



Transport & Infrastructure Committee	Agenda Item
13 September 2023	9

Title:	Bus Reform – Draft Outline Business Case
Report of:	Neal Byers
Lead Member:	Cllr Anna Smith, Chair of Transport and Infrastructure Committee
Public Report:	Yes (with exempt appendix A)
Key Decision:	No
Voting Arrangements:	A vote in favour by at least two thirds of all members (or their substitute members) appointed by the Constituent Councils, to include the members appointed by Cambridgeshire County Council and Peterborough City Council, or their substitute members

Recommendations:	
A	Receive and consider the Bus Franchising Scheme assessment ("Assessment") as presented in the exempt Appendix A to this report. Note that the Assessment recommends the introduction of a franchising scheme as the proposed scheme, which assumes the medium level of investment as described in the Assessment having compared that to alternative realistic options, subject to review by an independent auditor and statutory consultation pursuant to the Bus Services Act ("Act").
B	If the CPCA wishes to proceed with the proposed franchising scheme, recommend to the CPCA Board to delegate authority to the Executive Director of Place and Connectivity to commission a review from an independent auditor of the Assessment in accordance with the provisions of the Act.
C	Request that the findings of the auditor's report are brought back to the TIC and CPCA Board.
D	Note that the assessment of Bus Reform options remains subject to further development and refinement.
E	Instruct the Executive Director of Place and Connectivity to report progress against these recommendations back through to the TIC and CPCA Board at appropriate intervals during the municipal year 2023/24.

Strategic Objective(s):	
The proposals within this report fit under the following strategic objective(s):	
	Achieving ambitious skills and employment opportunities
	Achieving good growth
X	Increased connectivity
	Enabling resilient communities
<i>The proposal sets out three important workstreams to improve the bus network in the Combined Authority area. Buses are an essential part of providing connectivity to our communities.</i>	

1. Purpose

1.1	The purpose of this report is to update on the approach of the Cambridge and Peterborough Combined Authority (CPCA) to the next stages in Bus Reform within the region under the requirements of the Act.
1.2	In January 2019, recognising the challenges faced by the local bus market, the CPCA Board approved the development of a business case assessment of the benefits of operational models open to the Combined Authority including Enhanced Partnerships and franchising opportunities in line with the Franchising Scheme Guidance issued by the DfT ("Guidance") and as set out in the Act. The decision required further, and more detailed work being undertaken in relation to the bus franchising scheme by way of an assessment pursuant to the Act, to the level of detail set out in an Outline Business Case (OBC), and that the process prescribed by the Department for Transport (DfT) was adhered to in relation to the Assessment.
1.3	Due to significant events impacting the bus market, including the Covid-19 pandemic and the publication of Bus Back Better in 2021, the Combined Authority paused work on the Assessment in 2020 to assess the medium and longer-term impacts of Covid on the bus market and possible futures that could be considered in the Assessment. The work was restarted in early 2023. The impact of the pandemic on the bus market within Cambridgeshire and Peterborough, in common with the rest of the UK, has been pronounced and is reported in the Assessment.
1.4	The [Draft] Assessment sets out the considerations for the introduction of franchising against an enhanced partnership and three levels of investment in each case i.e., low, medium, and high. If the CPCA desires the recommendation in the Assessment to make the franchising scheme, then the next step is to ask an independent auditor to review the Assessment giving its opinion on the specific areas set out in the Act and Guidance and then bring back the auditor's report to the CPCA Board. The CPCA Board could then take a decision on whether or not to proceed to consult the public on a franchised model, or to adopt an enhanced partnership.

2. Proposal

2.1	Bus Reform Overview The Combined Authority is considering making changes to how bus services are governed and managed in Cambridgeshire and Peterborough Combined Authority area. To enable a decision on a preferred way forward the CPCA Board has asked the CPCA to undertake an assessment of the options as part of an Assessment. The main options being considered are an enhanced partnership model and bus franchising.
2.2	Currently, the public sector provides over £18 million per year to support bus operations, half of which is funded locally through the transport levy and Mayoral precept. Further support is provided by local authorities for home to school travel and central government through Bus Services Operational Grant payments, Bus Recovery Grants and the £2 fare scheme.
2.3	Despite the high level of support and subsidy provided to the bus services by the Cambridgeshire and Peterborough Combined Authority, the authority currently has very limited control over important aspects such as network coverage and pricing strategies. The impact of Covid-19 has seen a significant reduction in patronage and reduced services provided by bus operators. This has required further intervention by the CPCA to support the current network.
2.4	A franchising scheme would see the current deregulated bus market replaced with a system where the Combined Authority both specifies and procures the network which is operated by bus operators under contract. This would provide the greatest degree of public sector influence over the bus offer, allowing the Combined Authority to specify the network, set the fares and control the fare policy.
2.5	An Enhanced Partnership (EP) is an alternative approach which represents a collaborative framework between CPCA and bus operators. Through this partnership, both parties come together to agree on improvements in services, infrastructure, and standards, aiming for a more integrated and efficient bus network. The enhanced partnership proposal has been developed with meaningful and constructive dialogue with bus operators, consistent with their engagement with the Combined Authority.

2.6	The draft assessment evaluates the bus franchising model against an enhanced partnership, using the HM Treasury Green Book methodology, including strategic, economic, financial, management, and commercial case assessments. The evaluation indicates which model is the most favourable option for achieving the ambitions of the Combined Authority's Bus Strategy.
2.7	<p>Summary of the Draft OBC Assessment</p> <p>The assessment emphasises the need for a regulatory reform of bus service delivery in the region. CPCA has clear ambitions to significantly increase bus patronage by 2030. The goals of bus reform are aimed at amplifying the reach and efficiency of the bus network, furthering economic, social, and environmental goals, and improving user experience. While both Enhanced Partnership and Franchising can provide enhanced networks, Franchising offers the region more control, especially in integrated fares and ticketing, ensuring a more unified and accessible network. The Enhanced Partnership is a more deliverable solution but is less likely to deliver the strategic outcomes leaving key decisions around the service network in the hands of bus operators.</p>
2.8	The results of the economic assessment show that investing in bus services across the region could represent high value for money, with potential for a return on investment and a positive benefit: cost ratio above 2. The economic evaluation considers the broader societal impacts, such as economic, social, and environmental benefits. The data indicates that Franchising (with medium investment) offers a net present value (NPV) of £100 million, compared to £70 million for EP. Both options present uncertainties, especially during transition periods, though Franchising allows for more definite control over changes in the medium term.
2.9	Comparing the delivery options suggests that at each level of investment, the franchising case performs slightly better in terms of economic benefits. The medium investment scenario suggests this level of investment is likely to provide the best value for money, compared to the low and high investment scenarios.
2.10	The financial case considers the cost and revenue implications of the assessed options for CPCA, as well as identification of potential funding sources to support long term delivery. The total value of the bus market in the region is approximately £44million. The fare revenues account for about £26million of this, with the public sector already providing funding of approximately £18m from a range of funding streams. It is important for the financial security of CPCA (beyond the transport discipline) that a long-term sustainable solution is sought; balancing appropriate levels of risk exposure and sufficient control to effectively realise benefits. The analysis suggests that any of the options pursued would require substantial financial support through the first 14-17 years after implementation. The low and medium investment Franchising scenarios, as currently envisaged, would need initial financial support, but in later years would increasingly generate revenues. The assessment set out a range of funding sources which could be used to meet the funding gap, this includes both local and national funding sources. For a decision to be taken to introduce a franchise scheme the funding to meet the gap will need to be identified. This task will be part of the further development of the business case.
2.11	The high investment option would deliver a transformed network. However, the initial investment, coupled with the significant on-going costs of operating a comprehensive high frequency network would continue to require financial backing to maintain in the long term or further policy intervention which encourages further increases in patronage. Therefore, the high investment scenarios could be discounted in the current form as options at this stage.
2.12	<p>The commercial case sets out the commercial proposition for the delivery options, delivering against the requirements of the Franchising Scheme or Enhanced Partnership Guidance. It presents the commercial objectives, assessing bus service delivery options against them and identifies associated commercial risks.</p> <p>Whilst the Franchising proposition provides for a competitive market in which CPCA would have much greater control and influence to achieve its objectives than the current position, it would come with a range of risks and delivery requirements. In contrast, an Enhanced Partnership would not provide the same level of risk and delivery challenges, but neither would it provide the same level of control and influence as Franchising.</p> <p>Reflecting the expected increase in resourcing and risk, with no additional public sector investment there is less justification for Franchising. Therefore, the low investment franchising option could be discounted in its current form.</p>

2.13	<p>Based on the draft OBC, if additional public funding is to be used to deliver bus improvements the preferred option is to proceed towards franchising. If no additional public funding is to be used to deliver bus improvements, then the preferred option would be an Enhanced Partnership.</p> <p>The draft OBC includes a non-exhaustive list of potential funding sources which could be considered to support the case for franchising, including both locally controlled sources, e.g., Transport Levy, Mayoral Precept, farebox supplements and access charging, as well as wider options the Combined Authority could pursue e.g. business rate supplement, increased local tax retention.</p>
2.14	<p>The OBC does not require a certain funding solution to be identified, and many of these options are outside the CPCA's control. As part of the development of the franchising consultation, should the OBC successfully proceed through audit, a defined funding package will need to be developed which will involve further discussions around any funding solutions including those outside the CPCA's control.</p>
2.15	<p>These findings reflect that if the public sector invest further to improve bus services, then increased control and oversight of the bus system through franchising will provide better value for money and is the most likely way to achieve the strategic outcomes. The findings also reflect that without further investment CPCA should introduce an Enhanced Partnership. The Enhanced Partnership provides a lower risk option but also lower rewards at each investment level. These findings are draft and the business case remains subject to the external audit.</p>
2.16	<p>Next Steps</p> <p>Any decision to make a franchising scheme are conditional on an independent audit of the assessment of the proposed franchising scheme and conclusion of a statutory consultation. As such, there are a number of steps to take before a final decision can be reached. Following completion of the Assessment, if the CPCA wishes to proceed with the franchising scheme in principle, it must obtain a report from an independent auditor to proceed with the franchising scheme (Section 123D).</p>
2.17	<p>The independent auditor's report must state whether (in its opinion):</p> <p>(a) the information relied on by the Combined Authority in producing the economic (value for money) and financial (affordability) cases of the Assessment is of sufficient quality;</p> <p>(b) the analysis of that information is of sufficient quality; and</p> <p>(c) the Combined Authority has had due regard to guidance issued by the Secretary of State under section 123B of the Act in preparing the Assessment.</p>
2.18	<p>It is envisaged that the independent audit will commence immediately. The process itself may take several months to complete, depending on the independent auditor's assessment of the work undertaken so far.</p>
2.19	<p>Following the completion of the independent auditor's review, and provided that the elements as set out in paragraph 2.16 above are met satisfactorily, the next step required to progress a franchising model would involve a decision to commence statutory consultation. The consultation would be expected to run for a minimum of 12 weeks with involvement from key stakeholders, businesses, passengers and members of the general public.</p>
2.20	<p>Only on completion of these formal processes, having had due regard to the outcomes of the consultation process, can the Mayor make a final decision on whether to implement a franchising scheme.</p>

3. Background

3.1	<p>Bus Reform</p> <p>The purpose of this report is to determine the approach of the Combined Authority to the next stages in Bus Reform within Cambridgeshire and Peterborough under the requirements of the Bus Services Act 2017 (the "Act"). The Government's Bus Back Better strategy effectively outlines two delivery options for Mayoral Combined Authorities, such as the Cambridgeshire and Peterborough Combined Authority: a franchise model or an enhanced partnership model.</p>
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3.2 **Summary of the franchising and enhanced partnership models**

The following table summarises the key differences between bus franchising and an enhanced partnership for the CPCA:

Enhanced Partnership	Franchising
Control supported services only; some influence over wider network (e.g., regulating headways)	Control all services – routes, frequencies, route numbers
Set fares on supported services only and opportunities for targeted discounts	Set fares across all services and general fares discounts
Multi-operator ticketing	Multi-operator ticketing and single product range
No cross-subsidy between services	Profitable services can cross-subsidise others
Agree standards for services/vehicles	Set standards for services/vehicles
Network branding negotiated, continued recognition of individual operators	Network branding mandated. Common livery/branding
Hold operators to account for not meeting requirements	Hold operators to account for not meeting requirements
Partnership/negotiated approach to management of network	Centralised approach to planning and management of network
Shared responsibilities and resourcing	Increased responsibility and resourcing for Local Transport Authority

3.3 **Summary of scenarios assessed in the Bus Reform Assessment**

The following summarises the scenarios which have been assessed in the outline business case. These compare the models of enhanced partnership and franchising under three investment scenarios.

Regime	Investment	Elements included
Enhanced Partnership	Business as usual	Bus services remain largely unchanged; limited investment in infrastructure; multi-operator ticketing
Enhanced Partnership	Mid-level investment	Bus services enhancements; increased investment in infrastructure; multi-operator ticketing
Enhanced Partnership	High-level investment	Significant bus service enhancements; investment in infrastructure, bus priority, information and bus stops; multi-operator ticketing, including targeted fares discounts
Franchising	Business as usual	Replanned bus services; limited investment in infrastructure; network ticketing
Franchising	Mid-level investment	Bus service enhancements; increased investment in infrastructure; network ticketing and fares capped
Franchising	High-level investment	Significant bus service enhancements; investment in infrastructure, bus priority, information and bus stops; network ticketing and fares capped

3.4 **On-going engagement with Bus Operators**

The role of bus operators will remain vital to the success of the local economy and communities and also as an important employer in the region. The Bus Operator Forum remains an important part of the work between the Combined Authority and Bus Operators. The forum provides an opportunity for all stakeholders to contribute to improve bus services. Operators have already positively contributed to the Bus Strategy, development of the draft Bus Service Improvement Plan and input to Bus Reform.

3.5	The recent Bus Operator Forums have been focused on the development of the Bus Service Improvement Plan and how this plan feeds into the considerations for bus reform. The Combined Authority and operators will continue to explore how improvements can be made to the service regardless of changes to the governance model, with local authorities and operators each coming together to set out how services could be made convenient, attractive and easy to use.
3.6	The engagement by bus operators is highlighted in this report to acknowledge the positive approach they have taken to work with the Combined Authority and partners in developing the Bus Strategy, BSIP and to explore bus reform. Officers at the Combined Authority and partner local authorities will continue to develop this relationship to enhance the bus network.

4. Appendices

4.1	EXEMPT Appendix A: Draft Bus Reform Outline Business Case
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5. Implications

Financial Implications

5.1	<p>The recommendations of this paper are to consider the OBC and delegate the undertaking of an external audit. The budget for the development of the business case and undertaken of an audit has already been agreed as part of the budget setting for 2023/24 and is part of the agreed MTFS so there are no wider direct financial implications of the decision whether to proceed.</p> <p>The topic of Bus Reform will have significant financial implications as decisions are taken on the future governance model for buses.</p> <p>Initial analysis of the outline business case suggests that there may be some mechanisms that would meet the longer term funding requirements of the business as usual/low investment model for either franchising or enhanced partnership, using existing public subsidy mechanisms available to the Combined Authority, albeit that there would be some short term funding gaps that would require some novel funding approaches (such as those laid out in the table of potential funding sources within the OBC) and which are unlikely to be within the full control of the Combined Authority.</p> <p>The OBC has been reviewed from a financial perspective and is considered sufficiently robust to proceed to audit.</p>
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Legal Implications

6.1	<p>In accordance with the requirements of the Act and the Department for Transport's Franchising Scheme Guidance (2017), the next stages are to complete the assessment and commission a report to be prepared by an independent auditor. The CPCA Board report sets out the draft assessment and seeks to proceed to the next stage of the bus reform process.</p> <p>The topic of Bus Reform will continue to have significant legal implications as decisions are taken on the future governance model for buses.</p>
6.2	Section 123 of the Transport Act 2000 refers to a "proposed scheme", including assessment of a proposed scheme (s. 123B), the obtaining of an auditor's report (s. 123D). It is therefore a statutory requirement that a franchising authority or authorities, such as the CPCA that propose to make a franchising scheme covering the whole or any part of their area, or combined area, must prepare an assessment of the proposed scheme."

Public Health Implications

7.1	There is no significant Public Health Implications of the recommendations in this paper. Future implications of decisions on bus reform will be presented to the TIC as required.
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Environmental & Climate Change Implications

8.1	Whilst there are no environmental or climate change implications associated to this paper, the topic of Bus Reform will have implications as decisions are taken on the future governance model for buses.
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	The ability to mandate fleet requirements as part of the franchise contracts could accelerate the progress to low-emission vehicles. Equally, an Enhanced Partnership would be expected to include an agreed commitment to accelerate progress to low-emission vehicles.
Other Significant Implications	
9.1	There are no other significant implications associate to the recommendations in this paper. Future implications of decisions on bus reform will be presented to the TIC as required.
Background Papers	
10.1	Previous decision on Bus Reform, CPCA TIC paper, 29/04/2020