be **robust and consistent with requirements of the guidance**.
- The findings in Section 5 confirm the **process followed by SYMCA is in line with the Bus Services Act 2017 and the DfT's Franchising Scheme Guidance**. The assessment covers the required five cases:
  - Strategic Case: The franchising scheme aligns with SYMCA's strategic priorities and contributes to local and neighbouring transport policies.
  - Economic Case: The appraisal is underpinned by detailed economic modelling of the proposed network, which considers the wider economic and societal impacts of the proposed franchising scheme, including environmental and social costs and benefits. Sensitivity tests were performed to account for uncertainty and optimism.
  - Commercial Case: The commercial case outlines competitive procurement strategies, contract arrangements, and measures to successfully implement franchising and facilitate the involvement of different operators.
  - Financial Case: The financial case demonstrates the affordability of the franchising scheme, supported by detailed modelling forecasts at a whole of industry level. Key financial risks were identified and mitigations proposed.
  - Management Case: The assessment details the proposed operating model, programme management structure and transition process, including contingency plans for service continuity during the transition to franchising.

### Themes from review:

**Commitment to Improvement:** There is a clear commitment to improving bus services in South Yorkshire through a franchising model that addresses current challenges and aligns with objectives.

**Rigorous Analysis:** The assessment is underpinned by robust financial and economic modelling, setting out that the franchising scheme is both affordable and offers value for money.

**Stakeholder Engagement:** The process has involved suitable levels of engagement with stakeholders, including bus operators and neighbouring authorities, so that the franchising scheme is comprehensive and considers the needs of all parties.

**Passenger focus:** The proposed changes are passenger-centric, aiming to deliver improved services, better journey experiences, and increased satisfaction.

**Risk Management:** The assessment demonstrated a proactive approach to risk management, with risks clearly identified throughout the assessment and clear strategies outlined to mitigate potential risks associated with the transition and implementation of a franchising model.

### 3. Reviewing the quality and sufficiency of data and information

#### Introduction

This section outlines our approach and findings in reviewing the quality and sufficiency of the data and information relied upon by the MCA as part of its Franchising Assessment as per the requirements of 123D(5) of the Statutory Guidance:

*“in relation to the matters to be taken into account by an auditor when forming an opinion as to whether the information relied on in a franchising assessment, and the analysis of that information, by an authority is of sufficient quality”.*

The following section sets out:

- Approach to the review
- Data and assumptions considered within the scope of the Assessment
- Review findings in relation to each data and assumption category
- Conclusion by exception including recommendations in relation to the quality and sufficiency of data and information

#### Approach to review:

Our approach to this part of the review comprised the following stages:

#### Identifying the data and information within the scope of the review

The review firstly identified all data, information and assumptions within the scope of the review across the Franchising Assessment, Economic and Financial Models, Intermediate worksheets, assumptions logs and supporting workpapers for all cases.

#### Detailed review of all data, information and assumptions

A line-by-line Assessment of data, information and assumptions was undertaken (see tables below) in accordance with the following factors required by the Guidance:

- whether there are any significant and material gaps in the information used
- whether the information used generally comes from recognised sources
- whether the information used appears to have been selected objectively, rather than to support the arguments in favour, or against, any particular option
- whether the information used, collectively, is relevant and not significantly out of date
- whether assumptions used in the assessment are recorded and, where reasonably possible, supported by recognised sources
- whether, where information and evidence is less well defined, but would otherwise lead to an absence of data from the Assessment, the authority’s approach is not unreasonable and potential risks associated with the assumptions made are identified

- whether appropriate ranges have been used for forecasts and associated uncertainties identified in the Assessment
- the availability, quality and – where relevant – timeliness of receipt from bus operators of the information available to the authority

Based on the factors required by the Guidance, definitions around the key factors were created to support the sufficiency and quality review of the data. These are described in the table below:

Key Guidance factor	Definition for review purposes
Material Gaps in information	<p>A material gap is a gap that would undermine credibility of the Assessment and expose it to challenge.</p> <p>The review has sought to obtain information sources and methods used by the franchising authority and identify any missing or incomplete data that could affect the analysis and conclusions of the Assessment.</p>
Recognised Sources	<p>Whether the information used comes from recognised sources that are reliable, consistent and authoritative. Recognised sources could include official statistics, academic research, industry reports, surveys or consultations.</p> <p>Using unrecognised sources reduces the validity and transparency of the Assessment and increases the risk of bias, error and legal challenge.</p> <p>The review, where relevant, has challenged the sources of information for their quality, accuracy and relevance for the Assessment.</p>
Objectivity of information	<p>Whether the information used appears to have been selected objectively, rather than to support the arguments in favour or against any particular option.</p> <p>Objectivity of information ensures the Assessment is fair, balanced and evidence-based, and considers the impacts of the options on different groups and stakeholders.</p> <p>The review, where relevant, has challenged the information and checked whether it reflects the range of views and interests in the bus market and the wider society.</p>
Date of information	<p>Whether the information used, collectively, is relevant and not significantly out of date.</p> <p>Date of information could affect the accuracy and reliability of the forecasts and assumptions used in the Assessment, mainly within the Financial and Economic Cases.</p> <p>The review, where relevant, has challenged the information and checked whether it captures the current and expected future conditions and trends in the bus market, the wider economy and the MCA's current status. Furthermore, the review has looked at whether the Assessment accounts for any uncertainties or risks associated with the options.</p>

### Clarifications process

Following review of all information provided as part of the review, a series of clarifications were raised which included:

- Identifying any gaps in information
- Identifying areas whereby underlying sources were unclear or had not been provided
- Identifying assumptions that required further clarification
- Identifying any significant queries that may require further analysis or sensitivity testing to support the conclusions of the review.

Further briefing sessions were held where required to support the closure of clarification questions (CQs) or discussion of further analysis that had been undertaken to support the review process.

Note that the above was undertaken in parallel with the Economic and Financial Model reviews (see Section 4).

### Data and assumptions within the scope of the Assessment

The table below sets out the key categories of information that underpin the Assessment and the main items contained within each of the categories. The table also identifies the case-by-case dependencies, recognising that much of the underlying data and assumptions feed into numerous aspects of the Assessment and are interdependent (e.g. Demand projections which impact the Economic analysis and feed into the Financial modelling).

Information Category	Description	Key Case dependencies
Timing and Phasing	Assumptions in relation to the duration and start dates of the different phases of the bus reform options, such as the design, transition, and BAU phases for EP Plus and Franchising.	All cases
Financial	This category includes assumptions about the revenue and costs for the MCA and the bus operators under the different options, such as grants, fares, BSOG, and cross boundary income. Furthermore, this includes assumptions about the inflation rates applied to the revenue and cost streams for the different options, based on the relevant indices and forecasts.	Financial and Economic cases
Economic Forecasting and Economic Appraisal	This category includes assumptions about the peak vehicle requirements, spare vehicles, and service frequencies for the different bus operators and the franchised network. Furthermore, the operator margins, risk premiums, and contract durations for the franchised network, as well as the risk allocation between SYMCA and the operators under the different options are included. In addition, further information on the fare levels, farebox income, ticketing products, and branding costs for the different options, as well as the impact of the zero fare pass scheme. Additionally this category includes economic inputs such as discounting, value of time, and wider economic benefits, as well as demand, journey time and trip distance assumptions.	Economic, Commercial and Financial cases
Fleet	Relates to assumptions about the fleet composition, costs, useful life, and battery renewal for the different bus operators and the franchised network, as well as the transition to zero emission buses (ZEBs).	Commercial, Financial and Economic cases

Information Category	Description	Key Case dependencies
Depots	This category includes assumptions about the depot locations, acquisition costs, and useful life for the franchised network, as well as the alternative depot options in case the existing depots cannot be acquired from the operators.	Commercial, Financial and Economic cases
Staffing	This category includes assumptions relating to the current and additional staffing that would be required for transition to an EP Plus of Franchising scheme.	Financial, Economic and Management cases

## Assessment of data and assumptions

The tables in the following section identify the detailed assumptions which have been used under the key categories described in the table above. Within these tables, we have reviewed the sufficiency and quality of the MCA referenced sources compared to the assumption and made a comment on where the information provided by the authority is of sufficient quality.

### Timing and Phasing

Data/ Assumption	The MCA's referenced source	Commentary
Design Phase / Period	The MCA's resourcing and planning work	The MCA has identified an 18 month design period for the Franchising option. Based on the review undertaken, this appears reasonable.
Implementation Phase / Period	The MCA, Grant Thornton and Arup resourcing and planning work	The 15 month implementation period appears to be reasonable based on the work undertaken by the MCA.
Transition Phase / Period	The MCA, Grant Thornton and Arup resourcing and planning work	The 3 year transitional period appears to be reasonable based on the work undertaken by the MCA and detailed programme outlined within the Management Case.

### Financial

Data/ Assumption	The MCA's referenced source	Commentary
Repayment schedules	Matching of the MCA's Minimum Revenue Provision (MRP) accounting policy	Equal loan instalments on capital investment appears reasonable and in line with already established internal approaches and expectations of using a public sector financing approach.
Loan terms	Matched to the useful life of each asset based on The MCA's Finance and Grant Thornton / Arup	Loan terms on depots and fleet are in line with the expected useful life of the assets and appear reasonable. Challenge was raised during the review on the appropriateness of ZEB battery useful life,

Data/ Assumption	The MCA's referenced source	Commentary
	judgement	however this was determined to be reasonable at 8 years and does not impact the ranking of the Assessment options.
Levy funding	The MCA's Medium Term Financial Plan (MTFP)	Levy funding appears reasonable and based on work undertaken through the MCA's MTFP processes.
Indexation	OBR Economic Forecast	The MCA has used OBR, an independent recognised data source which is typically used for inflationary assumptions across Green Book compliant appraisal. Challenge was raised as to why DfT's TAG was not used for the inflation curves. As inflation applies to all options, the decision to use OBR appears reasonable.
Public sector interest rate	Link Group (external source)	The MCA has received future PWLB forecasts from 'Link Group', now MUFG Pension and Market Services to assume the PWLB borrowing rate. The independent source appears of sufficient quality to undertake the analysis and is authorised and regulated by the FCA - the long term rate assumption appears reasonable.
Private sector interest rate	Market Watch, First Group, London Stock Exchange, Stagecoach	The MCA has retrieved information from external, independent market sources (Market Watch and LSE) as well as operators to determine the cost of debt and WACC. The sources of information appear of sufficient quality and have been reviewed against source.
The MCA's revenues	The MCA's Medium Term Financial Plan (MTFP)	Revenues appear reasonable and based on work undertaken through the MCA's MTFP processes.
Interest rate on cash balances	UK T-bill yields from Trading Economics and risk-free analysis on Statista	The use of Trading Economics and Statista appear reasonable for the interest rate on cash balances assumption with UK T-bills being a sufficient benchmark to use.
Approach to grant funding	Government City Region Sustainable Transport Settlements 2 indicative allocations	The MCA has used information provided by the UK Government on indicative CRSTS 2 allocations to reference the funding which may be available for capital costs. The review challenged the certainty around CRSTS 2 funding for capital expenditure due to its indicative nature. The narrative was amended by the MCA in a further iteration of the Assessment.



Data/ Assumption	The MCA's referenced source	Commentary
Discounting and deflators	DfT TAG	<p>The MCA has used TAG to inform the values of time, marginal external costs, GDP deflator, discount rate, modal abstraction, indirect tax impact and simplified ticketing inputs. The use of TAG appears reasonable for these assumptions.</p> <p>The MCA has been challenged on why indirect tax has been excluded for PT revenue. The economic appraisal has been updated to include the indirect tax for net consumer revenue</p>
Average bus / car trip length	National Travel Survey	<p>The MCA has used the national travel survey to inform the average bus / car trip length (distance). The use of the National Travel Survey appears reasonable.</p>
Annualisation factor	NTEM / TEMPro	<p>Car and Bus annualisation factor derived from NTEM / TEMPro, which appears reasonable and sufficient.</p>
Bus and car demand	NTEM / TEMPro	<p>Bus and car demand has been derived from NTEM / TEMPro. The MCA has been challenged on the use application and validation of this data including the exclusion of 2058 data despite being in the appraisal period, validation of the data against population and employment data, validation against operator data, and confirmation that the data represents an 'average' weekday.</p> <p>Furthermore, the MCA has been challenged to provide evidence of the suitability of the use of this data. A sensitivity test has been undertaken to understand the impact of different levels of demand, and this has provided comfort in the results of the Assessment given the level of uncertainty inherent in the demand and supporting inputs.</p>
Journey times and elasticities	PODARIS	<p>PODARIS was used to derive the journey times and mileages for the Assessment. The use of PODARIS appears reasonable.</p> <p>The MCA has been challenged on the validation of the data from PODARIS given the journey times are higher than the average journey times across the UK. It has also been noted that mileage was extracted for a full week compared to using the weekday peak for journey times, and evidence has been requested that this does not cause a discrepancy. A sensitivity test has been undertaken</p>

Data/ Assumption	The MCA's referenced source	Commentary
		to understand the impact of different levels of demand, and this has provided comfort in the results of the Assessment given the level of uncertainty inherent in the demand and supporting inputs.
Reliability Data	Bus Operator Data	Bus operator data was used to derive the reliability factor used in the economic modelling. The use of bus operator data seems reasonable. However, the MCA has been challenged on the exclusion of some of the data despite it appearing reasonable and its exclusion having an impact on the reliability factors used in the modelling. The MCA has updated the Assessment to explain why some operator data has been excluded.
Fares data	Bus Operator Data	Bus operator data used to derive the fares used in the economic modelling. The user of bus operator data appears reasonable.
Health benefits	New Zealand Transport Appraisal Guidance	New Zealand Transport Appraisal Guidance was used to derive the health benefits used in the economic modelling. The MCA have updated the Assessment to note that while the New Zealand Transport Appraisal Guidance is considered consistent with TAG, its use has not previously been accepted by DfT.
Wider economic benefits	DfT TAG, BEIS	The MCA has used TAG and BEIS data to derive the wider economic benefits used in economic modelling. The use of TAG and BEIS data seems reasonable. It was noted that negative impacts on the labour supply were excluded from the analysis, explanation has been provided for this and it has been advised that this narrative is included in the Assessment. This has not changed the outcome of the assessment and therefore appears reasonable.
Zero emission bus benefits	DfT's Greener Bus Tool	It is understood that DfT's Greener Bus Tool was used to derive the zero emission bus benefits used in the economic modelling. This is a recognised approach and aligns with expectations on the ZEB Benefits derived.
Service changes	Work undertaken within the MCA	The selection of services to be removed from the reference case was based on a priority ranking provided by the MCA. The MCA were challenged to provide more detail on how this selection took place and have included additional explanation in the Assessment respectively.

Data/ Assumption	The MCA's referenced source	Commentary
Profit margins	Grant Thornton Operator Margin Report	Profit margins used based on evidence provided in the Grant Thornton Operator Margin Report. The MCA has been challenged on the robustness and defensibility of the profit margin assumptions. The concerns have been addressed and the Grant Thornton Operator Margin Report updated respectively.
Operating costs	Data received from operators within South Yorkshire	Bus operator data was used to derive the operating costs used in the economic modelling. The user of bus operator data appears reasonable.
Concessionary pass trips	DfT Bus Statistics	DfT Bus Statistics have been used to derive the proportion of concessionary pass trips used in the economic modelling. The MCA has been challenged on the validation of this data and whether diffidence in split between time periods have been considered. Detail has been added to the Assessment and this source of data is considered reasonable.
District yields	Data received from operators within South Yorkshire	Bus operator data has been used to derive the proportion of yields for each district. The MCA has been challenged on the validation of this data and whether diffidence in split between time periods have been considered. Detail has been added to the Assessment and this source of data is considered reasonable.

## Fleet

Data/ Assumption	The MCA's referenced source	Commentary
Battery useful life	Based on the MCA's experience in Rotherham	The MCA has assumed the battery useful life based on renewals from Rotherham ZEBs. The assumption used appears reasonable and based on the MCAs prior experience in the region.
ZEB infrastructure useful life	Hitachi Energy, Danlec Electrical Solutions	Independent sources Hitachi and Danlec have been used, which are of sufficient quality. The assumptions around ZEB infrastructure useful life on this basis appear reasonable.
Optimism bias	MCA judgement, informed by HMT Green Book.	The MCA has sought to inform its optimism bias application on fleet costs by referencing the HMT Green Book. The review has challenged that many of the optimism bias assumptions fall out of the range of the Green Book ranges. Based on review

Data/ Assumption	The MCA's referenced source	Commentary
		feedback, the MCA have amended wording in the Assessment around application of OB. Where the MCA has applied OB outside of the Green Book ranges, this appears to be higher than the Green Book ranges and therefore a prudent approach. Therefore, it does not appear to alter the assessment outcomes and appears reasonable.
Vehicle costs (diesel, EV)	Arup fleet report, The Times and Ending the Sale of new non-zero emission buses in the UK (UK Gov)	We note that the MCA has engaged with Arup through the Assessment to lean on their technical expertise. Arup professional judgement has been applied across a number of assumptions. From review of the documentation relating to Fleet, the information gathered and disseminated by Arup in relation to vehicle costs appears reasonable. The review is content with the quality of data provided by Arup in relation to the Fleet Report and assumptions align with expectations..
Residual value	Arup fleet report	The MCA has engaged with Arup through the Assessment - Arup have provided a number of assumptions based on professional judgement and transport expertise. The residual value data appears to be a reasonable assumption and aligns with expectations across Bus Franchising Assessments.
Depreciation	Arup fleet report and Ending the Sale of new non-zero emission buses in the UK (UK Gov)	Further to the commentary on Fleet vehicle costs, the Arup Fleet Report has been reviewed and the assumptions relating to depreciation appear reasonable.
Infrastructure costs	Arup fleet report	Further to the commentary on Fleet vehicle costs, the Arup Fleet Report has been reviewed and the assumptions relating to depreciation appear reasonable.
Operating costs	Arup fleet report	Further to the commentary on Fleet vehicle costs, the Arup Fleet Report has been reviewed and the assumptions relating to depreciation appear reasonable.
Fleet renewal	MCA requirements	The profile of fleet renewal within the Assessment has been reviewed. It is understood that the fleet renewal profile selected was based on the MCA's affordability envelope. The review challenged this assumption by requesting an additional sensitivity whereby an increased level of fleet was purchased. This scenario did not change the Assessment outcomes and therefore the review team is satisfied with this assumption.

Data/ Assumption	The MCA's referenced source	Commentary
		It should be noted that the affordability of Fleet and the MCA's ability to purchase is heavily dependent on the level of CRSTS 2 received both by confirmation from the UK Government and internal allocations.

## Depots

Data/ Assumption	The MCA's referenced source	Commentary
Acquisition Costs	Sanderson Weatherall schedule of values report	The independent valuation report has been reviewed and has been determined as sufficient for the purposes of the Assessment. The report has been conducted by an independent third party which is an expert in their field and therefore the information appears reasonable and of sufficient quality.
Useful Life	South Yorkshire Combined Authority statement of accounts and StageCoach financial accounts	The useful life of depots has been determined using Private Operator information and also the MCA's own useful life accounting practices for buildings. The assumption of 30 years used appears reasonable and prudent compared to a 50 year life in Operator statements.
Renewals	Sanderson Weatherall schedule of values report	As noted in the Depot acquisitions costs assumption, the Sanderson Weatherall report is considered to be of sufficient quality to determine depot assumptions. The report has been reviewed for renewal assumptions and these appear reasonable.
Approach to acquisition of depots	Surveys carried out by Sanderson Weatherall and the MCA	As noted in the Depot acquisitions costs assumption, the Sanderson Weatherall report is considered to be of sufficient quality to determine depot assumptions. The report has been reviewed for acquisition of depots assumptions and these appear reasonable.
Optimism Bias on depots	MCA judgement, informed by HMT Green Book.	The MCA has sought to inform its optimism bias application on depot costs by referencing the HMT Green Book. The review challenged that some of the optimism bias assumptions fell outside of the Green Book ranges. Based on review feedback, the MCA have amended wording in the Assessment around application of OB. Where the MCA has

Data/ Assumption	The MCA's referenced source	Commentary
		applied OB outside of the Green Book ranges, this appears to be higher than the Green Book ranges and therefore a prudent approach and does not appear to alter the Assessment outcomes.

## Staffing

Data/ Assumption	The MCA's referenced source	Commentary
Business as usual staffing costs and resourcing	Target operating model work undertaken by the MCA	Work has been undertaken by the MCA through their MTFP process to identify the ongoing BAU staff costs - these assumptions appear reasonable based on the analysis undertaken.
EP Plus and Franchising transition staff costs	Target operating model work undertaken by the MCA	Work has been undertaken by the MCA through Target Operating Model analysis to identify the ongoing EP Plus and Franchising costs. These costs have been further linked to internal available data on salary costs. The assumptions appear reasonable.
Optimism bias relating to EP Plus and Franchising staffing	Based on MCA judgement	The MCA has sought to inform its optimism bias application on staffing costs by referencing the HMT Green Book. The review has challenged that a number of optimism bias assumptions fell outside of the Green Book ranges. Based on review feedback, the MCA have amended wording in the Assessment around application of OB. Where the MCA has applied OB that are outside of the Green Book suggested ranges, they appear to be higher than the Green Book ranges and therefore provides a prudent approach. This approach does not appear to alter the Assessment outcomes and appears reasonable.

## Conclusions and recommendations

The review of the data and assumptions used in the Franchising Assessment found that the information used came from recognised sources, was relevant and not significantly out of date, and was selected objectively.

Throughout the process of the review some information was identified as either inconsistent or requiring further clarification. Where this was the case, the review requested additional validation or sensitivity testing

to support the robustness and credibility of the Assessment. Once these requests were completed, there were no remaining material concerns with information used for the Assessment.

## 4. Review of the Affordability and Value for Money Analysis (Modelling)

### Introduction

This section outlines the review of the quality of analysis undertaken by the MCA in respect of the affordability and value for money of the Franchising Scheme (123B(3)(d/e)). This includes detailed review of the Economic and Financial Models, Intermediate Modelling Sheets, Assumptions Log and other supporting analysis papers.

This stage of the review builds upon the review of underlying data and assumptions as set out within Section 3, with a focus on:

- Assessing the mathematical and modelling accuracy of the analytical methods used to calculate the impacts of the options
- Assessing how the data and assumptions have been applied in assessing the affordability / value for money of options, and whether the approach is accurate, robust, and aligned with requirements of the Guidance.
- Whether, as a result of the above, the conclusions drawn by the MCA in respect of affordability and value for money of Franchising are consistent with the information relied upon.

### Approach to review:

Our approach to this part of the review comprised the following key stages:

#### Financial / Economic Model Briefing Sessions

The review team attended detailed briefing sessions for both the Economic and Financial Cases and supporting models, in order to understand:

- The process and logic flow of the Financial and Economic Modelling and supporting working papers
- The approach to assessing both affordability (Financial Case) and value for money (economic case)
- The primary conclusions drawn within the Assessment regarding affordability and value for money, resulting in the selection of Franchising Option B as the preferred option
- The MCA's view of the main risks/ areas of uncertainty in the conclusions drawn, and the sensitivities examined to gain comfort regarding these risks/uncertainties.

As part of the detailed briefing sessions, an on-screen model walkthrough was provided to aid understanding of the key data inputs, intermediate calculations and model outputs (including scenario analysis), prior to undertaking the detailed review.



## **Model Review (Part 1) - Testing the mathematical and modelling accuracy of the analytical methods used**

This stage of the review was focussed on testing the accuracy and robustness of the Financial and Economic Modelling and associated working sheets. This included:

- Evaluating the structure of the financial and economic models to ensure they were logically organised and that the flow of calculations is coherent. This included assessing how the outputs of the economic model (including demand and revenue projections) flowed through to intermediate calculation sheets and the Financial model.
- Checking for the presence of any model errors, inconsistent formulae, circular references or illogical dependencies, with support of modelling tools such as OAK Analysis Kit and Arixel Explorer.
- Ensuring that assumptions and analytical methods have been applied consistently across the models and that information/approaches have not been used selectively to support a particular conclusion.
- Examining the impact of key 'time-based' modelling assumptions including growth/inflation rates and assessing whether these are supported by appropriate underlying sources (e.g. OBR).
- Verifying the key outputs of the model are consistent with the inputs and assumptions applied and our understanding of the options being assessed.

## **Model Review (Part 2) - Assessing the quality of affordability and value for money analysis**

*Note this section of the review was undertaken in parallel with Section 3, in order to satisfy assess:*

- *Whether the information relied on by the Authority in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality;*
- *Whether the analysis of that information in the Assessment is of sufficient quality;*

The second component of model review was focussed on assessing the quality of affordability and value for money analysis, ensuring that the conclusions drawn from the modelling were robust and that the application of data and assumptions within the analysis was consistent with expectations of the Guidance. This included:

- Reviewing all assumptions and model inputs against source data, ensuring that information complied with requirements set out in section 1.85 of the Guidance.
- Assessing the key outputs from the model alongside the Economic and Financial Cases within the Assessment, to check whether they are consistent with the underlying assumptions/data used and that the analytical approaches used are robust.

- Examining the sensitivity/scenario tests applied to the modelling outputs to assess the impact of key risks for each option, and identifying areas of uncertainty/risk that required further scenario testing or explanation.

### **Clarification Process and Additional Sensitivities**

Following conclusion of the model review, a series of clarification questions were raised relating to both model accuracy/arithmetic and the conclusions of the analysis itself. Any areas which were identified as key risks or uncertainties which had not yet been fully examined within the Assessment were highlighted as requiring further sensitivity/scenario analysis (see further in the Findings section below).

### **Follow up Clarification and Close Out**

A series of follow up sessions were held to examine the impact of additional analysis and sensitivity testing that had been agreed as part of the review process. The focus of these sessions was to assess whether, in the opinion of the reviewer, any findings identified regarding the approach to the value for money and affordability analysis (or underlying data/assumptions) do not change the overall conclusions of the Franchising Assessment.

The section below provides further details of the key areas that were explored as part of this process.

### **Summary of Findings / Recommendations**

- Reference case - as part of the economic and financial modelling review it was noted that the reference case modelled assumed a cut in grant funding beyond 2023/24 as compared to EP+ and Franchising (based on SYMCA's funding commitment position). The review team explored a series of sensitivities alongside SYMCA's advisors to assess the potential network impacts of this assumption, as well as exploring the outcome of options under an 'equivalent funding' reference case model. Following implementation of additional sensitivities within the assessment, the review team is satisfied that the selection of Franchising Option B remains unaffected by the alternative scenarios tested.
- The review examined the potential impacts arising from uncertainty in the underlying base demand and forecast demand projections utilised as part of the Assessment. The review team worked alongside SYMCA's advisors to assess a wider range of demand sensitivities to understand the potential impact on both value for money and affordability modelling. The review team is satisfied that the 'book end' scenarios explored did not impact the selection of Franchising Option B. Recognition of this uncertainty in demand data is clearly signposted within the Assessment (e.g.
- The review examined further the relativity of NPV/BCRs between Franchising options assessed, noting that these were primarily influenced by assumptions on depot/fleet ownership and the associated costs of financing/owning these assets. A decision was taken by the SYMCA team to retain Franchising Option B (Depot and Fleet owned by operators) only through the Economic and Financial cases of the Assessment. The review team is satisfied that the appraisal and selection of Franchising Option B against the Reference Case and EP+ is appropriate.

- The review team worked alongside SYMCA to explore the affordability conclusions for Franchising Option B in further detail, noting that the presentation of affordability for both EP+ and Franchising is on a 'whole of industry level' to provide for more direct comparability of cash flows across the network. Further representation of the budgetary impacts to SYMCA under each scenario have been provided and assessed as part of the review, which are now included within the Assessment drafting. The review team is satisfied that the affordability conclusions within the assessment are appropriate for Franchising Option B.

# 5. Review process and compliance against Bus Services Act and DfT Guidance

## Introduction

The review has considered the extent to which the MCA followed the Bus Services Act 2017 and the Department for Transport's (DfT) Franchising Scheme Guidance, which requires an assessment across five cases included in the business case:

- Strategic Case,
- Economic Case,
- Financial Case,
- Commercial Case, and;
- Management Case

This section of the review explores whether ***'the authority has had due regard to guidance issued by the Secretary of State under section 123B of the act in preparing its assessment'*** and whether ***'the process followed was robust'***.

When forming a view on the information the review considered the Assessment both in the round and on a case by case basis. The review has considered whether there are significant areas of weakness or omission which have either individually or collectively had a material impact on the Assessment's conclusions.

## Approach

The review has mapped the content of each case against the key principles of the guidance to ensure compliance and consistency across cases, and alignment with both the Bus Franchising Act and DfT Guidance. Furthermore, the review looked assess whether the Assessment aligned with the MCA's objectives and outcomes. To do this the review took the following approach;

- The review identified the relevant areas of guidance for each case to inform whether the information provided across the cases sufficiently reflects the guidance expectations.
- The review team attended briefing sessions for each case to understand from the project team how the Assessment intended to address the requirements of the guidance and the act. This allowed the review team to get an initial understanding of the Assessment approach and gave an opportunity to raise preliminary queries.
- The review team completed a detailed desktop review of the Assessment to assess whether the process followed aligned with the requirements of the act and the guidance. The desktop research mapped across the relevant guidance requirements for each case against the Assessment.
- The same process was followed for the supporting documents. All referenced documents were requested by the review team to complete an exhaustive review of documents used to inform the Assessment.
- The review team raised initial clarification questions on areas of uncertainty regarding the compliance with guidance, these questions were answered by the project team to provide further clarity.

- Where required, follow up sessions with the Assessment team on key areas of uncertainty were held to give confidence that the Assessment was compliant with both the act and DfT guidance.

The review has set its findings in respect of compliance with the act and DfT guidance by case within the tables that follow in the section below.

### **Review of each Case**

The following section will outline each case in the Assessment and whether the MCA has appropriately responded to both the Bus Franchising Act and DfT Franchising Guidance.

## Strategic Case

Guidance Ref	Content of Guidance	Review Commentary
Section 123B of the Act	<i>“Section 123B requires authorities to consider, as part of their assessment, whether and extent to which the proposed franchising scheme would contribute to the implementation of their local transport plan policies and any other of their published and adopted policies that affect local bus services, for example an environmental policy. Similarly, the authority or authorities are required to consider whether the proposed scheme would contribute to the implementation of neighbouring authorities’ local transport policies and other policies which affect their local bus services.”</i>	The Assessment outlines the contribution that transport can make in achieving SYMCA’s strategic priorities (including SEP goals and objectives, Energy Strategy goals, and Mayoral strategic goals, Vision for Transport), including the specific role of the bus in SYMCA’s future strategy (Section 1.2.3) It summarises the case for change in potentially implementing franchising to contribute towards South Yorkshire’s policies. It outlines the impact of franchising on the objectives and policies on neighbouring transport authorities (Section 1.4.15 and 1.4.16) and confirms that none of the aims of these authorities need be compromised by the introduction of a Franchising Scheme within the South Yorkshire area.
Section 123B of the Act	<i>“Section 123B of the Act sets out the factors which an authority or authorities must consider as part of its assessment of its proposed franchising scheme. The factors that the Act requires authorities to consider reflect, broadly, the Treasury five case business case model.”</i>	The Assessment includes a Strategic Case report which forms the strategic case required under the HM Treasury five case business case model.
Paragraph 1.29 of the guidance	<i>“Any authority or authorities conducting an assessment should set the context by describing the overall aims and objectives of the authority or authorities and the role that transport, and bus services in particular, play in relation to those aims and objectives.”</i>	The Assessment outlines the contribution that transport can make in achieving SYMCA’s strategic priorities, including the specific role of the bus in the MCA’s future strategy. (Section 1.2.3)

Guidance Ref	Content of Guidance	Review Commentary
Paragraph 1.29 of the guidance	<p><i>“The authority or authorities should set out how local bus services fit into the transport system of the area, how they contribute to the authority’s or authorities’ overall objectives, what challenges have been identified and how changes to the provision of local bus services could help address these challenges.”</i></p>	<p>Section 1.2.5 outlines the role of the bus in the MCA’s Future Strategy. The Assessment includes the challenges faced by bus operators in South Yorkshire including the barriers to a strengthened bus network (Section 1.3.2 and Section 1.3.4). It also summarises the case for change and the impact that the changes outlined as part of the proposed franchising scheme could have on local challenges (Section 1.3.5).</p>
Paragraph 1.30 of the guidance	<p><i>“... an authority or authorities should draw on information about the current and predicted future performance of local bus services. This should include information about trends in patronage, journey speeds and reliability, the fares charged and tickets available and any relevant data about the environmental performance of the local bus fleet. The authority or authorities should consider this information and should also obtain and consider information about the needs and opinions of passengers in the area and their views on the provision of local services – what passengers are looking for from bus services and public transport more generally, to what extent they are satisfied with current services, and where they would like to see improvements made.”</i></p>	<p>The Assessment includes detail on current travel trends in South Yorkshire including information on bus patronage. It outlines trends in challenges facing bus operators in South Yorkshire including information on punctuality, reliability, fares and ticketing. It is stated that journey times are slowed by congestion (Section 1.3.2.5) and the impact of customers discussing ticket options (Section 1.3.2.7).</p> <p>In terms of considering the needs and opinions of passengers, the South Yorkshire Bus Review, which informs the business case, included extensive engagement (see Section 1.2.5) with stakeholders including bus passengers, other residents of South Yorkshire, operators and public bodies including local authorities.</p>

Guidance Ref	Content of Guidance	Review Commentary
Paragraph 1.31 of the guidance	<p><i>“In developing the case for change, an authority or authorities should ensure that they specifically consider:</i></p> <p><i>information about local travel patterns and demand for travel in the local area;</i></p> <p><i>the geography of the area in which they are proposing to make changes and the reasons why such change is appropriate;</i></p> <p><i>current levels of competition in the local bus market and the impacts that may be having on the offering to passengers;</i></p> <p><i>any external or wider trends (such as technological developments and innovation in smart cities or personal travel) which could impact on local bus services in the area and the potential implications.”</i></p>	<p>Trends and demand for travel is considered in Section 1.3.1 in terms of trends in mode share, bus passenger journeys and patronage.</p> <p>The geography of the area of South Yorkshire, confirmed specifically in Section 3.7.</p> <p>In terms of competition it is stated in Section 1.4.7.1 that South Yorkshire does not benefit from strong market competition with three operators operating over 90% of routes, poor market response to tendered routes. This results in operators having little incentive to improve their services. Reference is also made (Section 1.3.4.1) to findings from the South Yorkshire Bus Review which included 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.</p>
Paragraph 1.32 of the guidance	<p><i>“Using the information reasonably available to them about current and likely future trends in performance and considering passenger views, the authority or authorities should clearly identify the challenges that they are looking to address and develop a strong ‘case for change’ that justifies the need for intervention.”</i></p>	<p>The Assessment has used information reasonably available relating to current and likely future trends in performance (Section 1.3.1) to clearly identify challenges they are looking to address (Section 1.3.2), developing a strong ‘case for change’ that justifies the need for intervention. Trends considered include such as travel trends in South Yorkshire, poor punctuality, reliability, mileage.</p>



Guidance Ref	Content of Guidance	Review Commentary
		<p>Evidence from the South Yorkshire Bus Review and other reference sources, also highlights further challenges such as inconsistent standards and vehicle accessibility, regular large scale service changes, variable service frequencies, poor connectivity, complex fares and ticketing and concerns around personal safety.</p> <p>Section 1.3.4 outlines the barriers to a thriving bus network in South Yorkshire.</p> <p>Section 1.3.5 summarises the case for change and outlines the impact that the changes outlined as part of the proposed Franchising Scheme could have on local challenges.</p>
Paragraph 1.33 of the guidance	<p><i>“The ‘case for change’ should set out the issues that passengers are currently facing – which could, for example, be related to fares or service coverage for example, and the core drivers of those issues – which could include a lack of competition in the area, or poor integration between bus services and other transport options for example. When considering this case for change, an authority or authorities should rely on evidence and set out the market failures or inefficiencies that they are looking to address. Any particular drivers for change, such as legislative requirements, ongoing trends, economic opportunities or demographic factors, which have led to the assessment being undertaken at this point in time should also be explained clearly.”</i></p>	<p>The Assessment includes the case for change (Section 1.3), which includes an assessment of the challenges facing the bus network as reported and evidenced through the South Yorkshire Bus Review.</p>
Paragraph 1.34 of the guidance	<p><i>“...the authority or authorities should clearly set out the objectives it is trying to achieve separately from considering the options available to help achieve those objectives.”</i></p>	<p>The Assessment outlines SYMCA’s objectives for the bus network, separately from consideration of the options available. (Section 1.4)</p>

Guidance Ref	Content of Guidance	Review Commentary
Paragraph 1.35 of the guidance	<p><i>“The authority or authorities should set out specific, measurable, achievable, realistic and time-bound objectives for local bus services in the relevant geographical area, which will contribute to achieving the authority’s or authorities’ overall local transport 12 policies and other relevant and published policies. It is for the authority or authorities to determine how many objectives are appropriate, but there should be a focus on delivering improve’ services for bus passengers.</i></p> <p><i>There should also be specific objectives concerning the affordability of the proposal and the value for money to be achieved. Each objective should be supported by specific measures of success which could be used to identify whether or not it had been, or was likely to be, achieved. Each authority will have its own local market circumstances and beyond this core guidance it is for the authority to identify which and how many objectives are appropriate.”</i></p>	<p>The Assessment outlines SYMCA’s objectives for the bus network (Section 1.4), which focus on delivering improved services for bus passengers, affordability and value for money. The Assessment outlines the SMART success criteria (Section 1.4.14) that underpin each objective.</p>
Paragraph 1.36 of the guidance	<p><i>“The authority or authorities should complete an options assessment exercise, identifying a number of options that have the potential to achieve the objectives it has set. The authority or authorities should consider, at a high level, the extent to which each of the options is likely to achieve the desired outcomes and meet their objectives. As a result of that analysis, the authority or authorities should focus in on a small number of options for further detailed assessment.”</i></p>	<p>The Assessment outlines the comparison of four Franchising Scheme options, EP+, and the Reference Case against SYMCA’s objectives. (Section 1.6)</p>
Paragraph 1.37 of the guidance	<p><i>“Identifying realistic options should not be a desk exercise however, and authorities should engage with bus operators in the area and explore whether, for example, there is a realistic partnership proposition or ticketing solution that should be considered and assessed alongside the franchising proposition.”</i></p>	<p>There is evidence of engagement with operators through the development of the South Yorkshire Bus Review which resulted in recommendations for reversing declining usage and performance. These informed the BSIP which assumes an EP option (including interventions such as daily and weekly fare capping).</p>

Guidance Ref	Content of Guidance	Review Commentary
Paragraph 1.38 of the guidance	<i>“The assessment of any proposed franchising scheme must compare making the proposed scheme to one or more other courses of action, so the authority or authorities should not dismiss realistic alternative options to franchising at an early stage without further detailed assessment.</i>	The Assessment reviewed assesses four Franchising Options and EP Plus as alternatives to the current EP. These options are compared against the MCA’s objectives. The performance of all options is considered within the Economic Case. (Section 1.6)
Paragraph 1.39 of the guidance	<i>“The authority or authorities should conduct a detailed assessment of each of the shortlisted options to determine the benefits, impacts and costs, and further determine the extent to which each option would meet the objectives.”</i>	The Assessment compares the Franchising Options against SYMCA’s objectives, drawing on information from all five cases. (Section 1.6)
Paragraph 1.42 of the guidance	<i>“...the authority should explain the extent to which each of the options considered will help achieve their policy objectives and should similarly list its relevant local neighbouring authorities and consider the extent to which the options would help in the delivery of their policy objectives. Authorities should proactively engage with neighbouring authorities to ensure they fully understand those policy objectives and the impacts that the proposed options could have on bus services and transport in their areas.”</i>	The Assessment compares all options against SYMCA’s objectives (Section 1.6). It outlines the objectives and policies of neighbouring transport authorities and assesses the impact of the proposed South Yorkshire Franchising Scheme on neighbouring local authorities in Table 14. The Assessment summarises the engagement ongoing with neighbouring authorities. (Section 1.4.17)
DfT Bus Franchising Guidance (March 2024)	<i>Additional requirements as set out within the March 2024 updated Guidance below: <a href="https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme">https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme</a></i>	Noting that the Assessment under review has been prepared in accordance with the 2017 guidance, the review team has considered additional requirements as set out within the March 2024 guidance update. These have been met to some extent e.g. Section 1.4.18 states the objectives aim to achieve the ambition in the BSIP Section 1.5.1 considers a range of core elements and their scope under each option. These elements include integration (in terms of Network

Guidance Ref	Content of Guidance	Review Commentary
		and Timetable Planning), Bus Priority Infrastructure, Fares and Ticketing, Branding and Marketing, Travel Information, Transition to a Zero Emission Fleet and Performance Management.

## Economic Case

Guidance Ref	Content of Guidance	Review Commentary
1.44	Section 123B requires authorities to consider, as part of their assessment, whether the proposed scheme would represent VfM.	The Economic Case includes a monetised appraisal as information for consideration of the performance of the proposed Franchising Scheme options, and whether the proposed scheme would represent VfM.
1.45	The authority or authorities should consider the economic case in terms of impacts on wider society, both from the proposed Franchising Scheme and from the other options being considered. Authorities should assess the economic, social and environmental costs and benefits, rather than solely focussing on the transport impacts of the different options.	<p>The Economic Case summarises the approach to the monetised appraisal including: the derivation of base and forecast demand for the purpose of the Franchising Assessment; the economic welfare benefits arising (Level 1 and Level 2 as set out in DfT's Transport Appraisal Guidance (TAG)) and the costs (set out in the Financial Case).</p> <p>Social impacts were included within the monetised appraisal, comprising reliability impacts, journey quality (relating to ticketing) impacts, road traffic accident reductions and health benefits arising from increased active travel. Health benefits were derived based on approaches set out in New Zealand Guidance which have not formally been adopted within the UK, but make a relatively small contribution to the appraisal. The potential for distributional impacts with respect to User Benefits, Accidents, Security, Severance, Accessibility and Affordability was considered</p> <p>Environmental impacts of transport activity were included within the monetised appraisal, comprising</p>

Guidance Ref	Content of Guidance	Review Commentary
		<p>the local air quality, noise and greenhouse gas emissions associated with highway traffic reduction and the introduction of Zero Emission Buses. The potential for distributional impacts with respect to local air quality and noise was considered.</p> <p>The material impacts of the proposed Franchising scheme are believed to have been sufficiently considered, noting that not every single impact area within TAG has been included, nor non-monetised impacts appraised to a particularly high level of detail.</p> <p>A query was raised on the exclusion of negative impacts from WEI, further evidence was provided by the MCA including an explanation that these were of similar scale to the positive impacts included. It is recommended that limited weight is placed on the contribution of WEI to VfM, given that the total impact could be as little as 5% of the value included – if negative impacts are not excluded.</p>
1.46	<p>The options should be considered against a counterfactual – a realistic ‘do nothing’ scenario. The counterfactual should take account of any business-as-usual improvements or plans that the authority would put in place regardless of the proposed scheme, such as continuing to subsidise certain services. The counterfactual should also include any improvements or changes that operators in the area have planned, using appropriate forecasts where feasible – such as to fares or changes to services that are likely to increase or decrease passenger journeys. The possibility of market entry or exit should also be considered.</p>	<p>The Franchising and EP+ options have been considered against a representation of the current EP. This takes into account SYMCA’s expected likely limited development of the bus market without further investment, which it asserts would only be made available under EP+ or Franchising. Through clarifications raised SYMCA was challenged on how realistic the reference case is, as it shows operators continuing to operate a</p>

Guidance Ref	Content of Guidance	Review Commentary
		<p>constant level of service, while making a financial loss.</p> <p>A test of the appraisals of EP+ and Franchising options has been completed against an alternative Reference Case, where a set of service cuts are assumed to maintain operator margins over the medium term (noting the passenger impact of reduced service levels has not been represented in this test). The results of this sensitivity were included within the updated Assessment, noting that whilst the results are sensitive to these assumptions it does not impact the overall selection of the Franchising option. It is also recognised that including the passenger impact of service reductions would likely offset a proportion of this impact.</p>
1.47	<p>This aspect of the authority's or authorities' assessment should clearly explain the impacts of the options on different groups in society. This should include passengers, the authority, wider society and bus operators – with both the potential impacts on incumbent operators and the potential benefits to new entrants considered.</p> <p>Particular consideration should be given to small and medium sized operators, and the potential impacts of the options on that group. Similarly, particular consideration should be given to the impacts of the options on passengers in neighbouring areas that could be affected by the changes.</p>	<p>The assessment includes Level 1 benefits, which includes transport related benefits for bus users and others, Level 2 benefits which include wider economic impacts to businesses, as a result of agglomeration and wider labour market impacts. Environmental impacts from changes in transport emissions, and social impacts from accident reductions have been included; these accrue to non-travellers as well as travellers. A distributional impact assessment is included in the Economic Case, considering whether impacts particularly</p>

Guidance Ref	Content of Guidance	Review Commentary
		<p>affect specific age groups, areas of lower income and/or car ownership, and ethnic minorities.</p> <p>Impacts on and benefits for bus operators are considered in aggregate, including operator profit margin. The Economic Case does not include consideration of impacts on individual or grouped operators, for example by scale or whether an incumbent or new entrant. This is not considered to impact overall conclusions of the assessment.</p> <p>The bus network considered as part of the Assessment includes cross-boundary services that would operate under a Service Permit Regime, details of which are set out in the Commercial and Management Cases. The Economic Case does not include any specific reference to the impacts of options on passengers in neighbouring areas; however it is noted that these are anticipated to be modest given the nature of the service changes considered.</p>
1.48	<p>An authority or authorities should conduct a thorough assessment of local operators that they consider to be small and medium sized. An authority or authorities should also take account of the overall nature of their market, the operator's fleet size and consider the turnover of the operators – where necessary including its parent structures – as a whole.</p>	<p>Impacts on and benefits for bus operators are considered on aggregate, including operator profit margin. The Economic Case does not specifically include consideration of impacts on small or medium sized operators. Details of the lotting strategy which considers smaller contracts for SMOs is set out in the Commercial Case.</p>



Guidance Ref	Content of Guidance	Review Commentary
1.49	<p>When conducting the assessment, the authority or authorities should identify the nature and scale of the impacts of each proposal on small and medium sized operators operating services with stopping places in the authority's area, specifically stating where options are likely to bring benefits to certain groups, and where they are likely to result in disbenefits or costs. For example, existing users could benefit from more frequent services or reduced fares, local residents could benefit from improved air quality, and users of other transport modes could benefit from greater transport choice or reduced congestion.</p>	<p>Impacts on and benefits for bus operators are considered on aggregate, including operator profit margin.</p> <p>The assessment includes Level 1 benefits, which includes transport related benefits for bus and others, Level 2 benefits which include wider economic impacts to businesses as a result of agglomeration and wider labour impacts. Environmental impacts from changes in transport emissions, and social impacts from accident reductions have been included; these accrue to non-travellers as well as travellers. A distributional impact assessment is included in the Economic Case, considering whether impacts particularly affect specific age groups, areas of lower income and/or car ownership, and ethnic minorities.</p>
1.50	<p>In addition, the authority or authorities should also assess the likely impacts of the transition period of each option, particularly on passengers, as it is likely that some options will involve more disruption for passengers. An authority or authorities should think in particular about the likelihood of disruption or withdrawal of services during the transition from the current model of bus services delivery, and the potential disbenefits to local passengers that could arise. An authority or authorities should also consider any mitigation plans or strategies that they would put in place.</p>	<p>The Economic Case does not consider any anticipated or possible impacts of the transition period on passengers.</p> <p>The costs set out in the Financial Case consider the financial impacts of the transition period and these are reflected in the monetised appraisal.</p> <p>These are also reflected in the programme set out within the Management Case.</p>
1.51	<p>In considering the impacts of the options the authority or authorities should think about the distribution of benefits, costs and risks between different groups. With</p>	<p>The monetised appraisal set out within the Economic Case includes:</p>

Guidance Ref	Content of Guidance	Review Commentary
	<p>respect to franchising proposals, the authority or authorities should ensure they have considered:</p> <ul style="list-style-type: none"> <li>● impact on bus users – bus users will receive benefits from changes in fares and measures that improve the quality of their journey experience (such as changes to the ticketing offer or on-board information);</li> <li>● fare-box revenue – whether a gross cost or net cost franchising model is being proposed;</li> <li>● Bus Service Operators Grant (BSOG) payments – these will be devolved to any authority that pursues franchising and, as a consequence, the funding to bus operators will decrease. Thought needs to be given to how this funding would be used;</li> <li>● operating costs – such as costs for leasing assets, staff, training, marketing and branding for example;</li> <li>● capital costs – such as investments in depots or buses for example;</li> <li>● bidding and administration costs – cost to operators to bid for contracts, and authorities to manage the franchise bidding process, and any costs that the operation of partnership arrangements would incur for all parties;</li> <li>● implementation costs – including additional staff required, for authorities, operators and elsewhere in the system, or expert advice to put the scheme into practice;</li> <li>● operator margins – based on evidence from existing franchising and contractual arrangements. The authority should consider whether margins are likely to change, potentially as a result of changes in the competitive environment, between the first and subsequent franchise periods; and</li> <li>● environmental impacts – such as changes in air quality due to changes in congestion or service levels.</li> </ul>	<ul style="list-style-type: none"> <li>● the impact on bus users including journey times, reliability changes and simplified ticketing benefits</li> <li>● changes in fare-box revenue</li> <li>● BSOG payments</li> <li>● Operating cost changes associated with EP+ and each franchising option</li> <li>● Capital costs associated with EP+ and each franchising option</li> <li>● Bidding and administration costs associated with EP+ and each franchising option</li> <li>● Implementation costs associated with EP+ and each franchising option</li> <li>● Operator margins associated each franchising option</li> <li>● The impact on the environment associated with EP+ and each franchising option.</li> </ul>

Guidance Ref	Content of Guidance	Review Commentary
1.52	<p>With respect to enhanced partnership proposals in particular, the authority or authorities should ensure that it has considered:</p> <ul style="list-style-type: none"> <li>• the costs of administering bus registrations – under an enhanced partnership with “route” level requirements, local transport authorities will take on responsibility for registering bus services; and</li> <li>• ongoing management costs for the authority or authorities and for local bus operators.</li> </ul>	<p>The costs considered in the Franchising Assessment include the additional costs the MCA would incur over the EP scheme. Details are set out in the Financial Case.</p>
1.53	<p>This aspect of the assessment should include sufficient detail so that the scale of the benefits and impacts on different groups can be understood. Much of this will require the authority or authorities to make assumptions about the likelihood of certain events occurring based on the nature of their proposed options. For example, bus operators currently running services in the area will incur certain costs if they are unsuccessful in winning future contracts under a franchising model. The likelihood of this happening however will be dependent on the nature of the Franchising Scheme put forward by the authority or authorities.</p>	<p>A distributional impact assessment is included in the Economic Case, considering whether impacts particularly affect specific age groups, areas of lower income and/or car ownership, and ethnic minorities.</p> <p>The Economic Case does not consider the operator costs of bidding for contracts.</p>
1.54	<p>All significant assumptions used in the economic and financial cases should be documented as the assessment is developed – identifying the evidence on which they are based where possible.</p>	<p>The Assessment included documentation of the source of significant assumptions used within the Economic and Financial cases.</p>
1.55	<p>Given the above, the authority or authorities should think carefully about the most suitable appraisal period for assessing the impacts of the options, and should explain its decision in the assessment documentation. The authority or authorities should also consider how best they can demonstrate the ongoing sustainability of the different options, bearing in mind the long-term implications of a decision to change the model of bus service delivery in an area. The assessment should indicate clearly whether there is anticipated to be any substantive change in outcomes in the years immediately following the end of the chosen appraisal period.</p>	<p>The Assessment contained a limited explanation on the choice of appraisal period.</p> <p>A CQ was raised requesting further explanation of the reasoning for the chosen appraisal period and this has been included in the updated Assessment and this issue has been closed out.</p>

Guidance Ref	Content of Guidance	Review Commentary
1.56	<p>The authority or authorities should then look to present the net present value of each option, derived from the present value of the costs and benefits of each option. The authority or authorities should also perform a number of sensitivity tests, to provide a range of results around the options, to account for uncertainty and optimism. The cross-government Green Book could be a useful starting point to develop the appropriate methodology.</p>	<p>The Assessment includes a net present value for each option.</p> <p>Given the level of uncertainty in base demand, forecast demand and other appraisal assumptions, further sensitivity testing was undertaken and included within the assessment to assess the impact of the uncertainty in the demand on overall results. The review team is satisfied that this uncertainty is appropriately recognised within the assessment and does not impact on the selection of Franchising under the scenarios explored.</p>
DfT Bus Franchising Guidance (March 2024)	<p><i>Additional requirements as set out within the March 2024 updated Guidance below:</i></p> <p><a href="https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme">https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme</a></p>	<p>Noting that the Assessment under review has been prepared in accordance with the 2017 guidance, the review team has considered all additional requirements as set out within the March 2024 guidance update.</p> <p>The review team is satisfied that additional requirements have been met within the Economic Case and supporting analysis.</p>

## Commercial Case

Guidance Ref	Content of Guidance	Review Commentary
1.63	<i>Section 123B of the Act requires an authority or authorities to consider, as part of their assessment, the extent to which the authority or authorities are likely to be able to secure that local services are operated under local service contracts.</i>	The Commercial Case as a whole considers the extent to which the MCA is likely to be able to secure local service contracts, including how the options could be procured competitively; and considers the commercial risks that the MCA may face in respect of the options discussed
1.64	<i>The authority ... should consider how the options could be procured competitively and what the contractual arrangements would look like, with the view to ensuring, for franchising proposals in particular, that the proposed franchised services could be secured under local service contracts or through service permits</i>	<p>The Commercial Case outlines the potential options / approaches for competitive procurement in section 3.15 (Procurement and contract management strategy for bus services).</p> <p>A query was raised in order to better understand the details behind different procurement options. The review team is content with the narrative relating to the different procurement routes and how these could align with franchise contracts.</p>
1.65	<i>an authority or authorities should consider how they intend to facilitate the involvement of small and medium sized operators, bearing in mind the need to ensure competition for the first and subsequent rounds of procurement</i>	The approach to small and medium-sized operators is considered throughout this Commercial Case. Specific analysis of the attractiveness of the commercial proposition to such operators is set out at section 3.17.1.4.

1.66	<i>An authority ... should also clearly set out how they intend to facilitate cross-boundary services, including how the service permit system will be used to enable those services to operate.</i>	The Assessment sets out in both Sections 3.12.1.4 and section 3.16.1.2 the criteria used to develop assumptions about whether a route will be franchised or subject to a service permit.
1.67	<i>...an authority or authorities should consider the transition periods to the new options, setting out how they intend to ensure that services to passengers are protected during that period, and what commercial arrangements they plan to put in place to manage that process.</i>	The Assessment outlines in section 3.16 (Transition Period Arrangements) the analysis of the options with regards to the transition period, this includes the use of service permits during the transition period (3.16.1.5) and for cross boundary services beyond the transition period (3.16.1.6).
1.68	<p><i>In developing the commercial case of the assessment, an authority or authorities should ensure they have considered the following factors, set out their proposal in relation to each and their reason for adopting such a proposal:</i></p> <ul style="list-style-type: none"> <li><i>the commercial model they intend employ;</i></li> </ul>	<p>The Assessment provides an overview of the commercial models (EP, EP+, Franchising options A - D) in sections 3.7 (Models for reform brought forward from previous cases) and 3.8 Commercial Approach to EP+).</p> <p>A query was raised to gain a better understanding of how an accelerated roll out of ZEBs under the EP+ option would be enacted. After reviewing and cross referencing to Section 4.5.5 of the financial case, the review team is content that the fleet acquisition / renewal assumption for EP+ have been appropriately outlined.</p>

	<ul style="list-style-type: none"> <li>• <i>the size and geographical scope of the areas to which contracts will relate;</i></li> </ul>	<p>The Assessment outlines the size and geographical scope of the areas which the franchise contracts will relate to in section 3.12 (Lotting Strategy)</p> <p>A query was raised to gain a better understanding of the analysis that was undertaken in order to determine the ordering of lots. The review team is content with the reasoning / rationale for how the lots were determined and has suggested that the provided rationale is included in a further update to the Assessment.</p>
	<ul style="list-style-type: none"> <li>• <i>the length of contracts;</i></li> </ul>	<p>The Assessment outlines the rationale and analysis for the varying lengths of contracts across the different franchise options in section 3.13 (Contract Duration and End-Of-Contract Arrangements).</p> <p>A query was raised regarding how each option's contract duration had been determined. After reviewing the Market Engagement paper, the review team was content that the position was consistent with the engagement feedback received from Operators.</p>
	<ul style="list-style-type: none"> <li>• <i>whether franchising will be phased-in gradually;</i></li> </ul>	<p>The Assessment provides a description relating to how the MCA intends to use a service permit regime during the transition period in section 3.16 (Transition Period Arrangements).</p>

	<ul style="list-style-type: none"> <li>• <i>other key contractual arrangements, including those relating to the transfer of staff;</i></li> </ul>	<p>The Assessment provides a high level overview of the key contractual arrangements across all options from section 3.7.1.2 to 3.7.1.7.</p> <p>Sections 3.13 (Contract duration and end-of-contract arrangements) to 3.14 (Summary of development of options into commercial models) provide detail of other contractual arrangements / commercial issues. These sections consider 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 and also summarises the commercial characteristics of each option (Table 87).</p> <p>There is also detailed consideration towards the guidance, and in particular the transfer of staff within Section 3.13.1.6 (Transfer of staff between operators). This section considers the transfer of staff in the event of franchising, including pension / TUPE implications.</p>
	<ul style="list-style-type: none"> <li>• <i>how they intend to facilitate strong competition for contracts; and</i></li> </ul>	<p>The Assessment sets out the arrangements it plans to put in place to promote strong competition for contracts within section 3.17 (Analysis of anticipated competition, including attractiveness of the commercial proposition for small and medium operators).</p>



	<ul style="list-style-type: none"> <li>• <i>the key commercial risks, their potential impacts and how they would be mitigated and managed.</i></li> </ul>	<p>This section analyses, in the round, the measures taken to promote strong competition for franchising options, including potential approaches to ensure competition for franchise contracts are not inhibited for SMOs (Table 90).</p> <p>The Assessment sets out the commercial risks of reform of the bus model in section 3.19 (Commercial Risks) and identifies possible approaches to mitigate these risks.</p> <p>Queries were raised to better understand the commercial risks associated with acquiring both fleet and depots. The review team is content with the mitigations detailed in the Commercial case.</p>
DfT Bus Franchising Guidance (March 2024)	<p><i>Additional requirements as set out within the March 2024 updated Guidance below:</i></p> <p><i><a href="https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme">https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme</a></i></p>	<p>Noting that the Assessment under review has been prepared in accordance with the 2017 guidance, the review team has considered all additional requirements as set out within the March 2024 guidance update.</p> <p>The review team is satisfied that all additional requirements have been met within the Commercial Case and supporting analysis.</p>

## Financial Case

Guidance Ref	Content of Guidance	Review Commentary
1.57	<p>Section 123B of the Act requires an authority or authorities to consider, as part of their assessment, whether the authority or authorities would be able to afford to make and operate the proposed franchising scheme.</p>	<p>The entirety of the Financial Case (supported by financial modelling) sets out an assessment of the affordability of Franchising options against the EP and EP Plus alternatives.</p> <p>Within the Financial Case, sections 4.6.5 and 4.7.5 for the EP Plus and Franchising respectively set out the conclusion on affordability.</p> <p>Through the review of the Assessment, the review team noted that the affordability analysis has been presented on a “whole of industry” basis rather than at a MCA budgetary level. The review suggested that there should be an alternative view presented on affordability from an MCA perspective. This was explored by the MCA and the review team and further scenarios were demonstrated which have been incorporated into the Assessment.</p>
1.58	<p>An authority or authorities should think about the financial implications of the proposed options, not only with respect to the initial introduction of the arrangements, but also factoring in the ongoing management and operation.</p>	<p>Sections 4.4.4, 4.6.3 and 4.7.4 of the Financial Case set out the ongoing financial arrangements of the proposed option. Within the Assessment, this relates to the transition, management and operations for each respective option.</p>

Guidance Ref	Content of Guidance	Review Commentary
		<p>Through the review of the Assessment, the review team is content that the Financial Model and Financial Case document represent the ongoing arrangements of the options appropriately and in line with the Guidance.</p>
1.59	<p>Authorities should set out the capital and revenue requirements for the different options over their lifespan, together with an assessment of how the options would impact upon the balance sheet, income and expenditure account of the franchising authority. Any requirements for external or additional funding must be set out clearly together with an explanation of how the funding will be secured.</p>	<p>Within the Assessment, the MCA has set out the capital and revenue requirements for the alternative options. This has been based on analysis undertaken through the Financial Model. As part of the review process, the Financial Model has reviewed capital and revenue requirement assumptions - these all appear reasonable. The MCA has provided additional descriptions of the capital, revenue and funding requirements within section 4.4.4, 4.6 and 4.7 for all options. In addition, the balance sheet and accounting implications have been described in section 4.9 of the Case.</p> <p>The review identified an inconsistency regarding the balance sheet treatment of Fleet post-2036 which was noted as solely a modelling point - this was tested further and concluded that it did not have an impact on the affordability/appraisal of options.</p>
<p>In developing the financial case for the assessment, an authority or authorities should ensure they have considered;</p>		

Guidance Ref	Content of Guidance	Review Commentary
1.60	whether the options would require capital spending, such as for the purchase of depots, buses or other infrastructure;	<p>The MCA has identified that capital spending would be required for both Fleet and Depot. The capital requirements have been outlined in sections 4.5.4 and 4.5.5. Across the Assessment, the review team is content that the MCA has appropriately considered the options for capital spending for depots, fleet and associated infrastructure.</p> <p>Under the Franchising Option proposed, depots will be acquired. The review identified the need to describe in greater detail the depot renewal process which was included with the Assessment. This was added to the Assessment, noting it does not impact the options presented.</p> <p>In addition to depot investment, the MCA is proposing to invest in fleet under the Franchising option. This is expected to be funded through a combination of borrowing and grant funding. The MCA also provided additional evidence of internal consideration of different levels of fleet acquisition in the medium term. The review team considers the agreed assumptions as appropriate, which are based on the MCA's affordability envelope.</p>
	whether the options would require revenue spending, such as for additional staff, in particular considering the costs associated with the TUPE transfer of staff and their pension protection where relevant;	Staff requirements have been set out within the Financial Case in sections 4.4.4, 4.6.3 and 4.7.4

Guidance Ref	Content of Guidance	Review Commentary
		<p>with further considerations captured within the Management Case.</p> <p>The Assessment has considered the cost of ongoing staffing for each proposed option, as well as the staffing that would be required during the transitional period. Consideration of the TUPE risk appears to have also been considered. The review team is content with the approach to additional staffing required for the options.</p>
	How devolved BSOG funding will be used; and	From the review, the Financial Model and Financial Case both describe how devolved BSOG are applied to the Assessment. The review process has determined this is appropriate and in line with the Guidance.

Guidance Ref	Content of Guidance	Review Commentary
	<p>all of the other issues raised at paragraph 1.51 and 1.52 which are the following:</p> <p>In considering the impacts of the options the authority or authorities should think about the distribution of benefits, costs and risks between different groups. With respect to franchising proposals, the authority or authorities should ensure they have considered:</p> <ul style="list-style-type: none"> <li>● impact on bus users – bus users will receive benefits from changes in fares and measures that improve the quality of their journey experience (such as changes to the ticketing offer or on-board information);</li> <li>● fare-box revenue – whether a gross cost or net cost franchising model is being proposed;</li> <li>● Bus Service Operators Grant (BSOG) payments – these will be devolved to any authority that pursues franchising and, as a consequence, the funding to bus operators will decrease. Thought needs to be given to how this funding would be used;</li> <li>● operating costs – such as costs for leasing assets, staff, training, marketing and branding for example;</li> <li>● capital costs – such as investments in depots or buses for example;</li> <li>● bidding and administration costs – cost to operators to bid for contracts, and authorities to manage the franchise bidding process, and any costs that the operation of partnership arrangements would incur for all parties;</li> <li>● implementation costs – including additional staff required, for authorities, operators and elsewhere in the system, or expert advice to put the scheme into practice;</li> <li>● operator margins – based on evidence from existing franchising and contractual arrangements. The authority should consider whether margins are likely to change, potentially as a result of changes in the competitive environment, between the first and subsequent franchise periods;</li> </ul>	<p>From the review of the Assessment, the MCA has provided sufficient information to cover the Guidance. Section 4.5.2 showcases the operating costs, with 4.5.4 and 4.5.5 identifying the EP Plus and Franchising administration costs and capital costs. Furthermore, sections 4.6 and 4.7 outline the margin in respect to the options.</p> <p>Based on the requirements of the guidance, the review has concluded that the Assessment covers the appropriate level of information required and sufficient consideration around risks have also been considered by the MCA.</p> <p>Within the review, an issue was identified in relation to the fare-box revenue within the Model. This was noted to have no impact on the overall Assessment conclusions or the options presented.</p> <p>Through the review process, discussions were undertaken around Operator Margins and the review proposed that sensitivities were undertaken on the margin. Following these sensitivities, it was determined the level within the Assessment was reasonable.</p> <p>The Assessment was deemed to make reasonable assumptions around implementation, capital costs, operating costs and BSOG. Information provided</p>

Guidance Ref	Content of Guidance	Review Commentary
	<ul style="list-style-type: none"> <li>● environmental impacts – such as changes in air quality due to changes in congestion or service levels.</li> <li>● With respect to enhanced partnership proposals in particular, the authority or authorities should ensure that it has considered:</li> <li>● the costs of administering bus registrations – under an enhanced partnership with “route” level requirements, local transport authorities will take on responsibility for registering bus services;</li> <li>● and ongoing management costs for the authority or authorities and for local bus operators.</li> </ul>	<p>appeared to be sufficient and sources of reasonable quality.</p>
1.61	<p>Particular consideration should be given to demonstrating the longer-term financial sustainability of the options – with a move to a system of franchising in particular being a long- term change that will need to be sustainable for the authority in question.</p>	<p>Through the review of the Financial Model and the Assessment documentation, the review was content with the financial sustainability of the proposed Franchising Option. This can be seen in section 4.7.5.2.</p> <p>The review identified that post-2043, the proposed Franchising Option moves into a deficit and the MCA would need to mitigate this in the preceding years. Furthermore, the review challenged the MCA on the impact of lower CRSTS 2 payments and how this would impact the Assessment. It is noted that the option is affordable over the entire appraisal period, and it is recognised within the Assessment that additional funding or cost reductions would need to be sought in future years to the extent that Franchising moves into ongoing deficit (as seen in the final years of the appraisal period).</p>

Guidance Ref	Content of Guidance	Review Commentary
Specifically, the financial case element of the assessment should set out:		
1.62	A year-by-year cost analysis, broken down by capital and resource expenditure, for the authority or authorities;	The review team has undertaken a detailed review of the Financial Model provided by the MCA - 'SYMCA Bus Franchising Assessment Financial Model.xlsm'. The review team has also reviewed subsequent Financial Models provided by the MCA.
	a year-by-year income forecast for the authority if relevant (for example if a gross cost franchise is proposed);	<p>As described in Section 4 of this report, the Model was reviewed for mathematical and modelling accuracy as well as assessing the affordability and value for money.</p> <p>The review team is content that the Financial Model provides year-by-year cost analysis which is broken down by capital and resource expenditure.</p>
	the budget available to the authority in each of the relevant years;	<p>The MCA has set out the Budget for the options in section 4.4.1 with section 4.7.5.1 describing how this Budget works under the Franchising option.</p> <p>The review team have reviewed the source of the budget used by the MCA and deem this to be reasonable and based on sound forecasting judgement.</p>
	whether the option requires additional borrowing by the authority and if so what interest assumptions and repayment arrangements have been used;	<p>The MCA has outlined the borrowing requirement for options within section 4.5.6.</p> <p>The MCA has proposed that capital costs are to be funded through a mixture of grant funding and public sector financing. The review team has undertaken review of the underlying financing</p>



Guidance Ref	Content of Guidance	Review Commentary
		<p>assumptions which include the route of financing and financing costs and these assumptions appear reasonable.</p> <p>The review team has identified that the cost of finance is heavily dependent on the allocation of grant funding the MCA can put towards the Franchising Scheme. The review team proposed that additional wording around CRSTS 2 currently being indicative in nature which has been included within the Assessment.</p>
	<p>a summary of the key financial risks, particularly to any forecast income to the authority and including any quantified impacts and high-level mitigation plans;</p>	<p>Section 4.4.6, 4.6.6 and 4.7.6 outlines the key risks the MCA sees for each option within the Assessment.</p>
	<p>a sensitivity analysis, reflecting the range of financial risks.</p>	<p>In addition, section 4.8 of the Assessment details sensitivities which have been run by the MCA to determine the impact of several areas of risk, these include:</p> <ul style="list-style-type: none"> <li>● Revenue</li> <li>● Tendered Services Budget</li> <li>● Operating Costs</li> <li>● Depot Acquisition Costs</li> <li>● Fleet Capital Costs</li> <li>● Inflation</li> <li>● Margin</li> <li>● Cash Balances.</li> </ul> <p>The review determines that the core sensitivity analysis shows reasonable risk mitigation and does not impact the viability of the proposed option.</p>

Guidance Ref	Content of Guidance	Review Commentary
		<p>In addition, the review requested several other sensitivities to be undertaken in relation to the Financial Case assess whether the proposed option was robust, these included:</p> <ul style="list-style-type: none"> <li>● Combined Revenue and Cost downside</li> <li>● Franchising financing sensitivity</li> <li>● Additional inflation sensitivity</li> <li>● Network / Demand sensitivity</li> </ul> <p>On the basis of these sensitivities having been run by the MCA, it appears that the proposed option does not materially change and therefore the review team are satisfied that the MCA have reflected reasonable financial risks.</p>
DfT Bus Franchising Guidance (March 2024)	<p><i>Additional requirements as set out within the March 2024 updated Guidance below:</i>  <a href="https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-c-creation/setting-up-a-bus-franchising-scheme">https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-c-creation/setting-up-a-bus-franchising-scheme</a></p>	<p>Noting that the Assessment under review has been prepared in accordance with the 2017 guidance, the review team has considered all additional requirements as set out within the March 2024 guidance update.</p> <p>The review team is satisfied that all additional requirements have been met within the Financial Case and supporting analysis.</p>

## Management Case

Guidance Ref	Content of Secretary of State's guidance requirement	Review Commentary
1.68	<i>Section 123B of the Act requires an authority or authorities to consider, as part of their assessment, how the authority or authorities would make and operate the proposed franchising scheme.</i>	The management case as a whole outlines how the MCA would manage and operate a franchising scheme and other possible options.
1.69	<i>The authority or authorities should consider how it would successfully deliver and manage the options, and to set out the arrangements it plans to put in place to manage and mitigate risk in relation to each option.</i>	<p>The assessment addresses the guidance for preparing an Assessment under the Bus Services Act by considering how the MCA would successfully deliver and manage the Enhanced Partnership (EP) - Section 5.6, Enhanced Partnership Plus (EP Plus) - Section 5.7 and the preferred Franchising Option (Franchising Option B) - Section 5.8.</p> <p>The assessment sets out the arrangements it plans to put in place to manage and mitigate risk in relation to each option, including the programme management structure, the risk management and mitigation arrangement, and the contingency plans for providing replacement services.</p> <p>Further clarity was gained through the review to better understand how the programme would deal with slippage, especially on depot acquisition and franchise lot launch dates. The review team is</p>

Guidance Ref	Content of Secretary of State's guidance requirement	Review Commentary
		<p>satisfied with the mitigations and programme management assurance highlighted.</p> <p>Queries were raised to better understand the insolvency risk of operators. The review team is content with the mitigations detailed in the financial and commercial case.</p> <p>A specific benefits realisation tracker was noted as an omission from the Management Case. While this will not have an impact on the overall assessment of franchising it is worth noting that ordinarily we would expect to see some level of benefits realisation planning undertaken in the Management Case in line with HM Treasury Green Book requirements.</p>
1.70	<p><i>In particular, the authority or authorities should set out how it intends to manage the transition process from the current system to the introduction of any of the proposed options. This is likely to require most thought with respect to the franchising proposition, and the authority should ensure they clearly set out any contingency plans for providing replacement services should operators stop running their services before the introduction of the franchising scheme and any other plans they may have put in place to manage those risks.</i></p>	<p>The Assessment provides a detailed and comprehensive description of how the MCA intends to manage the transition process from the current system to the introduction of any of the proposed options, especially the Franchising Scheme.</p> <p>The Assessment sets out a programme plan for Franchising (Section 5.9.8) and EP Plus (Section 5.9.6) which includes; the programme management structure, the governance arrangements, the key activities and milestones and the stakeholder engagement plan. The programme team for both</p>

Guidance Ref	Content of Secretary of State's guidance requirement	Review Commentary
		<p>Franchising (Section 5.9.7) and EP Plus (Section 5.9.5) have been clearly outlined.</p> <p>The Assessment sets out mitigations for the risk of operators withdrawing commercial services before franchising is implemented and how the MCA would cover those services with limited impact on passengers (Table 125).</p> <p>Queries were raised to better understand the transition from status quo to Franchising. The project team were asked to provide the workings for their programme and any sensitivities and how the data migration from operators to the MCA under the franchising option would work.</p>
1.71	<p><i>In developing the management case of this Assessment, an authority or authorities should ensure they have considered for each option:</i></p> <ul style="list-style-type: none"> <li><i>The programme management structure they will employ, including whether additional specialist staff or advice will be required. If additional staff are required, this should include the numbers of staff and recruitment strategy</i></li> </ul>	<p>The Assessment provides information on the programme management structure, staff, and recruitment strategy for Enhanced Partnership Plus and Franchising Scheme</p> <p>The Assessment describes the programme management structure for the design and implementation of the Franchising Scheme, and shows the programme team for the design and</p>

Guidance Ref	Content of Secretary of State's guidance requirement	Review Commentary
		<p>implementation phases in Figure 77, while this is outlined for EP Plus in Figure 75.</p> <p>The Assessment identifies the additional staff required for both options, both for the transition and the business-as-usual phases, and provides the number of full-time equivalent roles and the functions they would perform.</p> <p>The resource requirements are mapped across Bus Function and Organisation-wide Function to show where any additional resource would sit in the MCA, for Franchising this is seen in Figure 73 and Figure 70 for EP Plus. .</p> <p>A query was raised on the resource requirement for land property and depot management, which was clarified within the assessment and closed out.</p>
	<ul style="list-style-type: none"> <li>• <i>What procurement and contract management processes, if any, are required for the successfully introduction and ongoing management of the proposal; and</i></li> </ul>	<p>The Management Case section of the Assessment provides some information on the procurement and contract management processes required for the introduction and ongoing management of the Franchising Scheme and the EP Plus option.</p> <p>For the Franchising Scheme, the Assessment outlines the accountabilities (Section 5.8.1.1,</p>

Guidance Ref	Content of Secretary of State's guidance requirement	Review Commentary
		<p>Table 122), and systems needed for the MCA to procure and manage the franchise contracts with operators (Section 5.8.1.2)</p> <p>For the EP Plus option, the Assessment describes the accountabilities and activities for the MCA and the operators to collaborate on network planning, fares and ticketing, and infrastructure design, and the stakeholder engagement and consultation required (Section 5.6.1.1, Table 116).</p> <p>Further detail is also outlined within the Commercial Case.</p>
	<ul style="list-style-type: none"> <li data-bbox="387 759 1417 874">• <i>The risk management and mitigation arrangement that the authority or authorities plans to put in place, with particular focus on management of the transition process from the status quo to a franchised market.</i></li> </ul>	<p>The Assessment provides a description of the risk management and mitigation arrangements for the Franchising Scheme and EP Plus options, with a focus on the transition process from the status quo to a franchised market. It covers the following aspects:</p> <ul style="list-style-type: none"> <li data-bbox="1505 1018 2085 1171">• The risk management process and roles and responsibilities within the MCA, following the MCA's Management of Risk Framework (Section 5.9.4).</li> <li data-bbox="1505 1182 2107 1380">• The risk identification, assessment, treatment, and reporting for both options, with a risk log that includes mitigations and residual risk commentary (Table 125, Table 126)</li> </ul>

Guidance Ref	Content of Secretary of State's guidance requirement	Review Commentary
		<ul style="list-style-type: none"> <li>The programme management methodology and strategy for both options, including the programme plan, stakeholder management, and resource plan.</li> </ul> <p>As outlined above, a query was raised to better understand data migration from operators to the MCA under the franchising option. The MCA confirmed a data migration strategy has not been tested at this stage, however will be further defined within the IT systems review - included in the programme plan.</p>
DfT Bus Franchising Guidance (March 2024)	<p><i>Additional requirements as set out within the March 2024 updated Guidance below:</i>  <a href="https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme">https://www.gov.uk/government/publications/bus-services-act-2017-bus-franchising-creation/setting-up-a-bus-franchising-scheme</a></p>	<p>Noting that the Assessment under review has been prepared in accordance with the 2017 guidance, the review team has considered all additional requirements as set out within the March 2024 guidance update.</p> <p>The review team is satisfied that all additional requirements have been met within the Financial Case and supporting analysis.</p>

## Conclusion

The review team is satisfied that the authority has had due regard to DfT Bus Franchising Guidance (as issued by the Secretary of State under section 123B of the act) in preparing its assessment across all 5 cases and the process followed is considered robust.



# Appendices

## Appendix 1 - Additional Sensitivities / Scenarios explored

Sensitivity Title	Sensitivity Description	Conclusion
Alternative Reference Case	Sensitivity to test the impact on the producer surplus of an alternative reference case.	It was confirmed that, whilst alternative approaches to modelling the network could be considered, the sensitivity applied does not appear to change the outcome of the Assessment.
Delayed Fleet Renewal	Sensitivity in relation to delayed fleet renewal (including ZEBs) and impact on affordability	The sensitivity applied does not appear to change the outcome of the Assessment.
Combined Revenue and Operating Cost Downside	Sensitivity showing the impact on Franchising if there was an increase in operating costs of 10% and a decrease in revenues by 10%	The review concludes that the Authority has appropriately described the risks within their Financial Risks section.
Financing Costs Sensitivity	Sensitivity of the interest rate in the EP Plus and Franchising options. In the EP Plus option, a 5% interest rate was sensitised to bring it in line with the Franchising options base scenario. For the Franchising option, an upside and downside of +/- 2% was undertaken from the 5% base PWLB rate.	The review of the sensitivity concluded that EP Plus remained unaffordable and requested the Authority include additional wording into the case concerning the risk of further deficits if the interest rates were to increase.
Inflation Sensitivity	Sensitivity to demonstrate the impact of changes in inflation rates on the options. The objective was to determine if Franchising would be more susceptible to an inflation rate change than the other options.	The sensitivity applied does not appear to change the outcome of the Assessment.
Additional Grant Funding	Sensitivity to understand the impact on the options if additional grant funding was available.	The sensitivity applied does not appear to change the outcome of the Assessment.