BUS FRANCHISING IN THE WEST MIDLANDS: ASSESSMENT

23 DECEMBER 2024

Mayor of the West Midlands | West Midlands Combined Authority | Transport for West Midlands

Contents

List of Documents **Page**

Glossary of Terms

Definition	Meaning
AQMA	Air Quality Management Area(s)
AQPS	Advanced Quality Partnership Scheme
ARAC	Audit and Risk Assurance Committee
Assessment	This Bus Franchising Assessment
Authority	WMCA and/or TfWM (as applicable)
Authority's Region	The areas within the West Midlands which are under the Authority's remit, as set out in paragraph 1.2 of the Strategic Case
BCR	Benefit-to-Cost Ratio
Black Book	The Demand for Public Transport: A Practical Guide (TRL, 2004)
Bonfire of Bus Tickets	The Authority's standardisation of ticketing across multiple Operators, meaning passengers are now no longer tied to using the Operator that the bus ticket was purchased from
BSIP	Bus Service Improvement Plans
BSOG	Bus Service Operators Grant
Bus Alliance	The West Midlands Bus Alliance detailed at https://www.tfwm.org.uk/who-we-are/what-we-do/west-midlands-bus-alliance/
Bus Alliance Board	The board, which the Authority is a member of, and which provides a coordination role between the various stakeholders
Bus Back Better	DfT's "Bus Back Better" national bus strategy, published in March 2021 accessed here: DfT Bus Back Better. National Bus Strategy for England
Bus Delivery Options Programme Board	The board which is responsible for the technical delivery of this Assessment and ensures that there is wider visibility of the development and delivery of this Assessment amongst relevant stakeholders and senior officers within the Authority
Bus Options Programme Group	The board that would be established with a variety of project level groups to plan, transition and implement each aspect of change under Franchising
Bus Services Act	The Bus Services Act 2017
CA(s)	Combined Authorities in England pursuant to the Local Democracy, Economic Development and Construction Act 2009
CAGR	Compound Annual Growth Rate
CAZ	Clean Air Zone
CMA	Competition and Markets Authority
CMP	Congestion Management Plan
Commercial Case	The Commercial Case of this Assessment
Commercial Objectives	The commercial objectives of the Authority as set out in paragraph 2 of the Commercial Case
CPI	Consumer Price Index
CRSTS	City Region Sustainable Transport Settlements
DC	Defined Contribution
Delivery Option(s)	The options for delivering bus reform within the Authority's Region through either the Future Partnership or a Franchising Scheme
DERV Index	Diesel Engine Road Vehicle Index
DfT	The Department for Transport
Districts	The LA district boroughs within the Authority's Region
DI	Distributional Impact

DLUHC	The Department for Levelling Up, Housing and Communities
DMO	Debt Management Office
DPT	Delivery Plan for Transport 2026
DRT	Demand Responsive Transport
Economic Case	The Economic Case set out in this Assessment
ENCTS	English National Concessionary Travel Scheme
EP	Enhanced Partnership in the Authority's Region
EP Plan	Enhanced Partnership plan pursuant to the to the Transport Act 2000 (as amended by the Bus Services Act 2017)
EP Reference Group	The group which is comprised of various Operators, LAs and transport leads across the Authority's Region, as set out in paragraph 2.5 of the Management Case
EP Scheme	Enhanced Partnership scheme pursuant to the Transport Act 2000 (as amended by the Bus Services Act 2017)
ETM	Electronic Ticket Machine
Financial Case	The Financial Case of this Assessment
Financial Model	A financial tool created to analyse Operators' cash flows (such as forecast income and expenses) through structured inputs and calculations
Franchise Contract(s)	Contracts entered into between the Authority and the Operator(s) under the Franchising Scheme
Franchising	Bus franchising pursuant to the Transport Act 2000 (as amended by the Bus Services Act 2017)
Franchising Assessment Working Group	The relevant strategy teams within the Authority, and its advisor group consisting of Addleshaw Goddard LLP, PwC, Steer Group and Arup Group
Franchising Guidance	The Bus Services Act 2017 Franchising Scheme Guidance as published and updated from time to time by the DfT
Franchising Scheme	Bus franchising scheme pursuant to the Transport Act 2000 (as amended by the Bus Services Act 2017) which the Authority propose to implement under Franchising if this is the chosen Delivery Option
FTE(s)	Full Time Equivalent(s)
Future Partnership	Continued partnership with Operators, with alterations to the existing arrangements under the EP, as set out in the Strategic Case
FY	Financial Year
GC	Generalised Cost
GDP	Gross Domestic Product
Gear Change	DfT's 'Gear Change Strategy – a bold vision for cycling and walking'
GT	Generalised Time
GMCA	Greater Manchester Combined Authority
GMCA Franchised Services	The franchised services with Greater Manchester Combined Authority
HM Treasury's Green Book Guidance	"The Green Book: Central Government Guidance on Appraisal and Evaluation", as published and updated from time to time by HM Treasury
KPI(s)	Key Performance Indicator(s)
LA(s)	Local Authority(ies)
LCRCA	Liverpool City Region Combined Authority

LGPS	Local Government Pension Scheme
Local Transport Act	The Local Transport Act 2008
Lot(s)	The bus service routes within each Round that will form the basis of Franchise Contracts, as set out in the Commercial Case
LSOAs	Lower Layer Super Output Area - A geographic hierarchy designed to improve the reporting of small area statistics in England and Wales
LTAs	Local Transport Authorities
LTP(s)	Local Transport Plan(s)
MaaS	Mobility as a Service
Management Case	The Management Case of this Assessment
MEC	Marginal External Costs
Network Stability Grant	The grant awarded by the Authority to Operators in the West Midlands in order to maintain network stability, which ends on 31 December 2024
Net Zero	A target of completely negating the amount of greenhouse gases produced by human activity
NOx	Nitrogen Oxides
NPV	Net Present Value
NX	National Express
Operator(s)	Commercial operator(s) of Services
Opex	Operational expenditure
Procurement Act	Procurement Act 2023
Project Coral	The introduction of contactless multi-Operator capping
Prudential Borrowing	The set of rules governing local authority borrowing in the UK
PSV MEC	Public Service Vehicle Marginal External Costs (the positive or negative externalities of having additional or fewer bus vehicle kilometres being operated under a Delivery Option)
PTA	Public Transport Authority
PV	Present Value
PVB	Present Value of Benefits
PVC	Present Value of Costs
PVR	Peak Vehicle Requirement
PWLB	Public Works Loan Board
Reference Case	The current status quo for Service provision in the Authority's Region and the base case against which the Delivery Options will be assessed
Ring and Ride	A fully accessible door-to-door service
RMF	A Risk Management Framework
Round(s)	The three geographical areas the Authority has split the West Midlands Bus Network into, as set out in paragraph 6.10 of the Commercial Case
RPI	Retail Price Index
RTA	Road and Transport Authority
RTCC	Regional Transport Coordination Centre
RTI	Real time information services
RV	Residual Value
SAU	Subsidy Advice Unit
Service Permits	Service permits granted to Operators under a Service Permit Regime

Service Permit Regime	A permit regime to be introduced under a Franchising Scheme pursuant to the Bus Services Act and The Franchising Schemes (Service Permits) (England) Regulations 2018
Service(s)	Bus service(s) in the Authority's Region
SSF	Single Settlement Fund (a financial arrangement designed to give CAs greater control and flexibility over a range of funding streams provided by the Government)
SME	Small-to-Medium Enterprise
SMO(s)	Small-to-Medium Sized Operators
Sprint	The Bus Rapid Transit concept along the A34 (N) and A45 developed by TfWM
SQP	Statutory Quality Partnership
SQPS	Statutory Quality Partnership Scheme(s)
SRO	Senior Responsible Officer
Strategic Case	The Strategic Case of this Assessment
Supported Services	Services which Operators are unable to provide commercially, and the Authority provides financial support to such Operators willing to run such service on its behalf
Supported Services Contracts	Contracts relating to Supported Services
TAG	DfT's Transport Appraisal Guidance
TAG Databook	May 2024 TAG Databook
TCAs	Travel Concession Authorities
TDOSC	Transport Delivery Oversight and Scrutiny Committee
TEE	Transport Economic Efficiency
TfGM	Transport for Greater Manchester
TfL	Transport for London
TfN	Transport for the North
TfWM	Transport for West Midlands
TiCo	A ticketing company, which the Operators and the Authority would own shares in, acting as a centralised and independent sales team, set up to deliver sales of the multi-operator nBus tickets
TPO	Transport Portfolio Office
Transport Act	The Transport Act 2000
Transport DSO	The Transport Democratic Services Officer
Transport Levy	Levy funding received by the Authority from each LA within the Authority's Region (based on population figures)
TUPE	The Transfer of Undertakings (Protection of Employment) Regulations 2006
UCR	Utilities Contracts Regulations 2016
UDM	Utilities Dynamic Market
UEL	Useful Economic Life
UKIB	UK Infrastructure Bank Limited
ULEB	Ultra-Low Emissions Bus
VfB	The Authority's "Vision for Bus"
VfM	Value for Money (such metric being used to measure how well each Delivery Option delivers on a value for money basis against the objectives for reform identified in the Strategic Case)
VPA	Voluntary Partnership Agreement
WEI	Wider Economic Impacts

West Midlands Bus Network	The bus network in the Authority's Region for which the Authority has ultimate control
WMCA	West Midlands Combined Authority
WMPTA	West Midlands Public Transport Authority
WMPTE	West Midlands Passenger Transport Executive
WYCA	West Yorkshire Combined Authority
ZEB(s)	Zero-emissions bus(es)
ZEBRA	Zero Emission Bus Regional Areas

1 Introduction

Background

1.1 Services within the Authority's Region operate in a largely 'deregulated' environment, where Operators plan and operate local Services which they register with the Traffic Commissioner. Operators have the ability to compete for passengers 'on street', seeking to differentiate themselves by the quality of service and fares available.

1.2 Since 2017, a range of transport powers and funding have been devolved to the Authority by the Government. Together with the powers granted more widely by the Bus Services Act, this presents an opportunity to consider 'regulatory change' to deliver improvements to the bus network in the Authority's Region and move away from the current 'deregulated' model.

1.3 In March 2021, the DfT published Bus Back Better, setting out the Government's ambitious vision to transform Services for passengers, supported by £3bn of investment. It also established the framework for a future operating model for local Services outside London, with a reinforced role for LTAs.

1.4 The above provides the framework for the Authority to consider different options for delivering Services across the Authority's Region, and to consider a transition to a Franchising Scheme.

Purpose of this Assessment

1.5 Where an LA is considering creating a Franchising Scheme which covers all or part of their area, they are required under Section 123B of the Transport Act to prepare an assessment of the proposed scheme.

1.6 This Assessment:

(a) Has been prepared by the Authority in accordance with the requirements set out in Section 123B of the Transport Act and in accordance with the Franchising Guidance;

(b) Covers the whole of the Authority's Region;

(c) Describes the Franchising Scheme proposed by the Authority; and

(d) Compares the Delivery Options against the Reference Case for providing Services within the Authority's Region.

Set-up of this Assessment

1.7 This Assessment follows the five-case business case model recommended by the Transport Act. Accordingly, this Assessment is made up of the following sections:

(a) **The Strategic Case**: providing the strategic rationale for bus reform and outlining the case for changing the current bus arrangements. The Strategic Case considers the Delivery Options against the Reference Case;

(b) **The Economic Case:** investigating whether the benefits of the Delivery Options outweigh the costs and whether the Delivery Options represent VfM for the Authority;

(c) **The Commercial Case**: assessing the commercial implications of the Reference Case and the Delivery Options, with reference to the HM Treasury's Green Book Guidance requirements and the Franchising Guidance.

(d) **The Financial Case:** assessing the financial implications for the Authority of continuing to operate the Reference Case or in changing delivery to one of the Delivery Options;

(e) **The Management Case**: which considers how the Delivery Options could be implemented by the Authority, including organisation and structure changes, additional resource requirements, governance updates, and how risk will be managed. The Management Case also sets out a synopsis of feedback received by the Authority from Operators on the Delivery Options; and

(f) **The Conclusion**: summarising the assessments of the Reference Case and Delivery Options and sets out distinctions between the performance of the each in achieving the objectives of the Authority. The Conclusion also sets out the Authority's preferred Delivery Option and a clear rationale for that decision.

Franchising Scheme

1.8 Should a decision be made to proceed with Franchising, the Franchising Scheme that the Authority proposes to make through exercising its powers under Sections 123G and 123H of the Transport Act is provided within this Assessment.

1.9 The Franchising Scheme confirms the following:

(a) Article 3 confirms the geographic area that the Franchising Scheme applies to;

(b) Article 4 sets out the date on which the Franchise Contracts may be entered into by the Authority, and the minimum amount of time that has to expire following an award of the Franchise Contracts before Services can start to operate under those Franchise Contracts;

(c) Article 5 specifies the Services that would operate under Franchised Contracts by the Authority (by reference to Appendix 1);

(d) Article 6 specifies those Services which would be exempt from Franchising (by reference to Appendix 2);

(e) Article 7 identifies additional facilities that the Authority considers appropriate to provide, which are the use of depots to facilitate large Franchise Contracts and buses, ZEB or internal combustion engine to facilitate the letting of Franchise Contracts;

(f) Article 8 specifies the basis upon which the Authority would consult on the operation of the Franchising Scheme; and

(g) Article 9 details the steps to take to revoke the EP Scheme and the EP Plan under the Reference Case.

WEST MIDLANDS COMBINED AUTHORITY BUS ASSESSMENT BUSINESS CASE: STRATEGIC CASE

Contents

Figures

Tables

1 Introduction

Purpose of this Strategic Case

1.1 The purpose of this Strategic Case is to outline the case for change, which establishes the need to reform Service delivery in the West Midlands. The case outlines the Delivery Options, the alternative approaches which could be taken to reform Services, which are compared against the Reference Case, representing the present situation.

Geographic Scope of this Assessment

1.2 This Assessment considers the case for reforming Service delivery and covers the Authority's Region (as defined in the Authority's constitution.)[1] The Authority is responsible for a range of functions including but not limited to transport, housing, skills and economic development across the West Midlands and acts as the LTA. The Authority was formed in 2016 with the appointment of an elected mayor in 2017, and consists of the following seven LAs who have full voting rights on any decision:

(a) Birmingham City Council;

(b) City of Wolverhampton Council;

(c) Coventry City Council;

(d) Dudley Metropolitan Borough Council;

(e) Sandwell Metropolitan Borough Council;

(f) Solihull Metropolitan Borough Council; and

(g) Walsall Metropolitan Borough Council.

1.3 A number of councils have reduced voting rights and the geographic area within these councils are not covered within this Assessment. These councils comprise:

(a) Cannock Chase District Council;

(b) North Warwickshire Borough Council;

(c) Nuneaton and Bedworth Borough Council;

(d) Redditch Borough Council;

(e) Rugby Borough Council;

(f) Shropshire Council;

(g) Stratford-on-Avon District Council;

(h) Tamworth Borough Council;

---

1 When this Assessment refers to the Authority's Region, this only covers the extent of the Authority's remit

(i) Telford and Wrekin Council;

(j) Warwickshire County Council; and

(k) Warwick District Council.

1.4 TfWM is the transport arm of the Authority, responsible for setting local transport policy, securing investment, scheme development and delivery (along with Highway Authorities), and operational services. This responsibility covers all transport modes, including bus.

1.5 As outlined above, the geographic area within this Assessment covers the entirety of the Authority's Region (the seven LA areas which make up the LTA) which is consistent with the BSIP described in paragraph 3 of this Strategic Case. The present West Midlands Bus Network is provided by a number of private Operators running cross-area and cross-boundary Services due to depot locations and companies operating across a wide area. Consideration of cross-boundary Services which serve significant parts of the Authority's Region is included within this Assessment.

Structure of this Strategic Case

1.6 The remaining paragraphs within the Strategic Case set out the strategic rationale for regulatory change for local Services in the Authority's Region, as follows:

(a) Paragraph 2 provides an **overview** of the West Midlands Bus Network, how it operates, and the current regulatory structure of the bus market;

(b) Paragraph 3 summarises the **policy context**, and how regulatory change is aligned to the local and national policy objectives;

(c) Paragraph 4 summarises the **role of bus** within the Authority's Region, and how improved Services are aligned to the Authority's priorities and emerging LTPs;

(d) Paragraph 5 summarises the **key challenges** facing the West Midlands Bus Network, and therefore demonstrates why the bus reform is needed;

(e) Paragraph 6 sets out the **objectives** for bus reform and what the Authority is seeking to achieve through reform;

(f) Paragraph 7 outlines the **Delivery Options** and **assesses** these against the identified objectives; and

(g) Paragraph 8 summarises the **need for intervention**, and how the Delivery Options can deliver wider opportunities for the West Midlands Bus Network and the transport network.

Fulfilment of Requirements of the Franchising Guidance

1.7 In producing this Strategic Case, attention has been given to the requirements of the Franchising Guidance and the relevant sections of HM Treasury's Green Book Guidance.

1.8 Section 123B of the Transport Act requires authorities to consider, as part of their assessment, whether, and the extent to which, the Franchising Scheme would contribute to the implementation of its LTP policies and any of their other published and adopted policies that affect local Services, for example an environmental policy. Similarly, the Authority is required to consider whether the Franchising Scheme would contribute to the implementation of neighbouring LAs LTPs and other policies which affect their local services.

1.9 Table 1-1 below highlights how this Strategic Case meets the Franchising Guidance for preparing an assessment under the Bus Services Act.

Table 1-1: Fulfilment of the requirements of the Franchising Guidance

Para	Content of Franchising Guidance	How the case meets this requirement
1.42	*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.*	Paragraph 3 of this Strategic Case sets out the policy context for this Assessment and sets out how change is aligned to local and national policy objectives. Paragraph 3 of this Strategic Case sets out the key policies for neighbouring LAs in the Authority's Region. This includes their LTPs and their BSIP as well as their enhanced partnership arrangements where appropriate. A review of neighbouring LA's key policies concluded that they closely align with the West Midlands LTP5 'Reimagining Transport in the West Midlands' with all LAs striving to achieve similar goals. Paragraph 6 of this Strategic Case sets out the objectives for what the Authority is seeking to achieve and how they relate to passengers. Paragraph 7 of this Strategic Case sets out how the Authority has engaged with neighbouring LAs, the feedback provided by neighbouring LAs, and a summary of expected impacts.
1.43	*This assessment will be central to the final decision on which option the authority or authorities should select.*	Paragraph 6 of this Strategic Case sets out the strategic fit of each Delivery Option against the objectives.

2 West Midlands Bus Network

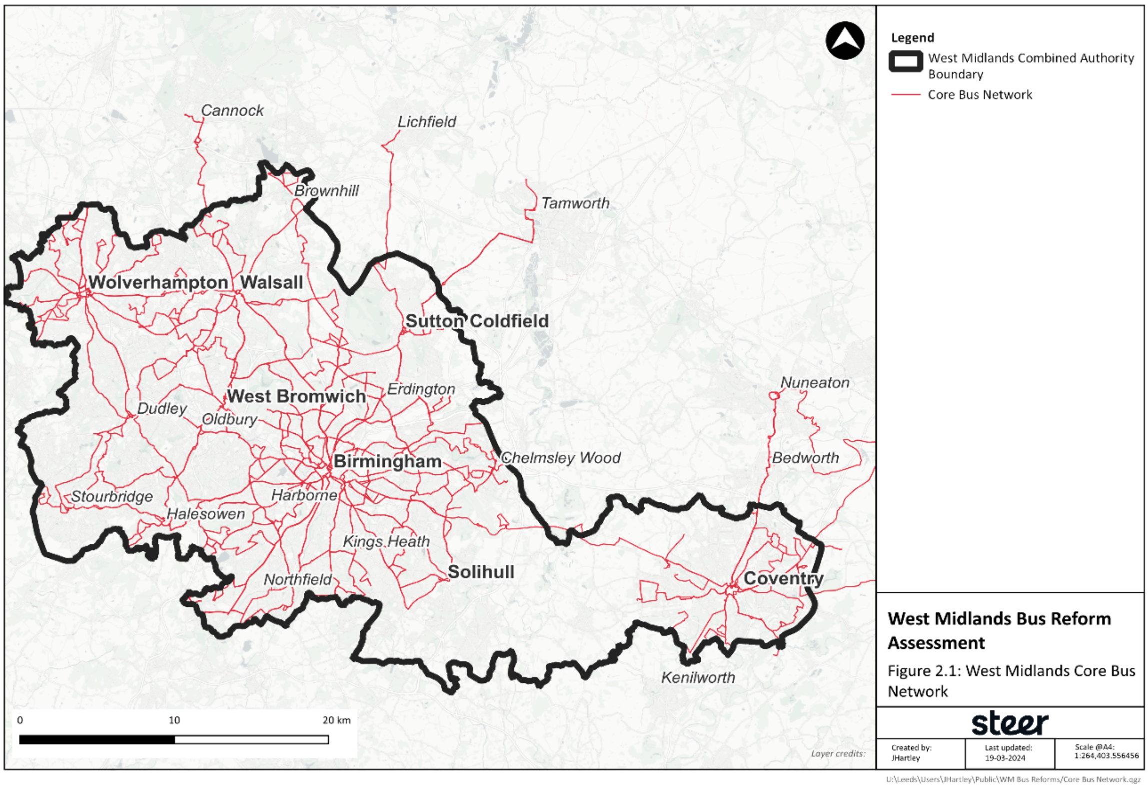
Introduction

2.1 This paragraph 2 provides an overview of the West Midlands Bus Network, detailing the extent of the network and how it operates. This paragraph also sets out the current regulatory structure in place in the West Midlands bus market and provides details of the current ticketing structure.

The West Midlands Bus Network

2.2 The West Midlands Bus Network is the busiest in England (outside of London) with over 232 million boardings in FY 2023/2024,[2] which was 94% of boardings in FY 2019/2020 (the last full FY before the Covid-19 pandemic). The West Midlands Bus Network consists of over 300 routes and 12 managed bus stations, with the core bus network illustrated in Figure 1-1. The West Midlands Bus Network is formed of a core network (which operates high frequency, turn up and go Services), alongside lower frequency, local Services connecting the vast majority of areas in the Authority's Region. The core network generally operates seven days a week, including early morning and late evening Services.

Figure 1-1: West Midlands Core Bus Network



Source: TfWM

2.3 The West Midlands comprehensive bus offering means that 61% of built-up areas in the West Midlands are within 400 metres of a bus stop with a service frequency of at least six buses an hour.[3] When expanded to an 800 metre distance, residents in 91% of built-up areas can access a bus stop with a high frequency service.[4] This level of service is dependent on significant levels of public subsidy as set out later in this Strategic Case.

2.4 Alongside the traditional bus network, the Authority has been developing Sprint. This includes extended bus lanes and a range of bus priority measures which seek to enable fast and reliable

---

2 Transport for the West Midlands. 2024. Patronage - Travel Trends

3 Transport for the West Midlands. 2021. West Midlands Bus Service Improvement Plan

4 Transport for the West Midlands. 2021. West Midlands Bus Service Improvement Plan

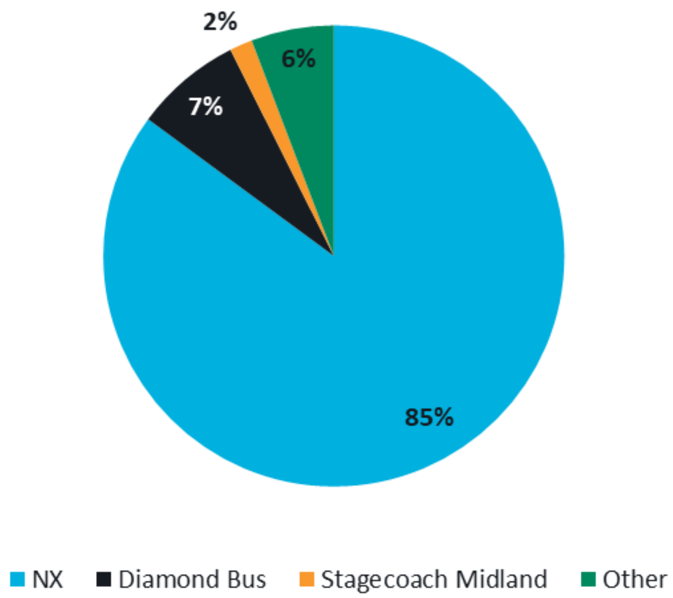
journeys along key corridors to support the operation of high frequency Services. These schemes are currently being completed and in the coming years articulated Bus Rapid Transit style vehicles will be introduced to the Sprint corridors. The Authority is also working on further bus priority measures to allow the introduction of high-frequency cross-city Services in Birmingham.

Operating the West Midlands Bus Network

2.5 Services on the West Midlands Bus Network, like most areas in England outside of London which haven't already pursued Franchising, operate in a largely 'deregulated' environment. Operators plan and operate local Services which they register with the Traffic Commissioner.[5] It is intended that in the deregulated market, Operators compete for passengers 'on street', seeking to differentiate themselves by the timetable, quality of service and fare structure they offer.

2.6 As of April 2024, there are 14 Operators providing Services in the West Midlands. These Operators covered over 111 million kilometres in FY 2021/2022.[6] Of these Operators, NX had the largest market share and the largest amount of bus kilometrage (with 85% of bus kilometrage). Diamond is the next largest Operator accounting for 7% of vehicle kilometrage, whilst the other Operators make up the remaining 8% of vehicle kilometrage.[7] The scale of bus operations in the West Midlands in FY 2021/2022 is illustrated in Figure 1-2.

Figure 1-2: Share of Vehicle Kilometrage by Operator across West Midlands Bus Network (2021/22)



Source: TfWM Data Insight Annual Bus Service Kilometres by Operator

5 The Authority acts on behalf of the traffic commission for bus service registrations in the West Midlands

6 The Authority Data Insight Annual Bus Service Kilometres by Operator

7 Diamond Bus are part of the larger Rotala Limited (formerly PLC) group made up of five bus companies

2.7 The West Midlands Bus Network is made up of a mixture of Supported Services and commercially operated Services. In 2023 around 90% of the network kilometrage was operated commercially, whilst the remaining 10% was publicly subsidised through the Transport Levy.

History of Bus Partnership in the West Midlands

2.8 The first West Midlands voluntary bus partnership was created in 1996 with the Line 33 Showcase partnership in north Birmingham. This became the blueprint for a number of route-based agreements between the Authority (then 'Centro'), the Operators and the relevant local highway authorities. The Operators provided new low floor buses, whilst the Authority/LAs provided bus priority, and Centro provided new bus stop infrastructure.

2.9 The timeline for the different partnership structures over the last decade is provided in Figure 1-3.

Figure 1-3: West Midlands Bus Market Structure Timeline

2.10 The Authority, and its predecessor Centro, have a long history of working in partnership to deliver positive outcomes for passengers. The Authority's Region was the first area to use powers within the Transport Act for bus information and bus stop rollout, as well as being the first in the UK to create a Voluntary Multilateral Agreement and to use new powers from the Local Transport Act, prior to forming the West Midlands Bus Alliance in 2015. Recognising this good practice, the Government incorporated ‘Enhanced Partnership’ legislation in the Bus Services Act, providing a legal framework for the methodology.

2.11 The Bus Alliance was formed in 2015, and consists of Operators, LAs, the Authority, and other stakeholders. The Bus Alliance Board meets quarterly and is the central mechanism that has been used to secure commitments from Operators and coordinate the West Midlands Bus Network over the past several years. The Bus Alliance is a voluntary partnership to '*deliver high levels of passenger satisfaction and drive forward investment in our buses'*. Some of the key objectives include improving ticketing and increasing the emission standards of the bus fleet. Since June 2021, the Bus Alliance has been underpinned by the EP.

2.12 The Authority has attempted to use the available partnership powers at every opportunity to secure passenger benefits and build a more sustainable network of Services in the Authority's Region. In June 2021, the Authority formed the EP, which covered the A34/A45 Sprint route between Walsall and Solihull. In June 2022, the EP Scheme was expanded to cover the whole of the Authority's Region. This was followed by a further variation in November 2022 which committed to multiple initiatives identified within BSIP.

2.13 The Authority worked closely with Operators and local districts to create the first metropolitan enhanced partnership in the country. The EP covers all of the Authority's Region and is designed to improve Services for the West Midlands by agreeing, through negotiation, matters such as:

(a) the type of bus an Operator uses;

(b) bus branding;

(c) payment options;

(d) on-board facilities and technology;

(e) journey time performance; and

(f) which stops the Services use.

2.14 The current version of the EP was introduced in September 2023 and has no specified end date.[8] The EP is designed to give the Authority greater control by enabling some level of intervention through the formal and binding partnership. The EP was agreed alongside a number of grants to Operators; therefore, Operators are financially incentivised to comply with the EP (and grant conditions) until the end of 2024. However, the bus market remains essentially deregulated.

2.15 A number of non-binding improvements have followed the implementation and agreement of the EP including:

(a) a simpler more consistent service across Operators; and

(b) a reduction in the barriers to market entry for other Operators, however this has not been entirely eliminated.

2.16 Despite these improvements, significant challenges and complexities remain for passengers which are discussed in more detail in paragraph 5.

Ticketing Structure

2.17 The West Midlands Bus Network has a more integrated ticketing system than many other CAs in the UK, largely because of dominance in the market by one Operator: NX. As explained in the Commercial Case, NX operate the majority of local Services, having bought West Midlands Travel Ltd from the Authority in 1995, in contrast to most other public transport executive areas where operations were split between several Operators. The dominance of NX was further ensured by its inheritance of the WMPTE all-network unlimited travel ticket branded as 'Travelcard' (one of the first of its kind in the UK), which offered better VfM than its single tickets, but once purchased, tended to tie passengers to NX.

2.18 In response, WMPTE facilitated creation of a post-deregulation range of all-Operator (and multi-modal) unlimited travel tickets. From 2005, these were re-branded as 'n' (standing for Network West Midlands) tickets, moving on to the 'Swift' contactless payment platform from 2012. Ticket simplification was introduced as specified in the EP (*West Midlands EP Scheme Version Three*) leading to the nBus being the only major bus-only ticket available, with the price premium for bus travel now removed too (see 'Bonfire of Bus Tickets' in paragraph 5 of this Strategic Case). Other 'n' type tickets remain available including 'nNetwork' which offers unlimited travel across local bus, tram, and train.

2.19 The Authority has also been working hard to deliver fare 'capping' for residents of the West Midlands. In 2021, 'Swift Go' was introduced providing capping on the West Midlands Metro and 11 Operators Services (including multi-modal journeys). In February 2024, it was announced

---

8 Although there is no specific end date for the EP scheme, it is subject to review annually by the Authority.

that best value fare capping would be rolled out to rail users through a new Government pilot scheme at 75 stations across the West Midlands. This will enable a 'tap and go' system across rail, bus, and tram once launched. However, for the Authority to achieve contactless capping across the entire transport network, it needs to have the power to specify the systems used to enable this to work. This is not possible under the current system whereby Operators can choose their own systems which might not align with the wider capping technology.

Summary

2.20 This paragraph 2 can be summarised as follows:

(a) the West Midlands Bus Network is comprehensive and provides 61% of built-up areas in the Authority's Region with access to a frequent Service within 400 metres;

(b) the West Midlands Bus Network operates in a deregulated environment which consists of 14 Operators. NX has the largest market share accounting for 93% of bus patronage (as of April 2024) and 85% of bus kilometrage in FY 2021/2022;

(c) as of June 2021, the Authority has been part of the EP with Operators and local districts. Whilst this has given the Authority greater control over the West Midlands Bus Network, the market is still deregulated; and

(d) whilst there have been changes to the ticketing system in recent years to reduce challenges and complexities for passengers, some issues remain which will be discussed in paragraph 5 of this Strategic Case.

3 Policy Context

Introduction

3.1 Since 2016, a range of transport powers and funding have been devolved to the Authority by the Government. Together with the powers granted by the Bus Services Act, this presents an opportunity to consider regulatory change to deliver improvements to the West Midlands Bus Network.

3.2 This paragraph 3 sets out the national and sub-national policy context, including wider strategic economic, social, and environmental objectives – at local and national levels – that improvements to Services within the West Midlands can help to deliver.

National Policy

Net Zero Strategy: Build Back Greener

3.3 Tackling the climate crisis is high on the Government's agenda. It has set an ambitious target to decarbonise all sectors of the UK economy to meet its target of achieving Net Zero by 2050.

3.4 The Government's *'Net Zero Strategy: Build Back Greener'* sets out the long-term plan for the UK to meet its ambition of achieving Net Zero by 2050. The strategy builds upon the *'Ten Point Plan'*, announced in 2020, which outlined conditions for the private sector to invest in green industries.[9] Transport is the largest carbon emitting sector in the UK, accounting for 34% of

---

9 HM Government. November 2020. The ten point plan for a green industrial revolution

emissions in 2022.[10] Therefore, reducing emissions within the sector is vital if the Government is to meet its target.

3.5 The transport sector initiatives outlined in the strategy are largely focused on reducing car emissions though interventions such as enabling a successful transition towards electric vehicles by providing reliable, accessible, and adequate charging infrastructure. The strategy highlights that a key commitment of the Government is to support modal shift away from private car use towards public transport and active travel modes, including investing £12 billion in local transport schemes.

3.6 Additionally, the strategy outlines the commitment of the Government to deliver the National Bus Strategy including the delivery of 4,000 new ZEBs. This has included the ZEBRA funding schemes as well as supporting Coventry in becoming the first 'all-electric bus city'.

3.7 The Authority declared a climate emergency in 2019, setting out a plan to make the Authority's Region Net Zero by 2041, nine years ahead of the Government's agenda.

The **Net Zero Strategy** forms the Government's ambitions for UK to achieve Net Zero by 2050, with improvements in local buses seen as a key lever to reducing carbon emissions in the transport sector. Improving Services through increased regulatory control may allow better connectivity and targeted zero emission roll out, to best enable the move towards Net Zero.

Levelling Up and Regeneration Act 2023

3.8 As well as tackling the climate crisis, the Government has outlined an ambitious moral, social, and economic programme as part of its Levelling Up agenda.

3.9 The Levelling Up White Paper was released in February 2022 with the aim of helping to spread opportunity more equally across the UK and mitigate the worst effects of the Covid-19 pandemic. The Levelling Up and Regeneration Bill received Royal Assent on 26 October 2023 making it an Act of Parliament.

3.10 Transport, and specifically local public transport, are key parts of the Levelling Up strategy aiming to boost productivity around the country. The medium-term aim is for local transport connectivity across the UK to be significantly closer to the standards of London with improved Services, simpler fares, and integrated ticketing by 2030.

3.11 Deeper devolution is supported as a key lever for success of the strategy, with all areas of the UK that would like to implement a devolution deal given the power and a long-term funding settlement by 2030.

The Levelling Up and Regeneration Act 2023 shows the Government's commitment to improve local public transport around the UK as well as providing greater control to the Authority's Region through deeper devolution deals.

10 Department for Energy Security & Net Zero (2023) '2022 UK greenhouse gas emissions, provisional figures'

National Bus Strategy for England – Bus Back Better

3.12 As previously outlined, improvements to Services are understood to be an important factor in reducing carbon emissions from transport in the UK as well as the Levelling Up agenda.

3.13 Bus Back Better expands on the plans for new bus investment which were announced in February 2020. At its core was a £3 billion fund for bus investments to be distributed to LTAs across the country, to help level-up buses towards London standards.[11]

3.14 The strategy document positioned the Government's stance on how bus services can benefit from new Bus Services Act powers: specifically, EP Schemes and Franchising Schemes.

Outcomes

3.15 Bus Back Better recognises the importance of high-quality services, setting out the role of bus to local communities and the Government's vision for local bus services, including:

(a) more frequent, 'turn-up-and-go' services where passengers don't need a timetable, on major urban routes;

(b) faster and more reliable services, with greater priority on urban roads;

(c) cheaper fares, with more daily price capping;

(d) simpler, easier to understand networks, with simple, high-frequency trunk services, rather than lots of low-frequency services combining together; all Operators on the same physical route accepting the same tickets; and routes the same in the evenings and weekends as during the daytime;

(e) greener buses, with more ultra-low-emission and electric vehicles;

(f) returning patronage to pre-Covid-19 levels, and raising bus's mode share in the longer-term; and

(g) supporting social inclusion and vulnerable groups, especially those without access to a car.

Regulation

3.16 The strategy document describes what it expects to be the two primary regulatory arrangements for bus services over the coming years: Franchising and enhanced partnerships. A Franchising arrangement gives LTAs the power to determine the network of services that are provided, for which Operators are given opportunities to bid on Franchise Contracts. This is the arrangement historically for buses in Greater London and is now being implemented in Greater Manchester. Franchising powers are automatically available to CAs (such as the Authority), provided that the process included in the Bus Services Act is followed.

3.17 An enhanced partnership gives LTAs greater influence over timetables, vehicle standards, ticketing, and the registration of services. The main difference in influence between Franchising and enhanced partnerships is that Operators under an enhanced partnership have a greater

---

11 https://www.gov.uk/government/publications/bus-back-better

role, working with LTAs to develop and deliver improvements for passengers and having a say on how Services should be improved. Franchising can provide a greater level of control to LTAs compared to an enhanced partnership, which is becoming increasingly important given the growing level of subsidies provided to Operators to maintain the network.

3.18 The National Bus Strategy highlighted the importance of more flexible mobility services, which should be integrated within the wider public transport network, and should be at the forefront of digital innovation within the transport sector. The Authority is beginning to launch a MaaS App which sees the creation of a digital one-stop-shop for travel using public, active, and shared transport for all residents and transport users in the Authority's Region. MaaS App is detailed further in paragraph 5.

The Bus Services Support Grant

3.19 Since 1 July 2021, all LTAs and/or Operators that didn't commit to establishing an enhanced partnership were ineligible to receive the Covid-19 Bus Services Support Grant and were not eligible for the £3 billion discretionary bus fund. All LTAs and/or Operators are still required to commit to establishing an enhanced partnership or to pursue Franchising to receive future funding as part of the National Bus Strategy. This includes the Authority - where if Franchising is selected as the preferred Delivery Option, the EP would continue while the Franchising process is implemented.

3.20 These eligibility rules may be disapplied by the Secretary of State on a case-by-case basis, where the Operator/LTAs can prove that exceptional circumstances have prohibited them from meeting the requirements.

3.21 Furthermore, the strategy document outlines planned tweaks and changes to other bus-related regulations:

(a) giving LTAs 'new powers to enforce traffic regulations' to promote bus priority;

(b) the upcoming Future of Transport Regulatory review, which aims to update the legislative framework to account for new technologies like automated vehicles and ridesharing apps;

(c) mandating the provision of audio-visual information, including stop announcements, on all buses which should have been implemented by summer 2022; and

(d) reviewing accessibility regulations so that they 'are based on an up-to-date understanding of passenger need'.

Impacts of the Covid-19 pandemic

3.22 Short and long-term impacts of the Covid-19 pandemic have changed the way in which buses are funded and operated. The National Bus Strategy reflects the need for changes in how funding is spent and gives the ability for BSIP to become more flexible, with more emphasis on short-term improvements to retain passengers and increase patronage towards pre-Covid-19 levels. Patronage in the West Midlands has continued to recover since the Covid-19 pandemic, rising each year from 98 million boardings in FY 2020/2021 to over 232 million boardings in FY 2023/2024.[12]

3.23 Additionally, BSIP strategy updates should reflect this changing demand. The 2021 BSIP guidance advised that the pandemic might have lasting changes on demand such as more local or inter-suburban journeys, whilst fewer journeys are made into city centres. Increasing the number of profitable routes is also seen as a key priority, with routes to be selected for bus priority which are most likely to become commercially viable again. However, it is still expected that the majority of funding in the near term will be used to support existing Services and maintain the network.

Bus Back Better forms the first Government bus strategy for many years and establishes the objectives for local bus services from the perspective of national Government. It also reaffirms the ability of metropolitan areas to seek Franchising powers to better manage their bus networks. Bus Back Better and the BSIP process dictate that, for every CA, either Franchising or an enhanced partnership must now be in place to be eligible for funding.

Gear Change: A Bold Vision for Cycling and Walking

3.24 DfT's vision for cycling and walking, Gear Change, complements Bus Back Better through emphasising the need for bold change to achieve the Government's Net Zero goals by 2050. Gear Change highlights that cycling, walking, and using the bus are all part of the Government's agenda to deliver a transport system that works for everyone, regardless of their needs. It emphasises the need to give meaningful space to pedestrians and cyclists, as well as buses, through prioritisation over other vehicles.

3.25 The Authority's Cycling Charter and associated Action Plan (FY 2021/2022) aims to encourage cycling in the Authority's Region, including the delivery of new and upgraded cycle routes and integration with public transport interchange and Services. It can be expected that significant walking and cycling improvements will be implemented on or adjacent to bus corridors because of these national and local policies, with the aim to decrease car dependency in the Authority's Region. Achieving the Authority's bus and active travel targets for mode shift could be a challenge if the entire increase in demand is expected to come from less sustainable modes (such as car travel). This highlights the importance of collaborative thinking when implementing new ideas/developments across travel modes to ensure the best possible outcome.

Gear Change: a bold vision for cycling and walking highlights the importance of prioritising road space for active travel modes and buses. Improvements in bus priority will coexist with cycling improvements. Regulatory reform may allow for better integration between active travel modes and bus networks, providing a better connected and easier to use transport network for residents.

Devolution

Devolution in the West Midlands

[12] Transport for the West Midlands. 2024. Patronage - Travel Trends

3.26 In support of its wider ambitions, the Government has been focusing on the devolution of power and funding to local decision makers.

3.27 The first devolution deal for the West Midlands, signed in November 2015, sought to give the region greater control over transport, skills, business support and other areas. The deal brought together the seven metropolitan councils (Birmingham, Coventry, Dudley, Sandwell, Solihull, Walsall, and Wolverhampton) to form the Authority.

3.28 The agreement came into force with the formal establishment of the Authority in 2016, followed by the direct election of a first Metropolitan Mayor in May 2017. It marked significant additional local control for the Authority's Region, including responsibility for a £36.5 million annual investment fund worth £1 billion over 30 years,[13] control over adult education services, greater retention of business rates, and ownership over transport policy in partnership with Midlands Engine[14] and Midlands Connect.[15] The key transport powers granted were:

(a) a devolved transport budget for the Authority's Region;

(b) the power to deliver integrated smart ticketing, which uses a range of technologies; including contactless payment and smartphone compatibility to enable travel across all modes and Operators with one simplified capped transaction; and

(c) management of a key route network of LA roads, the maintenance of which come under the devolved transport budget of the Authority.

3.29 A second devolution deal, signed in November 2017, reaffirmed the aims of the first devolution deal and committed additional funding and collaboration to the Authority to meet its ambitions for transport, particularly considering maximising connectivity and the benefits of High Speed 2 within the Authority's Region.

Authority's Deeper Devolution Deal

3.30 In March 2023, the new 'Trailblazing' deeper devolution deal was announced for the West Midlands, giving the Authority greater control of the economic prosperity of the Authority's Region. The deal provides a windfall in excess of £1.5 billion to level up the Authority's Region, plus additional commitments such as the devolution of the BSOG. Devolution of payment of BSOG and long-term funding through the SSF provides additional opportunities for the Authority to support the West Midlands Bus Network and other public transport policies. The current timeline for the BSOG to be reformed and devolved for all Services is expected to be 2025. The new deal will provide the Authority with a series of tools to support the Authority's vision to deliver 'Levelling Up zones' across the Authority's Region.

The Bus Services Act

3.31 Bus patronage in the UK has been declining since the 1950s. Deregulation and privatisation (outside London) in the 1980s sought to increase on-street competition. However, since the

---

13 https://www.gov.uk/government/publications/west-midlands-devolution-deal

14 Midlands Engine is a public-private partnership working to drive investment across the Midlands; https://www.midlandsengine.org/

15 Midlands Connect is the Midlands' sub-national transport body; https://www.midlandsconnect.uk/

1980s, bus patronage outside of London has continued to fall and the market has become dominated by the 'big five' Operators who account for around three quarters of the market in the UK.[16] In the West Midlands, as shown in Figure 1-2, the market is dominated by NX, and the bus market has largely moved away from what was anticipated when the UK bus market was deregulated.

3.32 The Bus Services Act was brought in to provide LAs with new powers to help implement change and unlock the potential of the bus industry for benefit of passengers and residents. The Bus Services Act, which received Royal Assent in April 2017, was intended to lend legislative support to England's new devolution deals. The Bus Services Act gives directly elected regional Mayors the power to introduce Franchising for local bus services without the need to secure consent from the Government, in line with how bus services are operated in London. It also encompasses the new, more extensive enhanced partnership options available to all LTAs.

Devolution in the West Midlands has allowed the Authority to have an increased ability and power to determine how Services are operated and pursue greater partnership working or Franchising to better support local objectives.

West Midlands Area Policy

West Midlands Plan for Growth

3.33 Devolution has given the Authority the power to make decisions about investment in the West Midlands, balancing region-wide improvements with more strategic priorities to create new jobs, more educational opportunities, and better connect people and places.

3.34 In 2019, prior to the Covid-19 pandemic, the Authority's Region was the fastest growing region outside of London over the previous decade, with an economic output reaching over £100 billion. Like many regions, the pandemic had a severe impact on growth, worsened by trade frictions with the EU as a result of Brexit.

3.35 In 2022, The *West Midlands Plan for Growth* was published, setting out the Authority's plan to grow the economy, increase the number of jobs, spread opportunity in the Authority's Region, and help level-up the UK.

3.36 The Authority's role within the growth plan, alongside other LAs, is to create the conditions for investment to attract private sector investment. Importantly, the following eight clusters have been identified where the West Midlands has a comparative advantage and businesses are confident to invest in:

(a) Creative Content Production and Gaming;

(b) Health Tech and Med Tech;

(c) Professional and Financial Services and Supply Chain;

(d) Aerospace;

---

16 The 'big five' Operators include: Stagecoach, First Group, Arriva, Go-Ahead and NX

(e) Logistics and Distribution;

(f) Modern and Low Carbon Utilities;

(g) Manufacture of Future Housing; and

(h) Manufacturing of Electric Light Vehicles and Associated Battery Devices.

3.37 Transport and a world-class transport network are identified as key to helping deliver growth in these eight clusters by providing reliable and efficient transport connections across the Authority's Region.

Authority's Annual Business Plan[17]

3.38 The Authority's FY 2023-2024 Annual Business Plan summarises the achievements of the Authority as well as setting out the priorities for this FY. The plan supports the ambitions and long-term strategy set out by the *West Midlands Plan for Growth* as well as the Authority's target to achieve Net Zero by 2041. Within this business plan, the Authority sets out six main aims broken down to specific objectives and deliverables. These aims include the following:

(a) **Aim 1**: to promote **inclusive economic growth** in every corner of the Authority's Region and stimulate the creation of good jobs;

(b) **Aim 2**: to ensure everyone has the opportunity to benefit as the Authority's Region recovers from Covid-19, improves **resilience** and tackles long-standing challenges;

(c) **Aim 3**: to **connect communities** in the Authority's Region by delivering transport and unlocking housing and regeneration schemes;

(d) **Aim 4**: to reduce carbon emissions to **Net Zero**, enhance the environment and boost climate resilience;

(e) **Aim 5**: to secure **new powers and resources** from the Government, and demonstrate the strength of regional partnership; and

(f) **Aim 6**: to develop the Authority and its role as a **good regional partner**.

Plan for Growth and the **Authority's Annual Business Plan** sets out the long-term strategic plan to achieve high levels of sustainable growth. Improved connectivity and a reliable, sustainable transport network are key to supporting the Authority's growth ambitions. The Delivery Options can provide the tools to control and shape the transport network to benefit residents and support the Authority's growth plans throughout the Authority's Region.

West Midlands Transport Policy

Movement for Growth

[17] West Midlands Combined Authority. 2023. Annual Business Plan 2023 - 2024

3.39 *'Movement for Growth'* is the Authority's currently adopted fourth LTP (LTP4) which has a vision to create a transport system which befits "*a sustainable, attractive and economically vibrant conurbation*." To support this vision, the strategy proposes nine objectives including those based around economic growth, economic inclusion, population and housing development, environment, public health, and social wellbeing**.**

3.40 The DPT sets out a range of targeted measures to improve the Services, stressing the importance of challenging Operators to adopt better emissions standards, more affordable fares, and a greater frequency of Services.

3.41 As a result, the EP (in the 2nd variation for BSIP funding) committed that all buses would meet Euro VI standards by May 2023. Two Operators were unable to meet this obligation.[18]

3.42 The DPT outlined that while SQP powers can be used to tackle these quality issues, the Bus Services Act powers and revised partnership arrangements are also under consideration. The DPT acknowledges that these arrangements could be used to help secure further improvements from Operators across the board.

3.43 Although LTP4 is currently the adopted LTP, the Authority's board has approved the new LTP's Core Strategy for setting the tone and approach to transport policy and strategy in the Authority's Region.

Movement for Growth – The success of West Midlands LTP4 has been hampered by the impact of Covid-19 and the economic climate, however, some success and improvements to the West Midlands Bus Network have been achieved.

There has been significant investment in transport network as a result of LTP4, such as the development of the Bus Rapid Transit system. There have been improvements in ticketing, with a more integrated ticketing system being introduced (nBus), although this has not amounted to fully integrated ticketing. Since 2017, fare rises remained below inflation, until a recent increase in July 2023, and the majority of the West Midlands bus fleet has become greener through the introduction of electric vehicles, Euro VI, Hydrogen bus pilots and the decommissioning of older vehicles.

Regulatory reform may enable the Authority to build upon the success of the LTP4, taking direct control to successfully implement the ambitions of the Authority reflected in the LTP5.

West Midlands LTP5 'Reimagining Transport in the West Midlands'

3.44 Work has begun on development of the West Midlands' new LTP (LTP5). Informed by the Authority's Inclusive Growth Framework, #WM2041 carbon budget, local industrial strategy, and response to the Covid-19 pandemic, it is intended to guide the future development of a West Midlands transport network aligned to the future needs of the Authority's Region and to shift away from a car-led recovery. The LTP is aligned to the Authority's ambitions to become Net Zero by 2041.

---

18 https://wmbu.org.uk/2023/04/1st-may-vehicle-emissions-standards-deadline-Operators-apply-for-temporary-exemptions/

3.45 The future plan, as reported within the West Midlands Local Transport Plan Green Paper, is expected to adopt five **motives for change** to frame society's relationship with transport:

(a) **Sustaining Economic Success:** focusing on improving access to the transport system, enhancing the existing transport infrastructure and improving digital connectivity;

(b) **Creating a Fairer Society:** examining ways to minimise transport inequality by improving public transport and active travel provision;

(c) **Supporting Local Communities and Places:** 'reclaiming' streets from transport infrastructure, improving sustainable access to local facilities and amenities and using transport services to support the revitalisation of local centres;

(d) **Becoming More Active:** increasing active travel prioritisation to support healthier choices and improve local communities; and

(e) **Tackling the Climate Emergency:** improving public transport and active travel modes to create a shift away from car usage, creating a more sustainable future.

3.46 The delivery of these motives for change is supported by a series of objectives and system level changes. The strategy has three key outcomes which are the primary means through which the five motives for change can be achieved:

(a) **Reduce Traffic**: the aim is to reduce the total number of vehicle kilometres travelled per year. Reducing traffic should help achieve all five motives;

(b) **Improve accessibility**: improving accessibility will improve the range of opportunities that people are able to access without a car. Improved accessibility should indicate improvements in three motives for change including: Sustaining economic success, creating a fairer society, and supporting local communities; and

(c) **Electrify the transport network:** electrifying the transport network will reduce the number of vehicles powered by combustion engines on the road. The main aim of this outcome is to help tackle the climate emergency.

Reimagining Transport in the West Midlands – The three primary outcomes are reliant on a viable enhanced West Midlands Bus Network. Greater control given by regulatory change will allow the Authority to better manage the West Midlands Bus Network to help deliver the key outcomes.

Supported Travel Policies

3.47 The supported travel policies consist of five discretionary policies, which aim to support over 800,000 residents, which were all reviewed in the first half of 2023. The policies comprise:

(a) Child Concessions (approximately £7 million budget allocated for FY 2023/2024);

(b) Rail and Metro Add on to the ENCTS (£5 million);

(c) Accessible Transport (covering On-Demand DRT Services/Ring and Ride) (FY £7 million);

(d) Tendered Bus Network (£14 million); and

(e) Post-11pm extension to ENCTS (£0.1 million).

3.48 These policies support the West Midlands' wider LTP objectives, through supporting people into employment and education as well as providing affordable, sustainable, and accessible transport options to access key amenities such as retail, healthcare, and other vital services. Additionally, these policies are positioned to benefit groups most at risk from transport related social exclusion especially those households on low incomes and those who do not have access to a car or a van. The policies highlight the value of Services to certain groups within the West Midlands and the needs of some of the most vulnerable residents.

3.49 As these policies are funded through the Transport Levy; they are at risk from financial cuts. The risk is particularly acute for the tendered West Midlands Bus Network and Ring and Ride, however there is an understanding that these policies should be retained wherever possible to support those most in need. Additionally, challenges with the amount of funding available may put these policies at risk from financial cuts and difficult decisions may be required to prioritise only the most essential. Alongside these policies, non-statutory concessionary fares are also potentially at risk due to financial pressure on the public sector.

West Midlands Bus Policy

VfB[19]

3.50 The *'Strategic VfB'* document builds on the Movement for Growth plans, setting out three ways bus can play a role in fulfilling the aims of the West Midlands Plan for Growth:

(a) supporting an accessible integrated network (for excluded groups);

(b) delivering support that connects people to key employment and skills opportunities; and

(c) ensuring alignment with the public service reform agenda.

3.51 The strategy seeks to support the Authority's wider aims and sets out the following nine objectives which provide the Authority's vision for the 2030 West Midlands Bus Network:

(a) UK-leading low emission bus fleet with zero emission corridors serving the most affected areas of air quality;

(b) Fully integrated West Midlands Bus Network, including demand-responsive and rapid transit Services supporting interchange with rail, coach and Metro to form one network;

(c) Simple, convenient, and easy to use payment options, including full capping, providing a network which demonstrates value and is affordable for passengers;

(d) Fewer private car journeys by making bus the mode of choice and creating better access to jobs and long-term change;

---

[19] In light of the forthcoming LTP5, it is proposed that the Vision for Bus will be updated in due course

(e) Creating a safe, secure, and accessible mode for all and tackling long-held barriers and perceptions;

(f) Accountable network performance management, tackling issues causing congestion and reliability problems;

(g) World-leading customer information, utilising 5G and all available technologies and platforms;

(h) All young people under 25 supported by discounted travel, as well as addressing barriers for excluded groups; and

(i) Evolve a network to support a 24/7 thriving economy, connecting people to new and developing destinations and attractions.

> **VfB –** the Authority states that the Bus Services Act will provide new opportunities to shape the West Midlands Bus Network and that it will explore these new powers to realise its VfB.

BSIP 2021

3.52 The West Midlands BSIP was developed in response to Bus Back Better and builds upon the VfB and supports LTP5. The four key objectives for the BSIP, which are formed from drawing on the key challenges and opportunities identified in the Authority's Region, are as follows:

(a) More Sustainable and attractive service offer, including to motorists (**Better Journeys, Better Fares**);

(b) Consistent, good delivery of the service offer **(Better Journeys)**;

(c) Ensuring a good passenger experience for all **(Better Journeys, Better Buses)**; and

(d) Reducing environmental impacts **(Better Buses)**.

3.53 The BSIP investment will complement the West Midlands' £1.05 billion CRSTS, together representing a significant amount of funding for bus investment. Key bus investment projects from CRSTS include:

(a) Sprint A45 Phase 2: £29.5 million;

(b) Sprint A34 Phase 2: £26.5 million;

(c) Demand Responsive Bus (including diversification of Ring and Ride): £5 million;

(d) BSIP Exhaust Retrofit Programme: £1 million; and

(e) BSIP Bus Priority cross-city routes: £59 million

3.54 The Authority has requested funding of £662 million to March 2025 through BSIP and, so far, has been awarded £88 million in the first round. £40 million of the received BSIP funding has been spent to subsidise Operators following a threat that around a third of the Services would be withdrawn or reduced in frequency.[20] This funding was originally allocated to support transformational activity and initiatives to help encourage more people to use buses. However, because of the wider challenges facing the network, the funding was redirected to help maintain Services at their present level.

BSIPs

3.55 As previously outlined, the previous iteration of the West Midlands BSIP was introduced in 2021 and covered the period up to 2025. As outlined in the *'National Bus Strategy: 2024 Bus Service Improvement Plans',* all LTAs were required to produce a BSIP in 2024 to secure BSIP funding for FY 2024/2025.[21] The key themes for the 2024 BSIP are:

(a) updating the baseline to FY 2023/2024;

(b) setting out the improvement programme for FY 2024/2025; and

(c) getting ready for 2025 and beyond.

3.56 The Authority published its new BSIP on 12 June 2024.

West Midlands BSIP – Franchising is recognised as a mechanism which the Authority could use to support delivery of the BSIP. Additionally, the recent reallocation of almost half the BSIP funding to subsidise Operators shows the precarious situation the West Midlands bus market is currently in. The conditions set to Operators with the reallocated BSIP funding has secured the short-term future of the West Midlands Bus Network up to January 2025.

Neighbouring LTA Policies

3.57 The Authority borders three LTAs, as follows:

(a) Staffordshire County Council;

(b) Warwickshire County Council; and

(c) Worcestershire County Council.

3.58 The Franchising Guidance requires all CAs considering Franchising to assess how the proposals support the LTPs and other related bus policies of neighbouring LAs.

3.59 All three of the LTAs which neighbour the West Midlands have LTPs, which are supported by their respective BSIP. Staffordshire County Council and Warwickshire County Council each have an active enhanced partnership, whereas Worcestershire County Council is in the process of developing its enhanced partnership but the enhanced partnership scheme is not currently in place.

20 West Midlands Combined Authority. 2023. Bus Network protected until 2025 following £40 million investment from the Authority

21 Department for Transport. 2024. National Bus Strategy: 2024 Bus Service Improvement Plans.

3.60 All of the neighbouring LTAs LTPs align with their respective council's strategic goals and the main objectives and themes of each are as follows:

(a) Worcestershire's LTP 2018 – 2030:[22]

(i) To support economic competitiveness and growth;

(ii) To limit the impact of transport on the environment;

(iii) To enhance residents' quality of life;

(iv) To improve health of residents; and

(v) To optimise equality of opportunity for all.

(b) Warwickshire's LTP:[23]

(i) Economy: transport can support a modern, flexible economy;

(ii) Place: improved connectivity;

(iii) Wellbeing: improved wellbeing for passengers and residents; and

(iv) Environment: travel choices to support Net Zero ambitions.

(c) Staffordshire's LTP:[24]

(i) Supporting growth and regeneration;

(ii) Maintaining highway network;

(iii) Making transport easier to use;

(iv) Improving safety and security;

(v) Reducing road transport emissions;

(vi) Improving health and quality of life; and

(vii) Respecting the environment.

3.61 The objectives and themes of the three neighbouring LTA's transport strategies closely align with the *West Midlands LTP5 'Reimagining Transport in the West Midlands'*. All four LTAs are striving to achieve similar strategic goals, and bus is a key part in all the transport strategies outlined.

---

22 Worcester County Council. Worcestershire's Local Transport Plan (LTP) 2018 - 2030

23 Warwickshire County Council. A new Local Transport Plan for Warwickshire LTP4

24 Staffordshire County Council. Staffordshire Local Transport Plan 2011

3.62 The impacts of a Future Partnership and Franchising on neighbouring LTAs are discussed further in paragraph 7, also providing a summary of the engagement with neighbouring LTAs.

Summary

3.63 This paragraph 3 can be summarised as follows:

(a) Regulatory change to the West Midlands Bus Network has the potential to support national ambitions to decarbonise the transport network and deliver the Levelling Up agenda. Regulatory change has the potential to support Bus Back Better, which seeks to bring the nation's bus networks up to London standards;

(b) Regulatory change to the West Midlands Bus Network has the potential to support the Authority's ambition to deliver high levels of growth through promotion of a better connected and sustainable transport network that can support growth ambitions;

(c) Regulatory change to the West Midlands Bus Network has the potential to support the Authority's ambition to reimagine transport in the West Midlands, with the primary outcomes of the new LTP being dependent on an enhanced West Midlands Bus Network;

(d) Regulatory change to the West Midlands Bus Network has the potential to support the VfB to play a greater role in helping to achieve the Authority's aims and objectives, with Franchising mentioned specifically as a mechanism which could help delivery of its BSIP; and

(e) Regulatory change to the West Midlands Bus Network has the potential to support ambitions set out in the neighbouring LTAs LTPs particularly regarding achieving Net Zero ambitions, supporting growth, and improving outcomes for residents.

4 The Role of Local Buses in the West Midlands

Introduction

4.1 Paragraph 4 provides an overview of the economic and social context of the West Midlands. It also sets out the important role that buses play in the lives of West Midlands' residents and the region's economy.

The West Midlands Region

Overview

4.2 The Authority's Region is home to approximately three million residents, almost 100,000 businesses, and over 1.3 million workers.[25] The population is expected to rise over the coming years with 100,000 more residents forecast by 2035. In terms of geography, the Authority's Region is diverse, with a mix of both highly-urbanised and rural communities.

4.3 Despite the high number of businesses and large labour market in the West Midlands, there is a skills gap in the Authority's Region due to an undersupply of skilled workers for some

---

25 West Midlands Combined Authority. 2021. West Midlands Bus Service Improvement Plan

occupations (as illustrated in the West Midlands Local Skills report).[26] Deprivation is also a key challenge, with 60% of residents living in communities ranked in the 30% most deprived areas of the country in 2019.[27] Although deprived communities are geographically spread throughout the Authority's Region, there are concentrations around the urban centres of Birmingham, Walsall, and Wolverhampton. In contrast, there are lower levels of deprivation in rural areas, especially the communities which are located in the green-belt land between Coventry and Solihull, known as the 'Meriden Gap'.

4.4 Transport is critical for a prosperous society and tackling deprivation. However, some transport modes can benefit some people whilst marginalising others. When planning transport, balancing the positive and negative impacts on people, communities, and places needs to be considered.

4.5 Figure 1-4 shows the risk of transport related social exclusion[28] for each LSOA[29] in the West Midlands, compared to the average for the West Midlands. It shows that several areas of the Authority's Region have an above average risk of transport related social exclusion, meaning that they have poor accessibility and high vulnerability relative to other areas of the West Midlands.

---

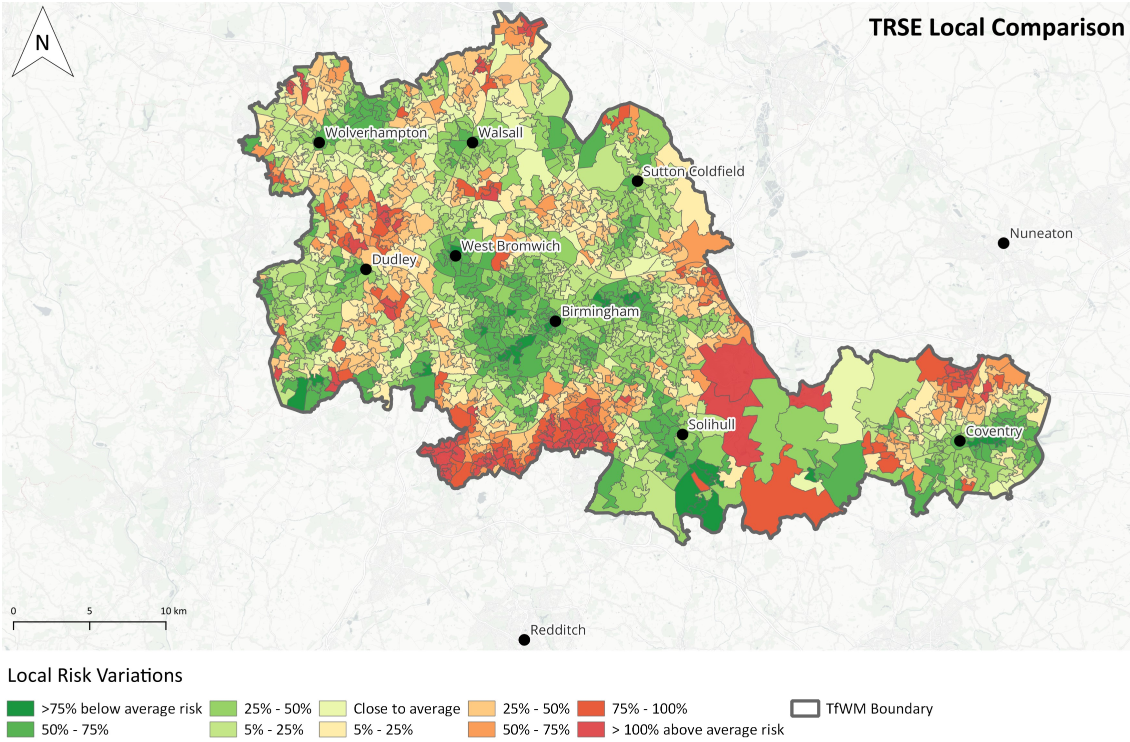
26 West Midlands Combined Authority. 2022. West Midlands Local Skills Report https://www.wmca.org.uk/what-we-do/local-skills-report/

27 Indices of Multiple Deprivation (IMD). 2019

28 The risk of TRSE is calculated through two measure: 1) Accessibility – based on the DfT's journey time statistics to employment, education, healthcare and basic services and 2) Vulnerability – based on domain scores from the 2019 English Indices of Deprivation (IMD). More information can be found here: https://www.transportforthenorth.com/wp-content/uploads/Transport-related-social-exclusion-in-the-North-of-England.pdf

29 LSOAs are a geographic hierarchy designed to improve the reporting of small area statistics in England and Wales. They are automatically generated to be as consistent in population size as possible, with the minimum population being 1,000 and the mean being 1,500

Figure 1-4: Transport Related Social Exclusion in the West Midlands: Local Comparison



Source: TfN

4.6 Transport related social exclusion is a 'lived experience' for many of the residents in the West Midlands, resulting in an inability to participate in society, access key basic services or opportunities, or lead fulfilled and meaningful lives. The transport related social exclusion research (which was undertaken by TfN) recommended solutions for tackling transport related social exclusion including ensuring that transport is affordable to those on low incomes, those out of work, and those unable to access work and social welfare.

The Transport Network

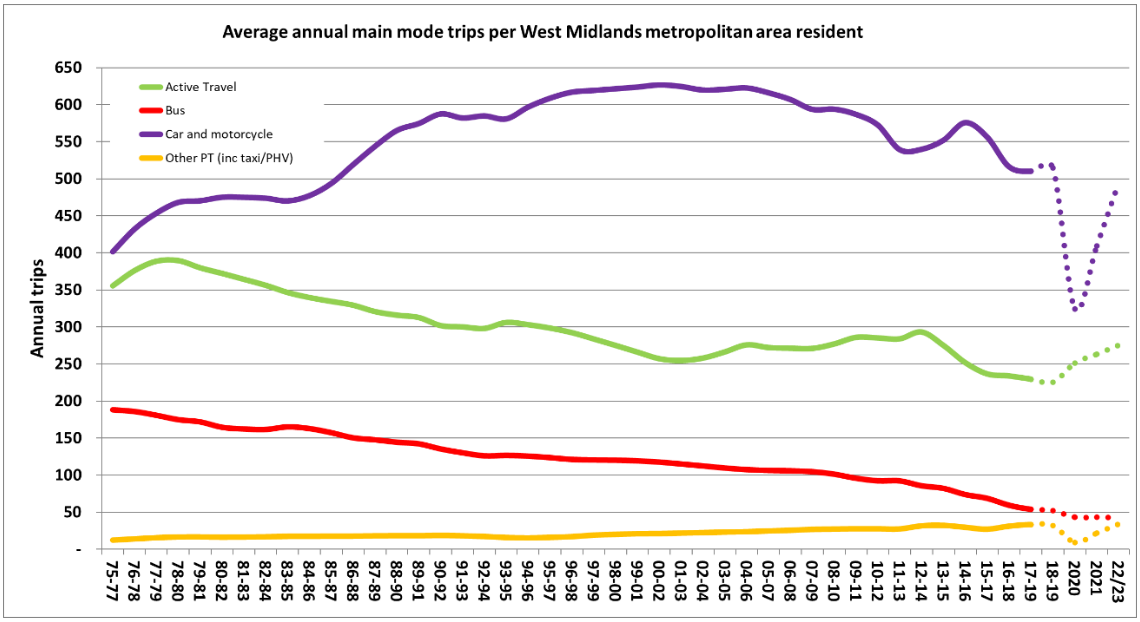
4.7 The West Midlands benefits from a large and well-established public transport network which operates across a range of modes. This includes a growing light rail network in the Birmingham, Sandwell, and Wolverhampton districts and a rail network which connects the urban centres across the Authority's Region, as well as local neighbourhoods. The rail network will expand further following the completion of Curzon Street Station in Birmingham which will better connect the Authority's Region to London through High Speed Two, and the reopening of several local stations including those on the Camp Hill Line.

4.8 Figure 1-5 shows mode share in the West Midlands from 1975 to 2023. The graph shows that the number of annual trips by bus has been steadily decreasing over the period shown. In the 1975-77 period, bus accounted for almost 20% of trips whilst car and motorcycle accounted for 42%.[30] In FY 2022/2023, the proportion of trips undertaken by bus had decreased to 5% of mode share, whilst the mode share for car and motorcycle had increased to almost 60%. In comparison, the mode share of other public transport (including rail and light rail) increased from

[30] Mode share analysis from pre Covid-19 local (metropolitan area) National Travel Survey (NTS) data, adjusted using ticket sales and on-street sensor data to calculate main mode statistics.

just over 1% in 1975-77 to 4% for FY 2022/2023. Although both the Metro network and the rail network are growing in Birmingham and the Black Country, the West Midlands Bus Network, with around 12,000 stops, is the only public transport mode that can penetrate all communities providing essential connectivity in the West Midlands.[31]

Figure 1-5: Average annual main mode trips per West Midlands metropolitan area resident



Source: TfWM[32]

4.9 Overall, car remains the dominant travel mode in the West Midlands accounting for around 60% of residents' main mode trips.[33] The relatively low cost of owning and operating a car over time has resulted in a significant increase in car ownership and usage. In comparison, the cost of public transport fares has continued to rise over time.

4.10 The proportion of households with no access to a car or van has continued to decrease over the last few decades. Between 2011 and 2021, the proportion of households with no access to a car has reduced from 31% to 27%.[34] The percentage of households having access to two or more cars increased during this period, from 27% in 2011 to almost 32% in 2021. Increased car ownership inevitably results in increased car usage. In 2016, 8.4 billion miles were driven on the Authority's Region's roads with 50% of this mileage completed on only 7% of the road

---

31 Bus stations and travel hubs

32 TfWM have extracted data from the DfT National Travel Survey (NTS)National Travel Survey dataset and combined this with a large number of secondary datasets including internal surveys and research reports to confirm/supplement data. Some recent data is less certain (due to changes in the data collection methodology) and is therefore represented as a dotted line in the graph.

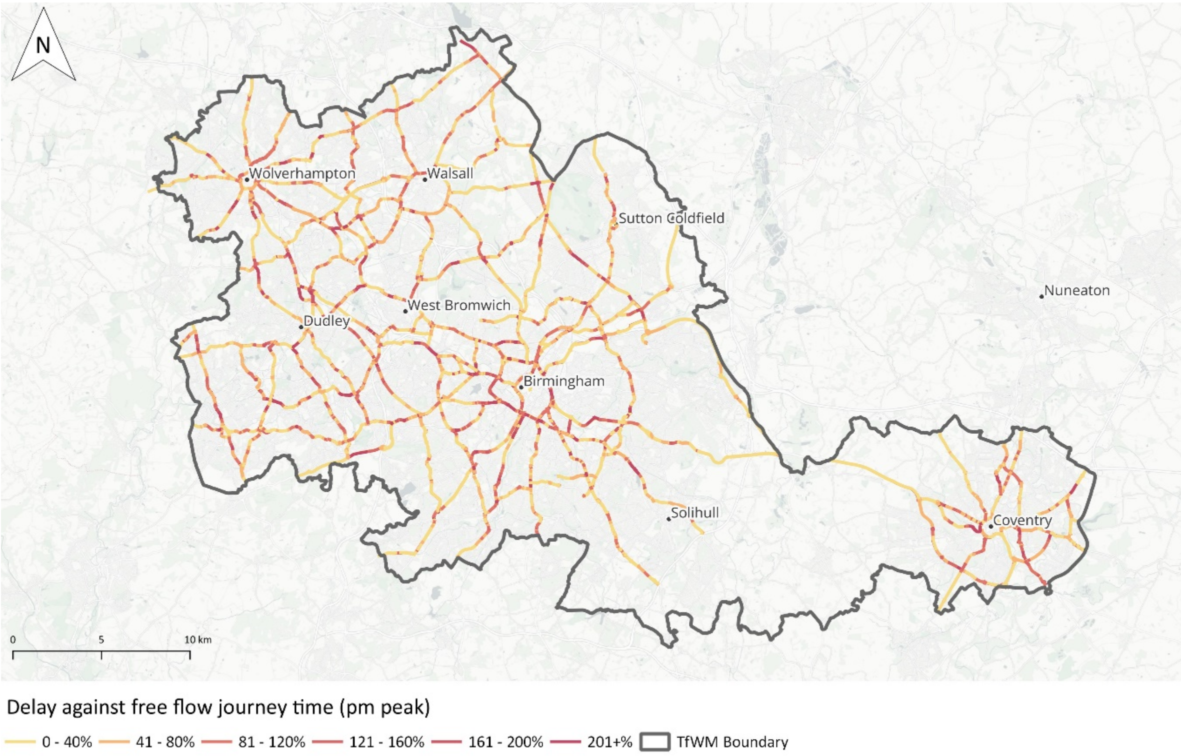
33 See Footnote 32

34 Office of National Statistics. 2011 & 2021 Census Data

network.[35] Car accessibility levels are expected to rise over the next decade with more families forecast to have access to multiple cars,[36] which will likely result in increased car mileage.

4.11 As a result of increased car ownership and usage, there has been a steady increase in traffic and congestion levels throughout the Authority's Region area over time. A study by the Authority on congestion found that average weekday traffic speeds are less than 18mph, with 62% of car users dissatisfied with congestion levels in the Authority's Region. The main congested routes are highlighted in Figure 1-6 showing that congestion is widespread across the Authority's Region.[37] Journey times on many key corridor routes are often twice as long as free flowing journey times. The increased prevalence of on-street parking across the region has also contributed to increased traffic levels and therefore congestion.

Figure 1-6: Traffic congestion on the Key Route Network AM Peak



Source: TfWM[38]

4.12 Increased congestion on the road network has had a direct impact on accessibility via other modes, especially bus which competes with other vehicles for road space. Comparing 2008 and 2018, over 200,000 fewer residents were able to access Birmingham City Centre by bus within 45 minutes as a consequence of congestion,[39] increased level of on-street parking, and other

---

35 Transport for the West Midlands. Congestion Management Plan

36 Transport for the West Midlands. 2021. Bus Service Improvement Plan

37 https://www.tfwm.org.uk/media/oxyfypvz/tfwm_cm-plan-aw_v3_lr_spreads.pdf

38 Transport for the West Midlands. Congestion Management Plan

39 https://www.centreforcities.org/reader/getting-moving/what-role-does-transport-play-in-densifying-city-centres/

factors. Furthermore, 80% of residents have stated that bus journeys take too long.[40] The wider impacts of congestion and the negative perception this has created for buses in the West Midlands is described further in paragraph 5.

The Importance of Local Services

4.13 As previously outlined, the West Midlands benefits from a large and well-established public transport network which bus is at the centre of. In 2022, four out of five public transport journeys were undertaken by bus whilst, overall, bus accounted for approximately 7% of main trips by residents in the West Midlands.[41] Outside London, the Authority's Region has the highest number of passenger journeys per head of population (42.5 in 2023) demonstrating the important role that bus plays in the lives of people in the West Midlands.[42] The West Midlands has the seventh highest number of passenger journeys per head of population at 72.8 in 2023.

4.14 Whilst bus is important for all seven LA districts in the West Midlands, the large physical size of Birmingham's travel to work area makes it especially bus dependent. A larger proportion of its workers face commute distances too long to easily walk or cycle than for example the Black Country or Coventry, so a higher proportion of Birmingham commuters who don't travel by car use bus instead.[43] In the 2011 Census (the more recent 2021 data being affected by Covid-19 lockdowns), 18% of Birmingham's residents' travel to work journeys were by bus, whereas the figure in other districts was between 8% and 15%. Birmingham also has lower car availability, 32% of households have no car available, compared with between 18% and 29% in other Districts.[44]

4.15 Whilst accommodating the majority of public transport journeys in the Authority's Region, bus also operates alongside the more limited rail and light rail network through the provision of a mixture of high frequency (corridor) routes and lower frequency routes. This ensures that most of the Authority's Region has public transport coverage. Bus is therefore key to achieving the Authority's vision of creating 'a 45-minute region' whereby all residents can access a good range of work, leisure, and social opportunities within a 45-minute journey.

4.16 As well as supporting the overall public transport network in the Authority's Region, bus is particularly important to supporting specific groups of residents as follows:

(a) **Vulnerable groups (those on a low income or out of work):** a quarter of households in the West Midlands do not have access to a car and therefore likely rely on bus as one of their travel options. Equitable access to transport is crucial to reduce the high levels of deprivation experienced in the West Midlands and ensure that the most deprived communities can access their everyday needs;

---

40 Birmingham City Council. 2019. Birmingham Bus Survey

41 The Authority collected boarding data. Mode share analysis from preCovid-19local (metropolitan area) National Travel Survey (NTS) data, adjusted using ticket sales and on-street sensor data to calculate main mode statistics

42 DfT Public Service Vehicle Survey, TfL, Office for National Statistics population estimates(Table BUS01f)

43 O'Brien, O. (2016) What if There Were No Cars? https://oobrien.com/2016/01/what-if-there-were-no-cars/

44 Office for National Statistics (2023) Census 2021 Car or van availability, Dataset ID: TS045. https://www.ons.gov.uk/datasets/TS045/editions/2021/versions/4

(b) **Ethnically diverse groups:** the Authority's analysis suggests that 34% of ethnic minority residents do not have access to a car or van (compared to 22% of White British residents) and are therefore more dependent on public transport.[45] 11% of ethnic minority residents use the bus to travel to work compared to 6% of White British residents. Bus is therefore key to ensuring that ethnically diverse groups have equitable access to transport to fulfil their everyday needs; and

(c) **Students:** over 50% of students in the Authority's Region are frequent bus users and depend on bus travel to access training and education opportunities.[46] Bus is therefore key to allowing young people to access education facilities (including those further afield), increasing their employability skills and future job prospects.

4.17 As well as supporting people, bus also plays a significant role in supporting the West Midlands economy by providing access to the main economic centres. 34% of trips to Birmingham City Centre (the heart of the largest city economy in the UK outside of London) in the AM peak are made using bus.[47] The West Midlands Bus Network provides high frequency bus routes along key corridors to main employment centres, connecting workers with high skilled job prospects commonly located in urban centres.[48]

4.18 Economic modelling suggests that the West Midlands Bus Network has a total economic benefit of close to £4 billion.[49] Recent local analysis undertaken by Steer, on behalf of the Authority,[50] found that the economic impact of the secondary network alone has a financial benefit of £288.6 million per annum, showing its importance as an employer and investor in the local, regional, and national economy. Above and beyond this, it is considered that the induced and catalytic impacts produce an additional economic/welfare impact of bus of up to £885.1 million per annum. The same analysis shows that up to 17,500 jobs would be adversely impacted by reduced bus connectivity.

4.19 Figure 1-7 illustrates that bus trips are mainly made to and from the main strategic urban centres. In contrast, car trips are made between origins and destinations, often away from strategic urban centres, and Services struggle to serve these trips due to their dispersed origins and destinations.

---

45 The Authority (2023) Briefing note – Race Equality Data Analysis on Transport

46 Transport for the West Midlands. Strategic Vision for Bus

47 [Modal Share | Community Engagement (arcgis.com)]

48 Centre for Cities. 2019. Delivery Change – Improving urban bus Services

49 KPMG: The Economic Impact of Local Bus Services (2024)

50 Transport for West Midlands/Steer: Economic Case for Bus (2024)

Figure 1-7: AM peak car trips (left map) and bus trips (right map)

Source: PRISM estimates, TfWM[51]

4.20 In addition to providing connectivity to main employment centres, bus provides a vital link to local centres and out of town retail/industrial parks. In Coventry in particular, many business parks and warehouses are located on the periphery of the city due to the need to be close to the motorway network. The 2A bus service (serving Coventry City Centre and Westwood Business Park) therefore provides a critical public transport link for employees. Services such as this are vital to connecting residents with employment without having to rely on a car. There are several examples of major employment sites in Coventry that are difficult to serve by bus including the Coventry Airport Area (identified as a regional investment zone) which is poorly served by any form of public transport, the Amazon warehouse at Allesley, and Ansty Park.

4.21 As well as supporting the economy, bus is particularly important to specific types of journeys in the Authority's Region:

(a) bus provides a critical transport option for residents in rural areas who are not served by the rail network and who also may not have access to a car, giving them limited travel options. As well as Services, Ring and Ride (a fully accessible door-to-door service) also supports residents in rural areas; and

(b) Services which operate late into the evening play an important role in supporting the West Midlands' nighttime economy, both for customers and employees. Without these Services, many employees and customers would be reliant on car travel or taxis.

4.22 Industrial action brought by NX in 2023 brought significant disruption to the bus and wider transport networks and caused widespread disruption to those who rely solely on bus to access their everyday needs. One Operator striking in the Authority's Region can have a cumulative negative affect on the whole network. The interconnected nature of the West Midlands Bus Network is such that a cancelled service will reduce patronage on connecting Services which in turn will affect the whole network. This strike reemphasised the critical role that bus plays in allowing people to access jobs, education, healthcare, and leisure, whilst also highlighting how many key destinations there are in the West Midlands for which bus is the only public transport option. For instance, many of the biggest hospitals aren't on the tram or train networks nor are many of the Authority's secondary schools and further education establishments. Service withdrawals or decreases in the frequency and size of the network will have a negative impact

---

51 2017 PRISM estimates, analysis conducted by the Authority

on residents' access to employment, healthcare, education and leisure services. This is already happening in some places as dedicated Services become fewer in number.

4.23 16% of passengers impacted by rail strikes found that the bus was a realistic and affordable alternative to their planned rail journey.[52] Additionally, lower income groups were more likely to find bus a realistic alternative to rail than higher income groups highlighting the importance of local Services for low-income households. There is no doubt in the significant role that bus plays in the West Midlands. However, there are currently major commercial challenges facing the West Midlands Bus Network which are discussed in paragraph 5.

Summary

4.24 This paragraph 4 can be summarised as follows:

(a) whilst the Authority's Region has a large number of businesses and a strong labour market, it experiences a number of issues including a skills gap, high levels of deprivation, and a high-risk transport related social exclusion for many residents;

(b) whilst the Authority's Region benefits from a large and well-established public transport network, the network is predominantly reliant on bus which accounted for four out of five public transport journeys in 2022;

(c) bus journeys have been negatively impacted by increased car ownership and congestion across the Authority's Region which increased journey times and reduced accessibility;

(d) the West Midlands Bus Network is critical for supporting specific groups of residents (vulnerable groups), the economy (through links to main economic centres), and specific types of journeys (those in rural areas); and

(e) industrial action across both rail and the West Midlands Bus Network in 2023 reemphasised the critical role that buses play in the lives of West Midlands residents, whilst also identifying bus as a realistic alternative to other modes.

5 Key Challenges

Introduction

5.1 Despite the crucial role that bus plays in the West Midlands, the West Midlands Bus Network faces several key challenges which will impact its potential going forward. Paragraph 5 outlines the key challenges that the West Midlands Bus Network is facing and therefore makes the case for why bus reform is required. This paragraph also discusses what bus reform is seeking to achieve and in doing so, how they will address the major issues that the West Midlands Bus Network is facing.

What are the Key Challenges?

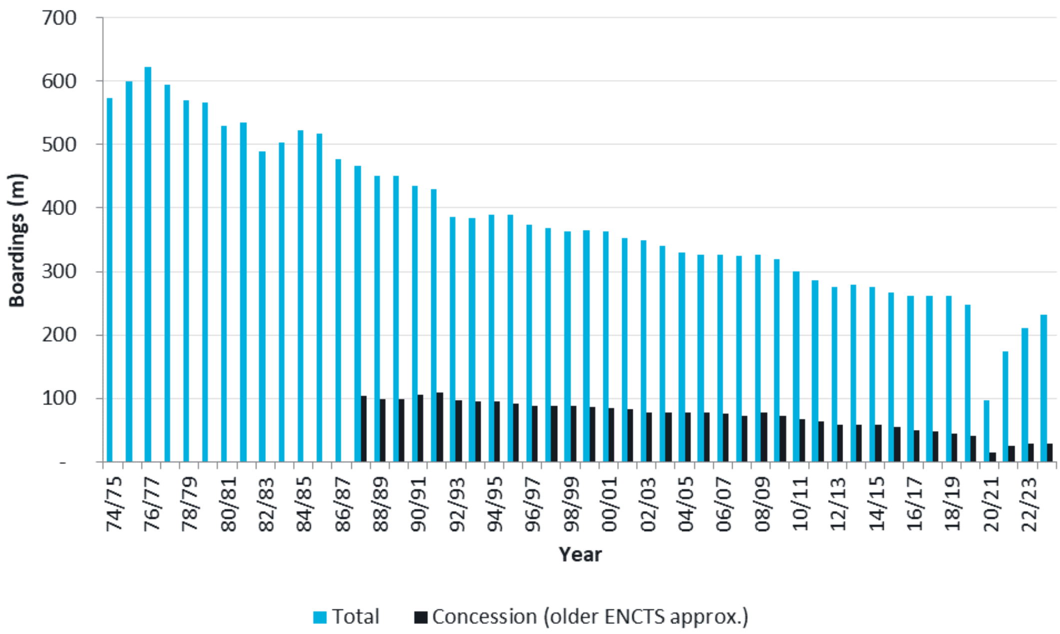
Long-term Decline in Bus Patronage

---

52 Department for Transport. April 2023. Rail strikes: Understanding the impact on passengers

5.2 For the last 70 years, the UK has seen a continued decline in bus patronage with the West Midlands being no exception. Bus patronage within the West Midlands has been declining since the 1950s, with a reduction in both absolute bus passenger numbers and 'per-head' measures. Figure 1-8 illustrates the decline, showing an overall reduction of 57% in bus boardings between 1974 and 2020 (when comparable data is available). Overall, patronage has declined over this period by approximately 2% per annum. Figure 1-8 shows the level of concessionary travel by older people from 1987 onwards, which has experienced a steeper decline than overall boarding levels.

Figure 1-8: Bus Boardings in the Authority's Region (1974 – 2023)



Note: No concession data available prior to 1987

Source: TfWM[53]

5.3 Post the Covid-19 pandemic and its impacts on travel, it has become clear that there is no fully commercially sustainable model that can support the kind of West Midlands Bus Network that the Authority is seeking to retain. Before the pandemic, around 90% of the West Midlands Bus Network was considered to be commercially sustainable, with around 10% requiring subsidy to maintain the West Midlands Bus Network through Supported Services. In November 2023, only around 50% of pre-Covid-19 bus kilometrage in the West Midlands Bus Network was considered to be commercially sustainable, with the rest supported through tenders and Network Stability Funding, as described in the Commercial Case.

5.4 Even with the recent strong performance around West Midlands bus patronage growth, it can be assumed that the commercial viability of operating the West Midlands Bus Network will never return to previous levels. This is in light of wider trends affecting the costs of bus operations and people's travel behaviours. It is therefore important to understand the key factors that are contributing to long-term decline in bus patronage, which are summarised as follows:

53 Transport for West Midlands. Travel Trends

(a) as discussed in paragraph 4.10, there has been an increase in car ownership across the Authority's Region, resulting in a mode shift away from bus towards private car. Car usage (measured by kilometrage in the UK) increased by 15% between 1991 and 2017, whilst total bus kilometrage in the Authority's Region decreased by 3% during the same period.[54] Car ownership in the West Midlands has also grown by around 1% per annum[55];

(b) car driving license holders among older persons (70 years and above) have increased dramatically across the UK, increasing from 33% in 1994 to 73% in 2022.[56] This increase correlates with a large decrease in older ENCTS boardings from around 100 million in the 1990s to less than 30 million in 2023[57];

(c) the population of the West Midlands has been increasing, including a 6.9% growth in the ten-years between 2011 and 2021 taking total population to an estimated three million residents.[58] Although a larger population has somewhat slowed down bus patronage decline, continued population growth highly correlates with increased car ownership, usage and congestion;

(d) a reduction in the number of trips undertaken per person has contributed to the long-term decline in bus patronage. As a result of home working, improved telecommunications and other technological advances, there has been a reduced need for multiple trips to meet daily needs. This has resulted in the average number of trips per person falling by 20% over the past 20 years,[59] which has impacted the demand for bus travel;

(e) there has been a reduction in the reliability and frequency of buses and slower journey times due to increased congestion on West Midlands roads and a loss of road space due to an increase in on-street parking and reallocation to active travel and redevelopments (especially in city centres). Figure 1-9 and Figure 1-10 shows travel time to the main urban centres in the Authority's Region by public transport and illustrates how travel times by public transport have increased between 2006 and 2016. Slower bus speeds leading to increased journey time, reduced reliability and reduced punctuality has ultimately resulted in fewer passengers. With fewer passengers, service levels begin to drop leading to lower frequency and reduced coverage causing additional loss in patronage. This effect is known as the 'spiral of decline';

(f) the real-term cost of travelling by bus has significantly increased over the last two decades nationally. Between 2005 and 2022, bus fares in metropolitan regions

---

54 Bus kilometrage Analysis sourced from the Authority – Travel Trends. UK car kilometrage was analysed by the Authority using NTS sourced data

55 Transport for West Midlands. Travel Trends

56 Department for Transport. 2023. NTS0201– Driving licence holding and vehicle availability

57 Transport for West Midlands. Travel Trends

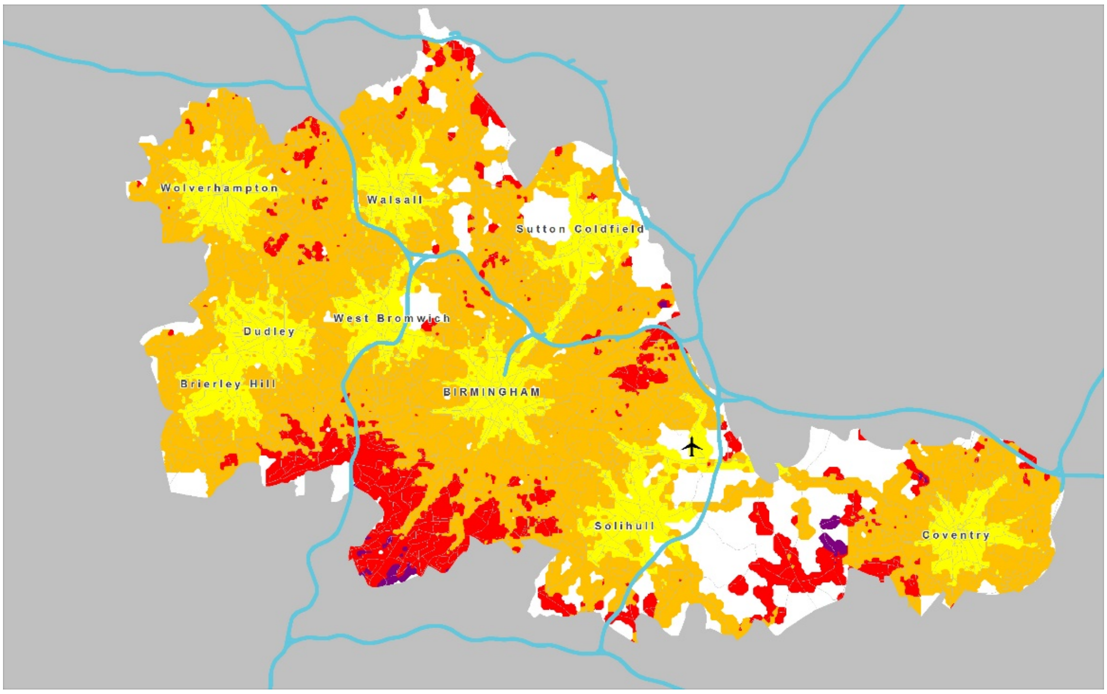
58 Transport for the West Midlands. Population & Economics

59 National Travel Survey. 2023. NTS0303: Average number of trips, stages, miles and time spent travelling by mode: England, 2002 onwards

increased by approximately 30% in real terms.[60] Bus fares were highest in 2020 at 40% above 2005 levels, but because of the introduction of the £2 bus fare; the real-term price of bus fares has reduced by around 10% since 2020. The increase in bus fares has been experienced during the same time that the cost of owning/driving a vehicle has decreased, making bus a more expensive (and typically slower and less reliable) travel option compared to driving; and

(g) operating costs for Operators have increased significantly, as explained further at paragraphs 5.9 to 5.14 below.

Figure 1-9: Time to Travel to Named Urban Centres by PT in 2006



Key: 15 minutes – yellow, 30 minutes – orange, 45 minutes – red, 60 minutes – purple

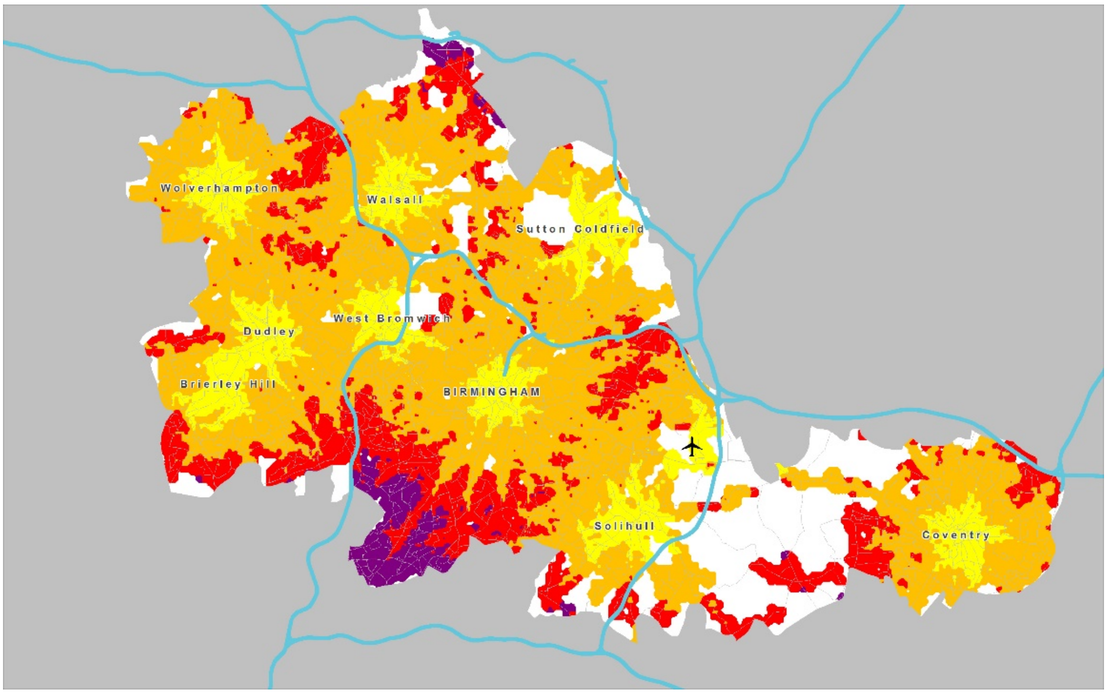
Source: TfWM[61]

---

60 Department for Transport. September 2023. Costs, fares and revenue (BUS04)

61 The Authority's analysis of bus timetables

Figure 1-10: Time to Travel to Named Urban Centres by PT in 2016



Key: 15 minutes – yellow, 30 minutes – orange, 45 minutes – red, 60 minutes – purple

Source: TfWM[62]

Recent Post-Covid-19 Trends

5.5 Alongside the general pattern of decline, bus patronage experienced a sharp reduction due to travel restrictions associated with the Covid-19 pandemic. Overall, bus patronage in 2023 across all metropolitan regions recovered to 82% of pre-Covid-19 levels, suggesting West Midlands bus patronage recovery is outperforming the other English metropolitan areas.[63] It is difficult to pinpoint why the West Midlands' recovery is stronger, it could be due to the region having the highest number of bus passenger journeys outside of London (paragraph 4.13) and that residents of Birmingham are particularly bus dependent (paragraph 4.14). However, trends such as increased home-working, alongside changing consumer preferences (for example uptake of online shopping), appear to be long-term, with negative implications for bus patronage and therefore revenue.

5.6 Early national results from the £2 bus fare cap illustrate a positive uplift in patronage since the introduction of this policy, with 10% of bus passengers travelling more than they previously did because of the £2 fare cap.[64] Despite the aspirations for patronage growth within local and national policy, it can be assumed that without a large-scale change to the attractiveness of Services in the West Midlands compared to alternative travel modes, bus patronage is expected to continue to decline.

---

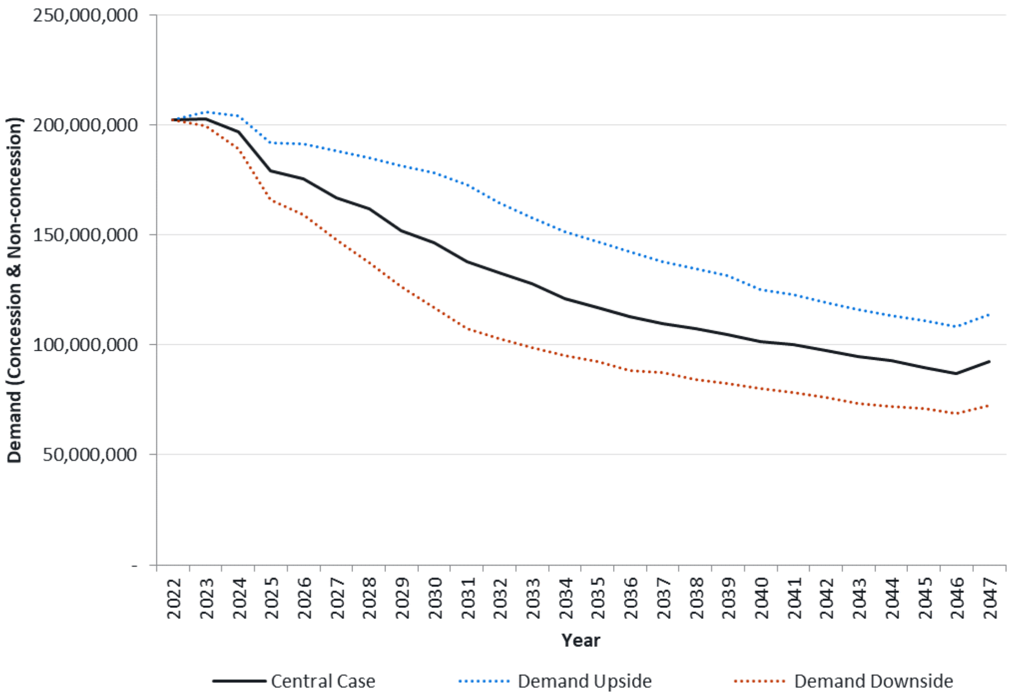
62 The Authority's analysis of bus timetables

63 Department for Transport. 2024. BUS01: Local bus passenger journeys

64 Department for Transport. 2023. £2 bus fare cap evaluation: interim report

5.7 Figure 1-11 shows how demand for the existing West Midlands Bus Network is expected to change between now and 2047 in three scenarios. In all scenarios, demand is expected to decline compared to the present period. More information on patronage decline can be found in the Economic Case to this Assessment.

Figure 1-11: Demand for the Existing Bus Network (2022 – 2047)



Source: Economic Case Forecast Modelling

5.8 The reduction in demand for bus poses several key challenges. Firstly, reduced fare revenue will result in either a smaller, less frequent West Midlands Bus Network *or* a significant increase in the requirement for public-sector funding. Secondly, fewer bus journeys and more trips by car run counter to the vision within the West Midlands LTP for a region "*where everyone can thrive without a driving licence and the need to own an expensive vehicle*." Finally, reduction in bus service coverage will undermine accessibility and foster transport related social exclusion.

Increased Operating Costs

5.9 Alongside reduced patronage, bus operating costs have increased faster than general inflation over the last two decades. Between 2005 and 2023, operating costs per vehicle mile in England (outside London) have increased by 40% above inflation.[65] Bus operating costs increased above inflation in 16 of these 19 years, with the largest increase seen between 2020 - 2021 where operating costs increased by 10% above inflation. Driver costs and fuel are the largest contributing factors to operating cost as they account for around 65-70% of the total amount.[66] Increased congestion, slowing down journey times, has a negative impact on operating costs as Operators have to run more buses on a service to maintain frequencies whilst reducing fuel

---

65 Department for Transport. March 2024. Costs, fares and revenue (BUS04)

66 Economic Case analysis of Operator data as shown in Figure 2-5 in the Economic Case

efficiency. A 10% decrease in bus operating speed due to congestion can result in operating costs increasing by around 8%.[67] Furthermore, increased labour costs as well as general cost pressures (including a marked increase in fuel prices) since the Covid-19 pandemic have further increased operating costs.

5.10 Several Operators have reported a shortage of bus drivers, with an increasing vacancy rate of almost 7% in 2023.[68] In the West Midlands, NX experienced a vacancy rate of approximately 10% in Autumn 2022; however, this has since reduced due to the pay increase for drivers in 2023. Despite this improvement, a shortage of bus drivers continues to be an ongoing issue for Operators. The impact of this shortage is likely to be under-resourced Services, leading to reductions in frequency and potentially increased operating costs due to inflated salaries because of competition to fill vacancies. Keith McNally, Operations Director at the Confederation of Passenger Transport, said "*It is imperative we do all we can to ensure that the availability of drivers is not constraining our sector's ability to reach its full potential*".[69]

5.11 A further negative impact of declining patronage for Operators is that large, fixed costs (such as depots) are spread across fewer passengers. As patronage is expected to further decrease, it can be assumed that operating costs per vehicle mile continue to increase, encouraging Operators to raise fares to maintain profitability. Additionally, due to the monopolistic bus market present in the West Midlands there is incentive for the largest Operator to stabilise fares and Services and accommodate reduced profitability at least in the short-term to ensure its market share is maintained.

5.12 Whilst bus patronage is predicted to decrease further, there are actions that can be taken to slow down or even stop this decline. Scenario planning can help decision makers to identify ranges of potential outcomes and impacts, evaluate responses and manage for both positive and negative possibilities. In the case of bus, the Authority could identify the risks to declining patronage and deliver interventions to prevent these risks from occurring. However, at present, whilst the Authority can identify risks and potential interventions, it does not have the power to 'pull' the levers to make changes.

5.13 For example, the Authority is seeking to deliver bus rapid transit in partnership with NX. This involves significant investment in road improvement and infrastructure from the Authority and significant investment from NX in articulated vehicles with multi-door entry to improve the customer experience. The Authority has already invested millions of pounds that has resulted in improvements in bus speed and reliability improvements, but NX are yet to make a formal commitment to purchase vehicles, with discussions ongoing over many years.

5.14 Furthermore, regarding branding, it is known from engagement with customers that inconsistent branding causes confusion for passengers and acts as a barrier to greater bus use. Competition law makes it challenging to deliver a consistent brand, look and feel across all Services in the Authority's Region, even if there was funding and a will to do this from all Operators.

Network Inefficiencies & Lack of Integration

---

67 Greener Journeys. 2016. The Impact of Congestion on Bus Passengers

68 Confederation of Passenger Transport(CPT). 2023. CPT launches new guidance to help tackle driver shortages

69 Confederation of Passenger Transport(CPT). 2023. CPT launches new guidance to help tackle driver shortages

5.15 Whilst the West Midlands Bus Network has been developed over time in partnership with Operators and much of the network exists from pre-deregulation, ultimately decisions relating to the network have been made by Operators. The West Midlands Bus Network has been planned to meet existing levels of demand and travel patterns, rather than future planning. This 'demand-oriented model' approach is good for Operators as it focuses on maximising demand (and therefore profit) as opposed to increasing connectivity, patronage, and mode share. Whilst a greater balance between a demand and supply orientated approach would create a more integrated network, as network planning is largely controlled by one Operator (NX), the network broadly works well and is well integrated.

5.16 However, whilst the network may be well integrated, having a small number of corridors with competition between Operators (or where individual Operator action is taken to reduce competition), with limited or no timetable integration can result in inefficiencies. These inefficiencies may reduce the quality of the West Midlands Bus Network resulting in a worse experience and network for passengers and can lead to some areas being overserved and some underserved. The Transport Focus National Bus Survey suggests that reliability, punctuality, cleanliness, and affordability are key areas where passengers would like improvements.[70]

5.17 Bus reform presents an opportunity to address a series of inefficiencies as follows:

(a) **'Overbussing'**: where the frequency and capacity of Services substantially exceeds demand, resulting in an oversupply of buses and resources on one route and an increase in operating costs. Bus reform could allow these resources to be reallocated elsewhere to benefit other parts of the network;

(b) **Inefficiencies**: where the number of resources (including vehicles and drivers) dedicated to providing a Service is more than required to meet demand. This can lead to higher fares for passengers. Bus reform could allow for a more efficient running of the network with excess resources being directed to other parts of the network;

Example: The number 50 bus service which runs between Birmingham City Centre and the Maypole is operated by Diamond (5 buses an hour) and NX (10 buses an hour). These Services are essentially identical with no timetable integration, and demand on the route does not meet the requirement for 15 buses an hour. Bus reform would allow the service frequency to be cut (by, for example, reducing the Service to 9 buses an hour) which would still provide passengers with a high frequency and attractive service.

70 https://d3cez36w5wymxj.cloudfront.net/wp-content/uploads/2024/03/19121007/32751-YBJ-FIRST-YEAR-FINAL-REPORT-2024-DRAFT-8.pdf

(c) **A lack of timetable integration:** where duplicate Services between different Operators results in irregular timetables with compression of Services at some times (two buses close together) followed by longer gaps between Services at other times. Bus reform could allow for better timetable integration which would improve passengers' experience;

Example: The NX X3/X4/X5 Services provide a high frequency Service between Sutton Coldfield to Birmingham along the same route as Arriva's 110 Service which provides a less frequent Service. There is no timetable integration between these Services potentially causing longer than necessary wait times without regularity. For example, at a high frequency stop in Sutton Coldfield, the wait time could be as low as 3 minutes or up to 7 minutes. An integrated timetable with a service every 6 minutes would provide greater clarity for passengers and reduce the need for approximately 11 vehicles.

(d) **Overlapping route provision:** where Operators run similar Services but end these Services in different locations, causing an unbalanced network and confusion for passengers. Bus reform could allow the standardisation of routeing to ensure that Services with the same number start and end in the same location; and

(e) **Passenger Information:** as the LTA, the Authority has a duty to provide and manage bus stops, bus stations, interchanges and network information through a range of channels. Research by the Authority suggests that the current arrangements can be very confusing for most people. In addition to the information provided by the Authority, Operators also provide their own information about their network, Services, fares and payments. Finally, there is not a single point of contact for passengers to raise problems or complaints, with Operators and the Authority providing their own customer services.

5.18 The inefficiencies outlined above impact passengers' experiences and lead to negative perceptions of bus provision. The West Midlands has some of the lowest customer satisfaction ratings in England, coming 32nd out of the 34 LAs who participated in the 2023 Transport Focus Bus Passenger Satisfaction survey areas, scoring 76% for overall journey satisfaction. Detailed customer research undertaken for the Authority in 2023 by Heavenly suggests that important attributes in delivering high levels of customer satisfaction are that passengers should feel safe, supported, in control and have trust in the provider. In a public transport system that is fragmented with accountability for these attributes spread across different organisations with no single 'guiding mind', it can be difficult to achieve this.

5.19 Whilst the Authority and partners have endeavoured to deliver a more co-ordinated approach through the Bus Alliance and the EP, ultimately passengers are still unclear about who has overall responsibility for the provision of Services and who is looking after them if things go wrong.

5.20 There is also a cost element to the inefficiencies outlined above with resources and funding being wasted on running an inefficient bus network.

5.21 Due to current regulatory controls, any additional service provision (such as DRT Services operating in more rural areas) may be in competition with the West Midlands Bus Network, rather than complementing it. As a result, new Services introduced are unlikely to fulfil their maximum potential and resources and funding are potentially wasted. Without regulatory change, there is a risk that new Services (such as DRT Services) will be competing with a traditional Service.

Contactless Capping and Different Ticketing Offer across Different Platforms

5.22 The current ticketing structure, described in paragraph 2, has undergone improvements to create a simpler ticketing offer for the West Midlands (such as Swift Go). However, multiple challenges remain to create an entirely simplified ticket offer which could be achieved through bus reform.

Contactless Capping and different ticketing offer across different platforms

5.23 As discussed in paragraph 2.19, the Authority has also been working hard to deliver fare 'capping' for residents of the West Midlands. However, progress has been slow due to Operators being able to choose their own systems which might not align with the wider capping technology.

5.24 Capping using the contactless function remains a key challenge and a cause of major confusion and a barrier to travel for many passengers. For example, passengers who use contactless payments are unable to purchase multi-Operator nBus tickets, resulting in overcharging and passengers not benefiting from the cheapest price available. Contactless multi-Operator capping is proposed to be introduced by the Authority under Project Coral, supported by around £20 million of funding for infrastructure and IT transition costs. This will help to eliminate confusion for passengers and create a simple to use ticketing offer, however negotiations continue with Operators.

5.25 The 2024 'Bonfire of Bus Tickets' sought to reduce and simplify the number of tickets available to bus users through the standardisation of ticketing across multiple Operators. Passengers are now no longer tied to one Operator and are able to catch any bus that comes along. This freedom to catch any bus is the same that ENCTS passengers have always had, and as a result smaller Operators have a much higher proportion of ENCTS passengers among their passengers than NX. Smaller Operators are anticipated to benefit more from the Bonfire of Bus Tickets, as more passengers are no longer tied to only NX buses, compensating small Operators for the decline in the older ENCTS passengers they depend on more. For passengers this will improve their experience and ensure that they are getting the best value on Services.

5.26 The current lack of integrated ticketing may also affect the Authority's proposals for introducing MaaS. MaaS will provide a 'one-stop-shop' for travel for all residents using

Example: Under the original nBus ticket agreement, the price of a day-ticket was intended to be capped until March 2025 at £4. However, the price was raised in July 2023 to £4.50 due to pressure from Operators. The current regulatory structure creates this unavoidable pressure as Operators look to maximise revenue and profit.

public, active and shared transport[71] and is intended to be launched in the coming years. MaaS has the ability to provide a simplified fully integrated ticketing offer which will benefit the West Midlands Bus Network and residents.

5.27 As outlined earlier in this Strategic case, under the current arrangements Operators can set their own fare prices and can therefore leverage fare increases. For example, the Government announced in its 2024 Autumn budget that the £2 fare cap scheme would be increasing to £3 from 2025. Subsequent discussions with NX have suggested that they will increase their adult single fare to the £3 cap level which represents a 50% increase in price for passengers. This is likely to have a detrimental impact on bus patronage as travel by bus will become unaffordable or not provide VfM for many.

5.28 The Authority does not have the power to set fares or prevent Operators from increasing fares. In contrast, in Greater Manchester where bus regulatory reform has been implemented; the Mayor has confirmed that fares will continue to be capped at £2 until the end of 2025 to support the region's vision for a low fare, high patronage system.

5.29 The Authority currently has limited control over fares and concessions other than setting the nBus prices. Furthermore, the Authority has limited ability to deliver more 'visionary' changes to the fare structure or to introduce new concession without lengthy and complex negotiations.

ZEB Uptake

5.30 Across the Authority's Region, around 1,600 buses are currently operated on local Services that would be likely to form part of the Franchising Scheme. As of February 2024, around 11% of the 1,600 buses were ZEBs equating to approximately 180 buses. The majority of the current fleet of ZEBs operate in Coventry, largely due to the Authority's ambition for Coventry to be the first all-electric bus city in the UK by 2024.[72] There are a number of benefits to ZEBs including:

(a) **Net Zero**: Zero carbon emissions produced at the tail pipe help improve local air quality in the Authority's Region and support the transition towards Net Zero especially if the electricity used to charge the vehicle is from a renewable source;

(b) **Lower operating costs**: Electric powered vehicles have lower operating costs than their diesel equivalent as they require less maintenance and fuel to operate, providing the Operator with a cost saving in the long-term; and

(c) **Improve passenger satisfaction:** ZEBs offer the potential for quieter journeys for passengers and reduce noise pollution.

5.31 However, even though there are numerous positive advantages of transitioning from a diesel fleet to a ZEB fleet there are several barriers to ZEB uptake. Firstly, the cost of the initial purchase price of a ZEB is significantly higher than that of a conventional diesel bus. Currently, the cost of a double decker ZEB is approximately £500,000 whereas a double decker diesel bus is roughly half the cost at around £260,000. In addition to this, the initial outlay to refit the depot to ensure there is the necessary charging infrastructure also involves capital expenditure.

[71] Transport for West Midlands. 2023. Mobility as a service

[72] https://www.wmca.org.uk/news/get-on-board-with-coventry-s-all-electric-buses/

Although DfT's ZEBRA scheme can support LAs and CAs in their goal to transition the entire bus fleet, a significant capital spend is still required.

5.32 Therefore, the speed of transit to ZEBs is largely determined by Operators' commercial decisions and timelines, rather than the Authority's ambitions. Although, the Authority can support Operators by providing funding, procuring ZEBs through private Operators is more expensive than through the public sector due to preferential borrowing rates for public sector organisations. Under the current regulatory regime, the Authority has little influence over the transition to ZEBs and therefore the potential contribution to wider policy goals.

Lack of Competition

5.33 Limited competition is not uncommon within the UK deregulated bus market, however, the degree of dominance exercised by a single Operator in the West Midlands is unique for a large metropolitan area. As outlined in paragraph 2, NX is the largest Operator responsible for 85% of bus kilometrage in the West Midlands Bus Network in FY 2021/2022, followed by Diamond (7%). As well as being the dominant Operator, NX also operates the busiest Services, with 94% of boardings across only 85% of the kilometrage in FY 2021/2022. Whilst NX has always been the dominant market Operator, its dominance has increased over the last decade.

5.34 There are multiple reasons why competition in the West Midlands is lacking. Many of these reasons are in part due to the continued dominance of NX which prevents new Operators from entering the market. The barriers and challenges include:

(a) **Barriers to entry**: the bus market has relatively high barriers for new Operators to enter and existing Operators to expand and compete effectively. Significantly high initial capital costs such as securing depots, fleets, and drivers alongside the risk of not being able to secure a reasonable market share means there is a risk to achieving profitability. This barrier to entry is exacerbated in the West Midlands because of the dominance of NX and the current economic climate, resulting in potentially unforeseen increases in operating costs; and

(b) **Efficiency savings**: NX is significantly larger than its closest competitor in the West Midlands in terms of revenue. This size difference presents efficiency disparities between Operators, as NX can deliver the same level of service for lower operating costs. In turn, this leads to NX having the ability to lower fares, or keep fares the same, but increase profit. In other metropolitan areas, the bus market is seen as much more contestable as there are commonly multiple Operators of similar size and therefore the threat of market expansion from other Operators allows the market to work more efficiently.

Example: NX's market dominance gives them significant leverage for instance in the event that they decided that a significant proportion of their network was no longer commercially viable, the lack of competition would result in no other Operators being able to realistically respond to any opportunities for Supported Services that might replace those that were formally commercial. This reduces the Authority's ability to achieve VfM.

Implications for VfM

5.35 Lower margin Services, such as rural and late evening Services, are usually run as part of an overall service alongside high margin Services (city corridor Services). However, these Services can be run as tendered or de minimis Services at a financial cost to the Authority. Operators usually run some low margin Services to keep out competition and prevent other Operators gaining a larger market share (in terms of kilometrage and patronage). However, due to the lack of competitive pressure there is limited need for NX to accept this financial burden.

5.36 The lack of competitive pressure places NX in a potential monopolistic position, with the potential to use its position to influence and control the support it receives from the Authority to continue to run Services in the Authority's Region. This inhibits the ability of the Authority to ensure VfM from the investment it provides and may result in it having to pay more for Supported Services that might otherwise be needed if more Operators competed for the Services.

5.37 The monopolistic position of NX allows them to potentially make higher margins than could otherwise be achieved. A key outcome of higher margins is that Operators may make more profit than they otherwise would in a more competitive or regulated market. These profits may potentially represent a loss to the West Midlands Bus Network if these profits are not re-invested back into the West Midlands Bus Network.

Reduced Viability of the Commercial Network

5.38 Prior to the Covid-19 pandemic, around 89% of bus network kilometrage in the West Midlands Bus Network was run 'commercially' by Operators and was therefore not contracted by the Authority as a Supported Service.[73] It is likely that not all 'commercial' Services are entirely profitable as some Services may be less profitable when measured in isolation but may be run as part of a larger more profitable portfolio of Services. The Authority's modest financial support was targeted at supporting evening and Sunday Services on unprofitable routes, and a limited range of socially necessary Services in less accessible parts of the Authority's Region. Supported Services in evenings and weekends are commonly operated by a different Operator than the usual daytime service causing considerable confusion for passengers, and extra cost too if the usual Operator's passes and tickets may not be acceptable.

5.39 The impact of the long-term decline in bus patronage and increasing operating costs (accelerated by the Covid-19 pandemic) has been a significant reduction in the commerciality of the network since 2019 which is continuing. In November 2023, only around 50% of pre-Covid-19 bus kilometrage in the West Midlands Bus Network was considered to be commercially sustainable.[74] This has meant that many previously commercial Services are 'at risk' without public sector funding, with the Authority currently in the process of providing around £50 million of direct funding annually to support previously commercial Services. The scale of change in commerciality of the West Midlands Bus Network means that providing Supported Services is no longer considered viable due to low levels of competition in the Authority's Region. It should be noted that the reduced commerciality of the West Midlands Bus Network is not novel. Since 1991, the level of bus kilometrage on Supported Services in the Authority's

---

73 Transport for West Midlands. Travel Trends (https://community-engagement-tfwm.hub.arcgis.com/pages/travel-trends)

74 https://www.gov.uk/cma-cases/referral-of-the-proposed-west-midlands-bus-recovery-grant-by-the-west-midlands-combined-authority

Region almost doubled from 6.7 million to around 12.6 million by March 2020.[75] In this same period, commercial bus kilometrage reduced by 14%.[76] This long-term trend highlights the continuous issue of reduced commerciality of the network.

5.40 The modelling undertaken as part of the Economic Case indicates that by 2046, bus kilometrage is expected to reduce by 60% compared to 2023 levels in the Reference Case.[77]

5.41 Without intervention, this trend is likely to continue as operating costs are forecast to increase and revenue is forecast to decline in real terms, posing a fundamental challenge for the Authority to:

(a) significantly increase public subsidy for the network in a challenging funding climate;

(b) maintain an Access Standards policy which provides a framework for determining how funding for Supported Services is most effectively used to ensure effective network coverage for as many people as possible. Currently the West Midlands Bus Network means that 61% of built-up areas in the West Midlands are within 400 metres of a bus stop with a service frequency of at least six buses an hour. When expanded to an 800-metre distance, residents in 91% of built-up areas can access a bus stop with a high frequency Service. In the event of ongoing cost increases and further reductions in commercial Services, the Authority would be faced with a decision about which Services to subsidise. Without additional subsidies there would be a risk of more residents falling outside of the current access standards[78]; and

(c) reform how the West Midlands Bus Network operates.

Public Subsidy Inefficiency

5.42 As previously outlined, the reduced viability of the commercial network has resulted in an increased need for public sector support to keep Services operating. In September 2023, the Authority announced £40 million of additional funding for Operators in the West Midlands through a grant agreement to help maintain the current network. This funding was originally specified for bus priority improvements but has had to be reallocated to help maintain the current network.

5.43 The Authority is currently in the process of providing £50 million of direct funding per annum to support previously commercial bus routes. Since NX is the dominant Operator within the Authority's Region, the majority of this support will accrue to them. This approach is unique to the Authority's Region and has been subject to review by the CMA. As the reduced commercialisation of the West Midlands Bus Network is set to continue without bus reform, the demand for increased public funding is expected to grow. Bus reform is therefore required to put an end to the cycle of decline and ensure that public funding is spent in a meaningful way that meets wider policy ambitions.

---

[75] Transport for West Midlands. Travel Trends

[76] Transport for West Midlands. Travel Trends

[77] This figure is based on data provided by Operators and therefore does not include all Services.

[78] Back in September 1989 Members adopted the 400 Metre daytime and 700 Metre accessibility Standards and asked for a systematic check across the whole of West Midlands (tfwm.org.uk)

5.44 In the 2024 Autumn budget, the Government announced that an integrated settlement will be implemented for the Authority at the start of the 2025 – 2026 FY. This settlement will give the Authority much greater freedom to allocate funding where it is most needed; planning for the long-term and delivering public transport policies in a way that better serves the public within the Authority's Region. However, whilst devolution has enabled the Authority to gain more power; it has not provided the Authority with the power to fully control the West Midlands Bus Network. This sits at odds with the devolution deal.

Reduction in the West Midlands Bus Network

5.45 As more Services become Supported Services, the size of the West Midlands Bus Network and the frequency of Services will become dependent on the level of funding provided by the Authority. The Authority will therefore have to make difficult decisions in order to maintain the network in the most efficient and affordable way. If Services are not commercially viable and the Authority cannot subsidise their running costs, it is likely that their frequency will need to be cut. Services frequency cuts are most commonly undertaken on early morning and late evening when demand is typically at its lowest. Given that fewer residents will be in close proximity to a frequent Service, this will contradict the Authority's vision for 'a 45-minute region' whereby all residents can access a good range of work, leisure, and social opportunities within a 45-minute journey.

5.46 Furthermore, cuts may need to be made to entire Services if the Authority cannot subsidise their running costs. Rural Services are often the least commercially viable due to low patronage and are therefore more likely to be cut. Rural bus users and workers who rely on early morning/late evening bus travel are therefore likely to be the most disproportionately affected by cuts. The loss of these Services may put more people at risk from transport related social exclusion in the West Midlands.

5.47 Cuts to lightly used routes may also have an impact on the remaining busy Services and generally make the West Midlands Bus Network less attractive. For example, cost-cutting measures may result in the last bus on a Service being cut. Whilst this bus might have been little-used, it likely acted as an ‘insurance policy’ for passengers in case they missed the penultimate bus. Once the penultimate bus becomes the new ‘last bus’, it is likely that this bus will become less used too, and the same cycle can also happen at a Service level with trips lost on busy routes, as a result of cuts to routes passengers only use occasionally. This trend will result in a negative ‘network effect’ and make the whole West Midlands Bus Network less attractive.

5.48 If the network was to reduce at the same pace as demand and be dictated by market conditions, the result would be an even larger decrease in passenger demand. This is often described as a 'spiral of decline', which has been evident over the last decade.

What is Bus Reform Seeking to Achieve?

5.49 The remainder of this paragraph 5 outlines what bus reform is seeking to achieve and how it will help address the key challenges outlined earlier in this paragraph.

Better Network Planning and Integration

5.50 At present, the bus network in the West Midlands is not fully integrated and is therefore not working in the best interest of passengers.

5.51 Bus reform will give the Authority the power to better plan the public transport in the West Midlands through better integration of all public transport modes including bus, rail, and tram. For example, to reduce the potential competition between bus and DRT, the Authority could decide that buses only serve the main roads in rural areas, whilst DRT serves local roads in rural areas. This would prevent each mode from competing with one another for the same passengers and instead allow them to complement one another to serve the wider public transport network.

5.52 Bus reform can provide opportunities for the Authority to make unilateral changes to the network to address inefficiencies and respond swiftly to other challenges such as changing demand or the need for better integration. Bus reform will give the Authority greater ability to shape the network in response to their policies and the changing needs of West Midlands residents.

Integrated Fares and Ticketing

5.53 At present, the West Midlands does not have a fully unified fares and ticketing system, including a common set of bus fares. This creates confusion for passengers and does not support them in working out the cheapest fare option.

5.54 Bus reform would give the Authority the power to deliver a simpler ticketing system that works better for passengers. For example, bus reform would allow the Authority to specify the systems used to enable fare capping. This would allow Project Coral to be implemented more easily, as a multi-Operator (and therefore multi-transaction provider) solution would be simpler to deliver as one provider.

5.55 Bus reform presents an opportunity to address a series of other challenges with the ticketing offer in the West Midlands, as follows:

(a) **Differing ticketing offers across multiple platforms**: which causes confusion for passengers, especially those who lack access to a digital device. Bus reform would allow the Authority to fully realise and lock-in its 'Bonfire of Bus Tickets' described previously;

(b) **Lack of a single source of information**: which causes confusion for passengers as all Operators and the Authority advertise different ticketing options. Bus reform would allow the Authority to standardise the information provided to passengers to ensure they are getting the best ticket for their journey;

(c) **Single Operator tickets**: which allow Operators to undercut multi-Operator ticket prices, reducing the effectiveness of these simplified tickets for passengers. Bus reform would allow the Authority to set ticket prices to ensure that passengers can access the best value ticket for them. Undercutting is a process used by Operators to gain an advantage in the short-term but often leads increased fares in the long-term; and

(d) **Multi-modal tickets**: which need to be negotiated with all Operators as well as the operators of other transport modes. Bus reform would simplify these negotiations from a bus perspective and introduce a greater element of social value into the process.

5.56 Bus reform would also allow the Authority to control fares and concessions across the West Midlands Bus Network, allowing them to set prices and make large scale changes if required to deliver new fares or concessions. This could include setting local fare caps as is done in Greater Manchester where the Mayor has confirmed that fares will continue to be capped at £2 until the end of 2023.

Example: New fares could include a 'hopper fare' giving passengers unlimited bus travel for a period of time. New concessions could include discounts for students or more vulnerable groups (such as low-income groups and care leavers).

5.57 Bus reform would allow the Authority to deliver an integrated ticketing offer across all platforms and Operators to minimise confusion and complexity for passengers and ensure that passengers have the simplest possible bus travel experience.

Improved Fleet

5.58 At present, the Authority has limited influence over the rate at which the bus fleet in the West Midlands is transitioned to ZEBs and the type of vehicles introduced. This limits the Authority's ability to achieve wider policy ambitions related to reducing emissions from transport.

5.59 Bus reform would give the Authority the power to specify the fleet for the West Midlands Bus Network and accelerate the transition to ZEBs if desired. Due to the lower borrowing costs, the Authority would be able to acquire more vehicles for a lower cost ensuring better VfM.

5.60 Additionally, bus reform would give the Authority the power to decide the order in which ZEBs are rolled out. For example, the Authority could decide to allocate ZEBs to areas with poor air quality to ensure the benefits of ZEBs are maximised.

Realising the Benefits of Competition

5.61 At present, the West Midlands Bus Network is dominated by a single operator: NX. This dominant position has resulted in a lack of competition in the market which means that the benefits of competition (such as improved VfM of public subsidies) cannot be realised.

5.62 Bus reform would allow the Authority to increase competition in the bus market which would create an environment for innovation and efficiencies. This would allow the benefits of competition to be realised such as reduced operating costs and cheaper fares for passengers.

Public Subsidy Efficiency and Benefit

5.63 At present, the Authority cannot demonstrate the VfM of public subsidies used to support the West Midlands Bus Network as the majority of the funding goes to one Operator.

5.64 Bus reform would create competitive pressure which would reduce the ability of one Operator to dominate the market, by allowing the Authority to negotiate with other Operators to achieve the greatest VfM. Bus reform would give the Authority control over the re-allocation of profits to ensure that they are reinvested in a way that best suits the whole public transport network.

Fit for Purpose West Midlands Bus Network

5.65 At present, the West Midlands Bus Network does not adequately meet the needs of residents or support the Authority's wider vision for transport.

5.66 Bus reform will give the Authority the power to make transformational changes to the West Midlands Bus Network to end the spiral of decline and ensure that the West Midlands Bus Network expands over the coming years, rather than contracts.

5.67 For example, bus reform would give the Authority the power to introduce new Services or increase frequencies in order to better serve areas in need of better bus provision.

Summary

5.68 This paragraph 5 can be summarised as follows:

(a) the West Midlands Bus Network is facing a series of challenges related to the long-term decline in bus patronage, increased operating costs, lack of network integration, and reduced commerciality of the West Midlands Bus Network. Combined, these issues are reducing the attractiveness of Services in the West Midlands; and

(b) bus reform is seeking to address these challenges through better planning and operation of the West Midlands Bus Network that improves the offer to residents over the long-term. This will help to ensure that the West Midlands Bus Network supports the Authority's wider vision for transport in the Authority's Region and is integrated into the wider public transport network.

6 Objectives

Introduction

6.1 The Franchising Guidance requires the setting of clear objectives relating to what the Authority is seeking to achieve, against which different options can be assessed. These objectives are intended to:

(a) establish the goals for what bus reform should achieve;

(b) reflect the key challenges (as outlined in paragraph 5); and

(c) support an assessment of bus reform options.

6.2 The strategic objectives outlined in this paragraph 6 can broadly be grouped into three main categories that directly relate to the problems and challenges identified:

(a) the **Operational** objectives address the challenges the current system creates for passengers;

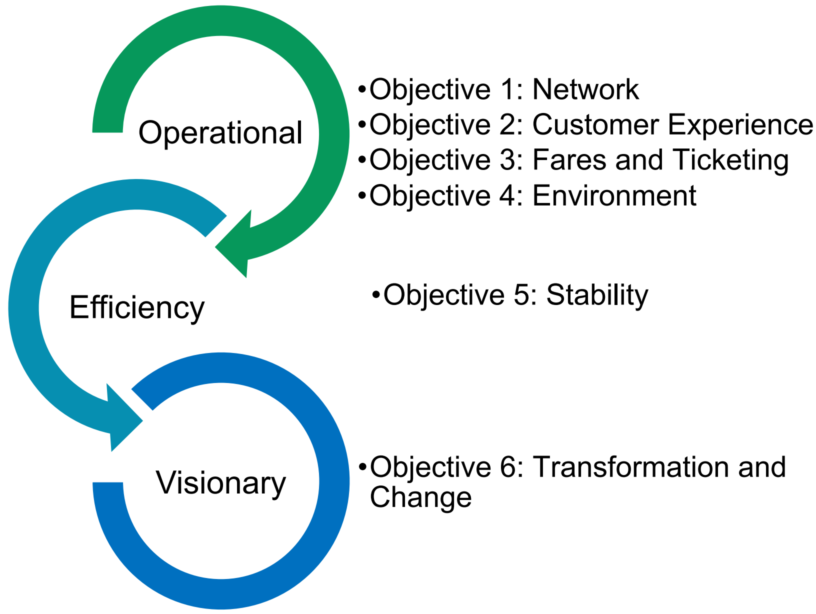
(b) the **Efficiency** objective addresses the financial and managerial challenges that the Authority faces in procuring and delivering Services in the Authority's Region; and

(c) the **Visionary** objective addresses the ability of bus reform to support the Authority in maximising the value of the West Midlands Bus Network in achieving wider policy goals.

6.3 The objectives are summarised in Figure 1-12, and discussed in more detail below, including how the success of each objective will be measured and within which timeframe.

6.4 It is important to note that whilst the success of these objectives will be assessed as part of the Monitoring & Evaluation for bus reform, there are wider factors at play which could impact on the extent to which the objectives are achieved (e.g. government policy).

Figure 1-12: Strategic Objectives



Objective 1: Network

Ensure public transport is inclusive and meets the changing needs of diverse West Midlands communities, by all modes working together

6.5 The West Midlands Bus Network and the public transport network in the West Midlands should be as accessible as possible for different types of people undertaking different types of journeys. The public transport network should therefore be fully integrated to ensure that end-to-end journeys are catered for, whilst ensuring that the network is welcoming and usable for all.

6.6 This objective is intended to address how options can contribute to a more inclusive and integrated network that better suits the needs of communities in the West Midlands. For this Assessment, measurement of an option's success is considered in terms of the extent to which it increases the Authority's influence to affect the usefulness and convenience of the overall public transport network.

6.7 Post implementation, performance against this objective will be measured through consolidating research into customer opinions and outcomes, with monitoring data which shows how the bus and wider public transport networks have changed (e.g. in terms of miles, frequency and speed), and background socio-economic data (e.g. access to employment and education opportunities). Impact against this objective will be evident within each phase of implementation within **three** years of mobilisation. Monitoring will continue over the life of the option implemented.

Objective 2: Customer Experience

Improve customer experience when planning and making journeys

6.8 Ensuring a good passenger experience for all is one of four key objectives for the West Midlands BSIP. To improve passengers' whole-system experience, improvements need to be made to vehicles, facilities, branding and information, safety, and personal security. Importantly, passengers need to have trust in the information they are provided around Services, fares, and disruption.

6.9 This objective is intended to address how options can contribute to a higher quality and more consistent offer to passengers across their entire journey. For this Assessment, measurement of an option's success is considered in terms of the extent to which it increases the Authority's influence over the customer offer and experience.

6.10 Post implementation, performance against this objective will be measured through consolidating research into customer opinions and outcomes (e.g. Transport Focus and WM Travel Trends and Behaviour Surveys), with monitoring data which shows performance of Operators against contractual targets. Impact against this objective will be evident within each phase of implementation within **three** years of mobilisation. Monitoring will continue over the life of the option implemented.

Objective 3: Fares and Ticketing

Increase traveller understanding and confidence through simple, and affordable, fares

6.11 Despite recent progress under the Reference Case, complexity in the ticketing system continues to create barriers to bus travel. Differences in fares and ticketing arrangements between Operators and modes, combined with a plethora of sales and information channels means that the ticketing system is not intuitive for passengers and is not as affordable as it could be.

6.12 This objective is intended to address how options can contribute towards a simpler ticketing system across the public transport network, ensuring ease-of-use and VfM. For this Assessment, measurement of an option's success is considered in terms of the extent to which it increases the Authority's influence over fares and ticketing arrangements, including their ability to introduce initiatives to reduce the cost of travel for specific socio-economic groups or those making particular trip types.

6.13 Post implementation, performance against this objective will be measured through consolidating research into customer opinions and outcomes, with monitoring data which shows the impact of fares and ticketing changes on patronage/revenue, and background socio-economic data. Impact against this objective will be evident within **five** years of mobilisation of the first phase, with a direction of travel discernible within **three** years. Monitoring will continue over the life of the option implemented.

Objective 4: Environment

Reduce the climate, air quality, and other environmental impacts of the bus fleet

6.14 Reducing the environmental impact of buses is one of four key objectives for the West Midlands BSIP. Reducing carbon emissions from buses is therefore imperative to the quality of our places and the health of residents in the West Midlands. This can be supported through moving to a ZEB fleet.

6.15 This objective is intended to address how options can contribute to reducing the negative impacts of buses on the environment and ensuring that the bus fleet supports Net Zero ambitions. For this Assessment, and post implementation, the measurement of an option's success is considered in terms of the trajectory of its reduction in the kilometrage of diesel/non-ZEB Services.

6.16 Impact against the diesel bus kilometrage operation measure of this objective will be evident within **five** years of mobilisation of the first phase in terms of the direction of travel, although the last diesel buses operating within the West Midlands are not presently expected to be replaced until 2039.

Objective 5: Stability

Ensure that on a long-term basis, West Midlands Services are financially stable and affordable

6.17 The commerciality of the West Midlands Bus Network is underpinned by short-term financial support and ongoing negotiation between the Government, the Authority and Operators which does not represent a viable or best value long-term option for financially supporting the network. A lack of competition among Operators has resulted in a monopoly market in which the Operators are effectively able to 'name their price' for Supported Services.

6.18 This objective is intended to address how options can contribute to making the network more financially viable on a long-term basis, whilst ensuring VfM. For this Assessment, measurement of an option’s success is considered in terms of the extent to which it increases the Authority's ability to achieve certainty and stability of funding levels and sustainable influence to increase ‘good’ competition and obtain the resulting benefits for financial network viability.

6.19 Post implementation, performance against this objective will be measured through diversified operator engagement with the Authority, the translation of this into increased competition for tenders issued, and changes in the balance of operators in the West Midlands and the value for money of tenders received. Initial impact against this objective will be evident during procurement activity in advance of mobilisation of each phase of operation, with an overall impact being realised **once all phases have been procured**. Monitoring will continue over the life of the option implemented.

Objective 6: Transformation and Change

Enable the Authority to secure ambitious, transformational public transport improvements to deliver wider policy goals

6.20 The Authority's ability to secure more visionary changes to the public transport network is constrained by the current deregulated operating model and is therefore challenging to achieve. Delivering visionary changes is key to delivering the ambitions set out in the West Midlands LTP including the three primary transport outcomes of improving accessibility, reducing traffic, and decarbonising the transport network.

6.21 This objective is intended to address how options can contribute to providing the Authority with sufficient control over the public transport network to achieve more transformational change. For this Assessment, measurement of an option’s success is considered in terms of the extent to which it increases the Authority's ability to plan and deliver structural change in public transport connectivity and affordability. These changes will directly link to what the Authority is seeking to achieve in its new Local Transport Plan which will have specific modal and place-based targets.

6.22 Post implementation, performance against this objective will be measured in terms of the strategic, value for money, affordability and deliverability outcomes of Authority public transport interventions and initiatives as set out in the business cases which will be required to secure funding and/or approval to implement those interventions. The timescales over which impacts against this objective will be considered over the short-term and long-term depending on the type of intervention.

Role of Bus in Meeting the Objectives

6.23 Logic mapping is a systematic and visual way of presenting the key actions required in order to meet a set of outcomes and to reach a set of objectives. The DfT TAG sets out how to develop a logic map to aid the evaluation of transport intervention. Through this a number of key components required as listed below:

(a) the **context** and **issues** being addressed within which the intervention aims to overcome. This context and key challenges have been previously set out in paragraph 5;

(b) a number of **inputs** which are the drivers for change in order to reach the desired objectives. In the case of bus reform, as shown below, these are 'Additional powers' (for the Authority) and 'Additional powers and additional funding';

(c) Outputs: more specific interventions which are now enabled due to the inputs. An example may include a 'consistent fares and ticketing offer/system';

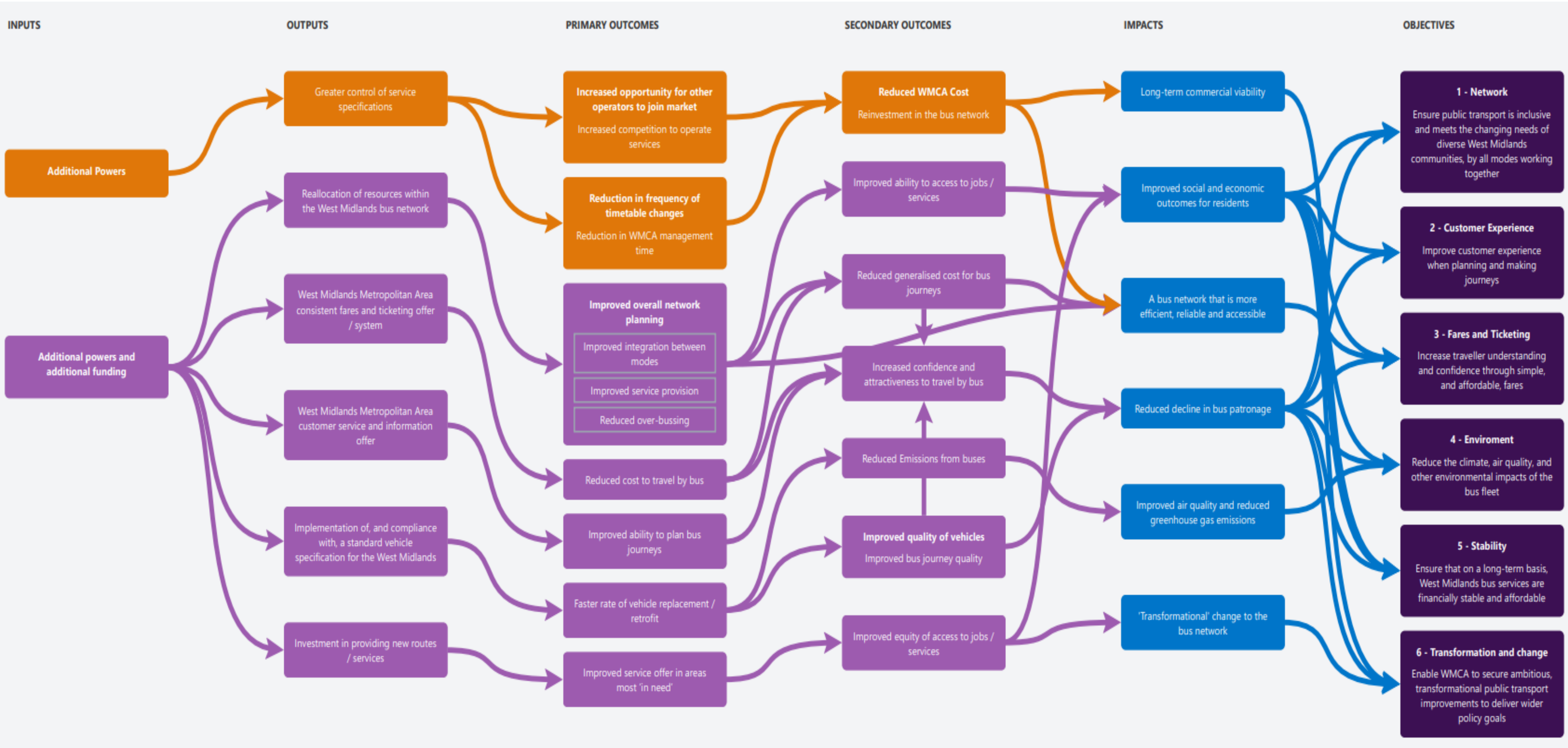
(d) Outcomes: a number of short and medium term outcomes resulting from the outputs. A consistent fares and ticketing offer will likely lead to 'Reduced cost to travel by bus'; and

(e) Impacts: longer term outcomes as a result of the intervention.

6.24 The Logic Map below in Figure 1-13[79] provides an overview of how bus reform can lead to a set of outcomes to meet the six objectives set out earlier in this paragraph 6.

79 An interactive version can be found at https://dev.logimapper.com/board/40df40ed-7886-4ca8-8fbc-589cb33fb6f4

Figure 1-13: How Bus Reform can Support the Objectives



7 Option Development and Assessment

Introduction

7.1 This paragraph 7 outlines the Delivery Options which are available to the Authority and their potential to secure the objectives set out in paragraph 6. The Bus Services Act established a range of options to be available to LTAs, which are presented within this paragraph 7.

7.2 Prior to setting out the long list of options available, this paragraph 7 describes the potential of the different options against the objectives and based on their performance, identifies the Delivery Options which are considered in further detail in the remaining four cases of this Assessment.

7.3 Further details on the Delivery Options and their assessment can be found in the Appendix to this Strategic Case.

Delivery Options Development

7.4 The Bus Services Act requires that, where an LTA decides to consider Franchising of services in its area, an assessment needs to be developed to demonstrate that Franchising is the most suitable Delivery Option to deliver its objectives and aims. The Act also states that the assessment should set out the options which have been considered in developing the Franchising Scheme put forward for consideration.

7.5 Other suitable 'non-Franchising' options need to be assessed and compared to Franchising within an assessment. The necessary trade-offs are identified and addressed as part of this Assessment and are considered central to the Authority's decision about which Delivery Option to pursue.

7.6 This Assessment sets out the information necessary for the Authority to make a decision as to how Franchising compares with the available alternatives for delivering its strategy and objectives, and against the Reference Case.

7.7 New funding made available for buses (for example BSIP) is only available under an enhanced partnership or Franchising, as set out in Bus Back Better. The funding conditions for each of these would allow the Authority to present a like-for-like comparison between the Reference Case and the Delivery Options. That is, it would allow the Authority to demonstrate whether the Delivery Options are able to deliver better on the VfM outcomes under similar funding conditions, therefore supporting the decision-making process.

7.8 As a result of the necessity to gain funding set out in Bus Back Better, the options shortlisted are as follows:

(a) Do Minimum - **the Reference Case**: continued partnership with Operators as per current arrangements;

(b) Do Something – **Future Partnership**: continued partnership with Operators, with alterations to the existing arrangements; and

(c) Do Something – **Franchising**: suspension of the current partnership with Operators, and power taken by the Authority to contract or permit all Services in its region.

Delivery Option Assessment

7.9 It is imperative that the Delivery Options achieve the desired objectives. The six strategic objectives (described in more detail in paragraph 6) are:

(a) **Objective 1 - Network**: ensure public transport is inclusive and meets the changing needs of diverse West Midlands communities, by all modes working together;

(b) **Objective 2 - Customer Experience**: improve customer experience when planning and making journeys;

(c) **Objective 3 - Fares and Ticketing**: increase traveller understanding and confidence through simple and affordable fares;

(d) **Objective 4 – Environment**: reduce the climate, air quality, and other environmental impacts of the Services;

(e) **Objective 5 – Stability**: ensure that on a long-term basis, Services are financially stable and affordable; and

(f) **Objective 6 - Transformation and Change**: enable the Authority to secure ambitious, transformational public transport improvements to deliver wider policy goals.

7.10 To ensure that the Delivery Options support the objectives, the Authority has undertaken a qualitative assessment to understand strategic fit. The output of this is provided in Table 1-2, with the justification column summarising what has been set out in this Strategic Case.

Table 1-2: Strategic Fit of the Reference Case and Delivery Options against Objectives

Objective	The Reference Case	The Future Partnership	Franchising	Justification
Objective 1: Network				Under the EP, the West Midlands Bus Network has experienced a spiral of decline whereby a reduction in patronage has resulted in a reduction in the network coverage which will continue to reduce without intervention (paragraph 5.45). In both the Reference Case and the Future Partnership, the West Midlands Bus Network will continue to be designed around Operators' commercial networks and will therefore not help to end the spiral of decline. However, Franchising will give the Authority the power to create a much more inclusive and integrated network that better suits the needs of its communities (paragraphs 5.50 to 5.52). This would give the Authority the power to make changes such as better integrating bus with other public transport modes, make changes to improve the efficiency of the West Midlands Bus Network, and respond quickly to changing demands. This would help to increase patronage and end the spiral of decline.
Objective 2: Customer Experience				Under the EP, customers using the West Midlands Bus Network have reported some of the lowest customer satisfaction ratings in England (paragraph 5.18). Both of the Delivery Options will seek to increase competition in order to drive service quality. However, Franchising will give the Authority the power to implement other measures to provide a higher quality and more consistent offer to passengers across their entire journey. This would give the Authority the power to make changes such as better planning the West Midlands Bus Network to suit the needs of customers (paragraphs 5.50 to 5.51), integrate fares and ticketing to ensure that customers can benefit from the cheapest ticket options (paragraphs 5.53 to 5.57), and make transformational changes to the network to ensure that it better meets the needs of people in the West Midlands (paragraph 5.66).
Objective 3:				Under the EP, there have been some improvements to ticketing (such as the introduction of Swift Go) to simplify the offer for passengers. However, measures to create an entirely simplified ticketing offer (such as contactless capping) are not possible under the current regulatory

Objective	The Reference Case	The Future Partnership	Franchising	Justification
Fares and Ticketing				arrangements (paragraph 5.23). The Future Partnership will deliver a joint ticket sales function that would focus on selling nBus tickets to businesses, universities and third sector organisations to simplify the ticketing process. This will be an improvement on what is available under the EP, but not achieve the ambition to deliver a fully integrated and simplified system or a common set of bus fares. However, Franchising will give the Authority the power to overhaul the whole ticketing process and specify the systems used to allow contactless capping across the entire transport network (paragraphs 5.53 to 5.57). This will enable the creation of a simpler ticketing system across the public transport network, ensuring ease-of-use and VfM. Franchising will also give the Authority the power to control fares and concessions allowing them to potentially make bus travel more affordable for those on the lowest incomes.
Objective 4: Environment				Under the EP, only 11% of buses operating in the West Midlands Bus Network are ZEBs (as of February 2024). This is due to the shift towards ZEBs being driven by LAs (particularly Coventry) rather than Operators whose decisions are largely driven by commercial considerations rather than environmental ambitions. Whilst LAs can support Operators in the transition to ZEBs in the EP, they do not have the power to specify the vehicle type or the speed of transition (paragraph 5.32). The Future Partnership will enable the Authority to continue to support Operators in the transition to ZEBs, particularly through the provision of new depots. However, this Delivery

Objective	The Reference Case	The Future Partnership	Franchising	Justification
				Option will again not give the Authority power over the fleet specification. Franchising will give the Authority the power to specify the fleet to be used on the West Midlands Bus Network and could either accelerate the replacement of the fleet or retrofit a proportion of the fleet to be zero emission. This will help to reduce the negative impacts of buses on the environment and ensure the bus fleet supports Net Zero ambitions (paragraph 5.59).
Objective 5: Stability				Under the EP and the Future Partnership, the Authority has awarded Operators a Network Stability Grant which will ensure the West Midlands Bus Network remains stable (i.e. no network cuts) until 31 December 2024. This agreement has prevented an estimated 30% reduction in Services on top of the 12% reduction already implemented during the Covid-19 period. Despite this approximately £156 million of public funding for the grant, under the EP and the Future Partnership, the Authority still has limited influence over the West Midlands Bus Network and after 31 December 2024; there is no agreement in place to ensure the stability of the West Midlands Bus Network. Franchising will give the Authority the power to stabilise the bus market in the long-term through increased competition and commerciality (paragraphs 5.61 and 5.62). Reducing the dominance of a single Operator and increasing competition will help to create an environment for innovation and efficiencies which would result in benefits such as reduced operating costs and cheaper fares for passengers (paragraphs 5.61 and 5.62).

Objective	The Reference Case	The Future Partnership	Franchising	Justification
Objective 6: Transformation and Change				Under the EP, the West Midlands Bus Network has become financially dependent on the level of funding provided by the Authority. If this funding cannot be provided in the future, difficult decisions will need to be made in the EP, including Service cuts (paragraph 5.45). The Future Partnership option will deliver some alterations to the current arrangements, including further development of the RTCC to better allocate resources to further support the Authority's ambitions. However, generally, the bus market will continue to operate 'as is' with few opportunities to deliver transformational changes. However, Franchising will give the Authority the power to deliver ambitious and transformational changes that meet the three primary transport outcomes set out in its LTP. These transformational changes could include better integration between modes to deliver its vision for a 45-minute region, fares & ticketing reform to make the West Midlands Bus Network more affordable and attractive for residents, and realigning the roll out of ZEBs in line with wider policy ambitions.

Key:

Low level of strategic fit against objectives

Medium level of strategic fit against objectives

High level of strategic fit against objectives

Preferred Delivery Option

7.11 The Reference Case and Delivery Options have been set out and assessed in this paragraph 7. All three options have been considered in detail to understand their potential to support the strategic objectives for bus reform in the West Midlands.

7.12 Based on the considerations presented in this paragraph 7, it is recommended that Franchising ('Do Something') is adopted as the preferred Delivery Option on grounds of strategic rationale. This is because this Delivery Option demonstrates the greatest strategic benefits against the bus reform objectives; especially those relating to Fares and Ticketing (objective 3) and Stability (objective 5).

Neighbouring Authorities

7.13 Section 123B of the Transport Act [80] requires CAs to consider whether, and the extent to which, Franchising would contribute to the implementation of neighbouring LA's LTPs and other policies that affect local Services as part of their assessment.

7.14 The Authority borders three LTAs, as follows:

(a) Staffordshire County Council;

(b) Warwickshire County Council; and

(c) Worcestershire County Council.

7.15 Paragraph 3 above of this Strategic Case sets out the key policies for neighbouring LAs in the West Midlands. This included their LTPs and their BSIP as well as their enhanced partnership arrangements where appropriate. A review of neighbouring LAs' key policies concluded that they closely align with the *West Midlands LTP5 'Reimagining Transport in the West Midlands'* with all LAs striving to achieve similar goals.

7.16 To understand the potential impact of Franchising in more detail, the Authority has engaged with its neighbouring LAs. In addition, the Authority has undertaken engagement with four other proximate LAs: Shropshire County Council, Telford and Wrekin Council, Leicester City Council and Leicestershire County Council. The meetings focused on the following themes:

(a) an update on this Assessment process/progress;

(b) how the Delivery Options may help meet the Authority's plans and policies;

(c) cross boundary Services, including those which the Authority intend to run as part of the Franchising Scheme (in general run from depots within the Franchising area); and

(d) any other comments or feedback.

7.17 The feedback from the engagement with neighbouring LAs has fed into this Strategic Case and is summarised in Table 1-3 below:

---

80 As amended by the Bus Services Act

Table 1-3: Neighbouring LAs Feedback

Theme	Feedback
How the Delivery Options may help meet the Authority's plans and policies	• Overall, Franchising is seen as positive, especially for residents who travel into the Authority's Region. • Concern that Franchising could cause driver and vehicle resources to transfer into the Authority's Region, making bus networks inoperable in neighbouring areas. • Recognition of the huge opportunities created by Franchising. There is political desire to move to Franchising in some areas. • Challenge that Franchising could make it harder to resist political interventions that are detrimental to the wider network. • Concern that any additional/enhanced vehicle specification criteria could result in increasing costs of contracts in the neighbouring areas. • Franchising considered to give more control and 'make life easier'. • Funding is a barrier to enhanced partnerships, but there is potential for further developments to be delivered through BSIP+ and Network North.
Cross-boundary Services relating to Franchising in the Authority's Region	• Potential Services that could be included in a Franchised network were flagged. • Concern is that if some of an Operator's best cross-boundary routes are Franchised, this could lead to a collapse of the wider network. • Recommendations on what could be included in a Service Permit Regime. • Recognised the importance of understanding the impact of Franchising on local budgets. • Preference from some areas for cross-boundary Services to be included within Franchising.
Any other comments or feedback	• Providing passengers with a seamless experience for cross-border travel is considered the priority.

7.18 The Franchising Scheme is likely to have some impacts on the neighbouring LAs' policies and strategies. As a whole, these impacts are expected to be positive with improvements to passenger experience through better integration and improved quality of Services. However, there could be some minor negative impacts which the Authority will seek to mitigate. The Authority will continue to engage with neighbouring LAs throughout the development of this Assessment.

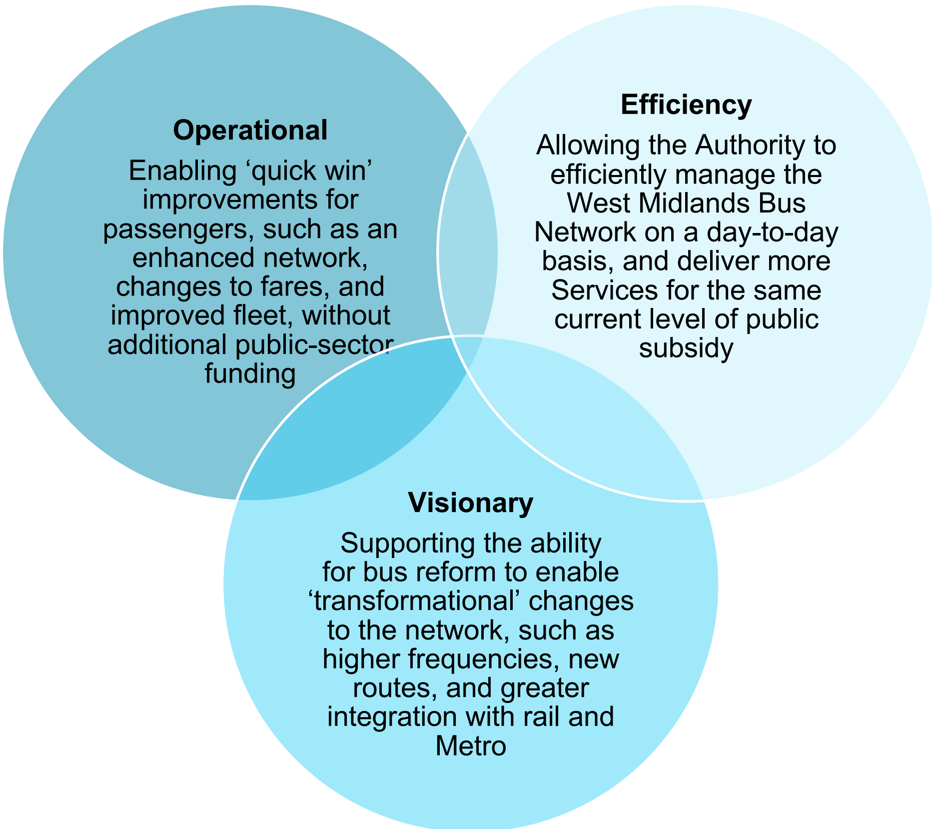
8 The Need for Intervention

Introduction

8.1 The West Midlands is facing significant challenges in delivering a more sustainable and efficient bus network, as established in paragraph 4. Paragraph 3 summarised the importance of the West Midlands Bus Network and the contribution it makes to the wider ambitions of the Authority to make the West Midlands better connected, more prosperous, fairer, greener as well as a happier, healthier place to live.

8.2 This paragraph 8 forms the argument and justification for how regulatory change can lead to these improvements through solving and mitigating the challenges previously described. Furthermore, this paragraph 8 sets out how regulatory change in the West Midlands bus market can help the Authority deliver their ambitious vision for reimagining transport in the West Midlands, outlined in their emerging LTP.

Figure 1-14: Three Strategic Arguments



8.3 This need for intervention is based upon three strategic arguments, as set out in Figure 1-14.

Operational Case

A Better Planned, More Integrated West Midlands Bus Network

8.4 Public transport in the West Midlands should be one integrated network that works for the benefit of all passengers, irrespective of modal choice. However, the current arrangement incentivises public transport modes to be in direct competition with one another.

8.5 Operators are presently incentivised to maximise revenue and profit on their Services and are therefore in direct competition with one another and with other modes such as rail and tram.

This competition limits the extent to which Operators may be willing to connect to or integrate with rail and metro Services.

8.6 Competition between Operators, or individual Operator action to reduce competition, on individual routes can lead to over-bussing on profitable corridors. This is not only an inefficient use of resources, but detrimental to the wider West Midlands Bus Network. Whilst the impact of this is limited to a relatively small number of corridors in the West Midlands, bus reform could allow the Authority to reduce the remaining on-street competition between Operators to rationalise and reallocate duplicated resources across the Authority's Region to benefit public transport passengers as a whole.

8.7 Depending on the Delivery Option chosen, the Authority could be given power to better plan the public transport in the West Midlands through better integration of all public transport modes including bus, rail, and tram. This would enable the Authority to better shape the direction of the network in line with its wider ambitions for reimagining transport in the West Midlands.

A Better Customer Experience

8.8 As part of the EP under the Reference Case, the Authority does not have any control over, or the right to make changes to commercial Services such as increasing service frequency or re-routeing a service. The Authority's role is limited to a small capability to provide financial support for route diversions or additional service departures.

8.9 The current inefficiencies in network planning and the lack of an integrated public transport network in the West Midlands disproportionately impacts the most disadvantaged who rely on public transport to access their everyday needs. Bus reform provides an opportunity for the public transport network to be rethought and replanned to provide more deprived areas with affordable and accessible access to healthcare, education, and employment opportunities that may not currently be available to them.

8.10 Depending on the Delivery Option chosen, the Authority could be given power to make changes to service routeings and alter service frequencies to better serve the needs of passengers. This would allow the Authority to deliver new Services in areas of greatest need (such as areas with low car ownership or areas with the highest levels of deprivation) or to reduce the number of Services where there is an oversupply. This will help to ensure that all people in the West Midlands have equal access to opportunities.

8.11 Good passenger information creates a more attractive network which is easier to use and to market to new passengers and visitors, encouraging patronage growth. Under the existing arrangements and any Future Partnership, any changes or improvements to passenger information remain subject to voluntary agreements between the Authority and the Operators. Through Franchising, the Authority would have more control over information provided about the West Midlands Bus Network and Services.

8.12 The Authority would also have the opportunity to improve how Services and delays are managed and addressed. Current Traffic Commissioner regulations require that 95% of buses depart 'on-time' (defined as between one minute early and five minutes and fifty-nine seconds late). Bus speeds have been declining for a long time and complying with this regulation has become increasingly difficult on congested roads, and a challenge to achieve without extending timetables to the point where buses frequently stop to 'wait time' when traffic is lighter.

8.13 Journey times and reliability are key issues for passengers, and research undertaken by Open Data Institute Leeds (now Open Innovations) and for the West Midlands Bus Alliance suggests that performance against this 95% punctuality rule does not relate very well to passenger satisfaction with journey times.[81]

8.14 For example, if all of Operator A's buses on a route were just one minute over the on-time threshold, it would achieve 0% punctuality under the current regulations rule. Operator A could be subject to serious penalties from the Traffic Commissioner. But if 5% of another Operator's (Operator B) buses were 30 minutes late (even thought they might run 95% of its Services just one minute closer to the timetable and be quite safe from Traffic Commissioner sanctions), most passengers would likely still prefer to have Operator A run the service. This is because with Operator B's Services they would never know when they might encounter one of these occasional very delayed journeys, and commuters would have to allow a 30-minute contingency time for every journey so as not to risk being late.

8.15 The Authority and Operators work hard to meet the 95% rule, but this means less focus on those 5% of occasional very delayed Services. The Open Data Institute Leeds research suggests that to counter the risk of a very slow journey, many passengers are budgeting for a contingency time that can be as much as the timetabled journey time again.

8.16 New regulations as a result of changes to the delivery of Services would enable a shift in focus from managing the numbers of (slightly) late-running buses, to managing the numbers of passengers suffering very slow journeys. This is an opportunity to greatly reduce the time bus passengers allow for their journeys, even if the increase in traffic and car use slowing buses down in general continues to occur – in some cases, the impact on passenger demand could be equivalent to doubling bus speeds.[82]

8.17 With access to the Bus Open Data Service, passenger journey times nowadays can be measured just as practically as bus departure times and have been successfully monitored for certain stop pairs in the EP.

8.18 A change or addition to the regulation of Services of this kind, in response to the challenge of ever-declining bus speeds discussed elsewhere, could make the slowest buses faster. By tackling the growing amount of time passengers must allow for bus journeys, this would help stem the accompanying decline in passenger numbers – there is a 1% drop in demand with every 1% drop in average speeds.[83]

Simpler, More Integrated Fares and Ticketing

8.19 The introduction of the 'nBus' ticket in the West Midlands significantly improved the ticketing offer by giving passengers the ability to travel on all Operators' Services with a single ticket.[84] However, as described in paragraph 5 above, there remain significant barriers to passengers as a result of the complexity of the fares system.

---

81 Transport Practitioners Meeting 2018, 'Real Journey Time: A New Understanding Of Bus Passenger Experience'

82 The Authority 2022, Quarterly Research Paper Issue 12 'New evidence for 'Real Journey Time' https://data-insight-tfwm.hub.arcgis.com/search?q=quarterly%20research%20paper

83 Greener Journeys 2016, 'The Impact of Congestion on Bus Passengers'

84 Noting that the concept of a single ticket pre-dates the 'nBus' ticket (e.g. 'Busmaster' tickets).

8.20 Bus reform could allow the Authority to create a fully unified fares and ticketing system, with a common set of bus fares – for example a 'London-style' fare system. This would enable a simpler system, with fares no longer being set by individual Operators.

8.21 Passengers would benefit from this reform through cost savings due to the reduced complexity of fares and ticketing. Importantly, this will benefit low-income residents by allowing them to find the cheapest ticketing option available when travelling by bus. From a customer experience perspective, simpler ticketing provides better information from a single source.

8.22 A simpler ticketing system would help to promote greater confidence in travel by bus, by ensuring that they are getting value from their ticket. This is likely to lead to an improved public perception of bus, which could in turn lead to increased patronage and higher revenue.

A Cleaner, More Environmentally Friendly Bus Fleet

8.23 As outlined, previously, transport is the largest carbon emitting sector in the UK, accounting for 34% of emissions in 2022.[85] Reducing the environmental impact of transport is a key ambition for the Authority with its 2026 Delivery Plan for Transport citing the importance of Operators adopting better emissions standards.

8.24 However, the Authority has limited influence over the rate at which Operators transition their vehicle fleet and whether new vehicles introduced are zero emission or cleaner/reduced emission vehicles. The Authority is further constrained, including by subsidy-control legislation, in providing financial support to individual Operators to help achieve its goals in relation to bus fleet improvement. There is uncertainty regarding the timeline for when the benefits of reduced emission from buses will be realised.

8.25 Through bus reform, the Authority would be able to specify the fleet to be used on the West Midlands Bus Network and could either accelerate the replacement of the fleet or retrofit a proportion of the fleet. Taking into consideration the number of AQMAs in the West Midlands, the Authority would be able to target the roll out of ZEB to maximise public benefit, for example by targeting areas with worse air quality.

8.26 Finally, there is potential for the financing of electric buses and a new bus fleet to be cheaper, and therefore more cost effective, if the bus fleet is under public sector control. The public sector and the Authority have the potential to borrow money at a cheaper interest rate than that of the private sector, providing a cost saving in the long run. This would allow the Authority to demonstrate better VfM when purchasing and upgrading the current bus fleet to a fully electric fleet.

Efficiency Case

An End To Short-Term, 'Ad Hoc' Funding Arrangements

8.27 The current model for delivering Services across the Authority's Region is based on short-term, ad-hoc deals with Operators. Securing these short-term deals is often challenging and due to financial and efficiency reasons, is not viable or sustainable over the long-term.

---

85 Department for Energy Security & Net Zero (2023) '2022 UK greenhouse gas emissions, provisional figures'

8.28 Firstly, short-term deals with Operators are often based on warnings of withdrawing or reducing Services. The recent short-term solution agreed with Operators in response to the threat of withdrawing or reducing one-third of Services is evidence of this. The Authority was left with little option other than to provide an additional £50 million subsidy per annum to maintain Services at their current level. This sort of approach is unlikely to be repeatable in the future due to not promoting a competitive market.

8.29 The current model is not only unsustainable from a financial perspective, but also from an efficiency angle. Operating the current model is very resource intensive with the wider management team within the Authority spending significant amounts of its time negotiating with Operators. If the current funding model were reformed, senior management within the Authority could use their time and expertise to focus on improving the network and seeking to increase patronage. These inefficiencies are also likely an issue for Operators.

Financial Stability in the Long-Term

8.30 Operators are focused on commercial drivers, that is maximising their profits on Services that have high demand and therefore generate strong revenue. However, it is widely accepted that the West Midlands Bus Network is going to become less commercially viable over the coming years. As Operators threaten to withdraw more non-commercial routes, it is fair to assume that the Authority will be expected to run more Supported Services in the future. This will be at a high cost to the organisation, but the alternative is running the risk of destabilising the entire network.

8.31 The lack of competition across the West Midlands Bus Network means that Operators are in a strong bargaining position and can essentially 'name their price' for running Supported Services. If there are no other Operators to provide the service, then the Authority has no choice but to pay a premium to the only bidder. This means that the Authority is paying above average costs to keep these Services running which reduces the number of Services that the Authority can afford to support.

8.32 This isn't to say that current Operators are doing a bad job, they just have a set of interests which do not fully align with the Authority's strategic objectives and ambitions. The main driver for Operators is profit margins whilst the main driver for the Authority is to maintain Services over the long-term, efficiently, and affordable.

8.33 Depending on the Delivery Option chosen, the Authority could be given powers to manage the network more efficiently day-to-day whilst also getting more from the public subsidies invested into the network. This may allow the Authority to expand the network in the future, rather than just maintaining it.

Securing and Demonstrating VfM and Accountability for Public Spending

8.34 As previously outlined, there is an acceptance that the commerciality of the West Midlands Bus Network is reducing, and that an increasing number of Services will need to be supported by the public sector. Therefore, there is an increasing need to demonstrate value for the money used to support the West Midlands Bus Network, which is difficult under current 'ad-hoc' funding arrangements.

8.35 The Authority's current deal with Operators only protects the West Midlands Bus Network at its current level until the end of 2024. To maintain the current level of service after that point, the Authority will be seeking financial support from LAs and the Government. The Authority will therefore need to demonstrate that any funding from public sources will be spent in a way that maximises benefits and public value.

8.36 The dominance of NX in the market runs the risk that changes to its management or ownership could result in a more adversarial relationship with the Authority. This could lead to greater requests for de minimis payments and greater deregistration of commercial Services to seek Supported Services Contracts. Without sufficient competition, the Authority would have limited options but to accept Operator demands which would undermine its ability to secure VfM for Services whilst maintaining network coverage.

8.37 Without increased competition in the market, there is a risk that the benefits of continued public funding for Services will be absorbed by Operators profit margins rather than maximising the benefits for passengers. In turn, this reduces the Authority's ability to meet its wider objectives to deliver a safe, reliable, affordable, and accessible public transport network.

8.38 Regulatory change would allow more competition across the West Midlands Bus Network; allowing new Operators to enter the market. This increase in competition would drive down costs for the Authority as Operators would reduce their margins to stay competitive. This would enable more Supported Services to be delivered at the same cost to the Authority, demonstrating the value of investing public money.

Direct Financial Benefits from Major Investment in Bus Priority

8.39 Increased congestion along key bus corridors has resulted in longer journey times for passengers, contributing to declining bus patronage. To address this, the Authority has invested a significant amount of public money into bus priority measures such as bus lanes and bus gates to improve journey times and reliability. For example, the Authority is investing approximately £150 million into Sprint; the first phase of which has resulted in bus journey time savings of up to 22%.[86] However, whilst the Authority has funded this scheme; the monetary benefits have been felt by the Operators whose Services have benefited from reduced congestion resulting in reduced operating costs.

8.40 If the bus model were reformed, the Authority and LAs would have the opportunity to benefit from the investment it makes in improving the West Midlands Bus Network. Increased levels of bus priority in the West Midlands have the potential to create significantly faster and more consistent journey times which would reduce operating costs.

8.41 Bus priority has the potential to make travel by bus more attractive, increasing passenger numbers and therefore revenue. This would help to make more parts of the West Midlands Bus Network more commercial and less reliant on funding to maintain Services, reducing costs for the Authority. The money saved from this could be used to support other Supported Services, potentially re-introducing Services to communities where they have been cut. Revenue surplus could be reinvested in other parts of the transport network in the West Midlands to ensure that the West Midlands has a transport system that works for all.

8.42 Without bus reform, the financial benefits from the Authority's investment in the transport network would be absorbed by Operators. Although Operators may invest some of their profits,

---

86 The Authority's analysis. [Sprint Bus Corridor]

the Authority would have limited control over the allocation of this, therefore it is unlikely to support its wider objectives.

Visionary Case

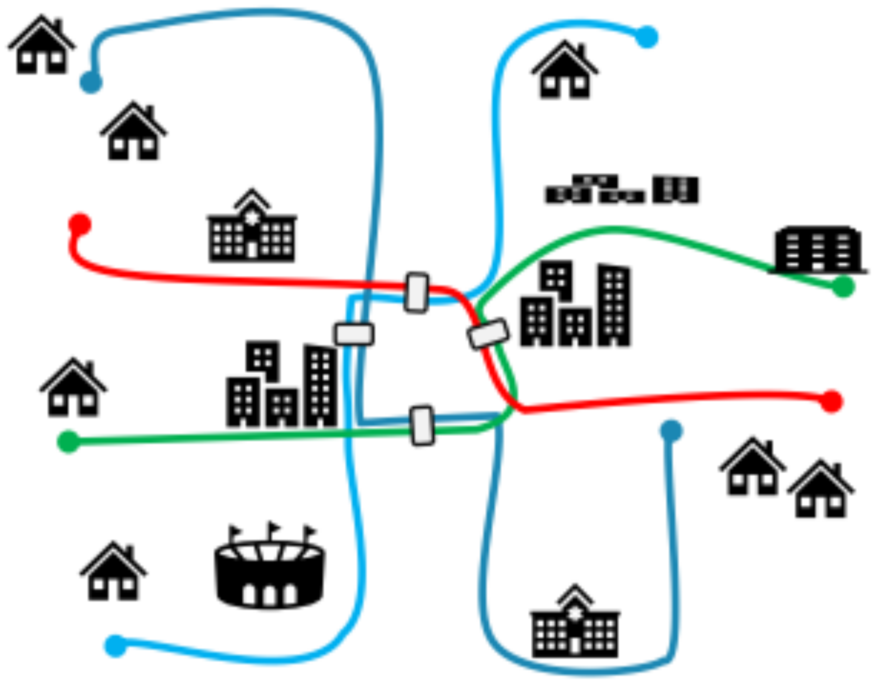
8.43 The visionary case is aligned with the adopted LTP and the ambitions of the Authority to enable 'transformational' changes to the West Midlands Bus Network. Regulatory change would allow the Authority to consider the West Midlands Bus Network at a strategic level and facilitate decision making to support the delivery of LTP objectives, subject to additional funding and political support.

Transforming the Network

8.44 The Authority's LTP Core Strategy sets out a vision for a 45-minute region whereby people can access a good range of places to undertake work, leisure, and socialising within a 45-minute trip. Bus is central to this vision as the most used mode of public transport for West Midlands residents and the mode with the flexibility to adapt to changing travel patterns. Bus also supports 'anywhere to anywhere' trips whereby residents can use different combinations of rail, metro, and bus to undertake their journey. However, to meet the 45-minute region vision, the West Midlands Bus Network will need to expand to ensure that it covers every part of the Authority's Region.

8.45 The Authority is currently undertaking Project Fuse, an analysis of how integration between modes can be further improved as part of the evidence base for the emerging LTP. The aim of Project Fuse is to create a balanced supply-oriented public transport network, enabling large swathes of the Authority's Region to have coverage. This will include high demand Services still routed directly, but with opportunities to allow small demand Services and demand flows to be catered for through interchange. Figure 1-15 shows a good practice example of this with several high demand routes going through the urban areas, supported by interchanges to provide connections to all areas of the network. Using this model will allow greater integration with metro and rail.

Figure 1-15: Balanced Approach of 'Supply Oriented' Network to Match High Demand Movements



8.46 NX is supportive of Project Fuse and its ambitions. However, for full public transport integration to be realised; the Authority needs to have the ability to direct the overall direction of change, which is difficult when the commercial network is decided according to Operators' commercial interests. Regulatory change (alongside enhanced funding and strong political support) will provide the Authority with more control over the West Midlands Bus Network, which could enable a major expansion of the West Midlands Bus Network to support their ambition to create a high quality and affordable public transport system.

8.47 Regulatory change will allow the Authority to revolutionise the operational running of the West Midlands Bus Network, promoting increased patronage and serving people over profits. This would give the Authority the ability to better plan the public transport network, supporting wholesale change and adopting best practice from Europe.

8.48 Alongside greater integration of the existing public transport network, bus reform will give the Authority the opportunity to introduce new Services and/or increased service frequencies to serve new developments and areas in need of new or improved bus provision. For example, areas which have had their Service cut completely or the frequency significantly reduced could benefit from renewed provision. Alongside social benefits, the provision of new Services could lead to regeneration benefits by making places more attractive to invest into. However, the ability to specify new routes or Services will rely on greater powers for the Authority to determine the direction of travel.

8.49 There is no doubt that the West Midlands Bus Network plays a critical role in connecting people to employment, education, leisure, and other key facilities, despite its role often being undervalued. The Authority wants to expand the role of buses even further to meet its vision for a 45-minute region and will therefore continue to invest in the network. However, without reform, there is a risk that the full benefit of additional public funding will not be used to benefit passengers or to meet the wider ambitions of the Authority.

Opportunity for Fares and Ticketing Reform

8.50 An essential element of an integrated public transport network is ticketing, not only ensuring that the ticketing system is unified, but that it is affordable and understandable. At present, working out the best option and best value ticketing option for public transport is complicated and doesn't always provide VfM.

8.51 To deliver a truly integrated network and increase patronage, the ticketing process needs to be affordable and joined up. This is particularly essential for residents in the West Midlands who face some of the greatest affordability challenges with travel.

8.52 Regulatory change will increase the ability of the Authority to use revenue sources to directly subsidise fares and increase the number of concessions. These concessions could be targeted at specific groups such as low-income groups or communities in deprived areas which heavily rely on bus travel to access opportunities. For example, in the Île-de-France region, the transport authority allows recipients of certain social benefits to receive a free or a heavily discounted travel card for use on all modes of transport. The level of discount depends on the type of social benefits but is aimed to support the mobility of those on low incomes.

8.53 Concessions could be used to attract new passengers to travel by bus, which could encourage people to change their travel behaviours and in turn increase bus revenue. For example, in 2019, the transport agency in Gothenburg, Sweden, handed out 30,000 free two-week passes valid for travel on buses, ferries, and trams as part of a long-running campaign to encourage residents to use public transport to meet their ambition to double the number of journeys by public transport by 2025. Several of these 'test rides' have been organised since 2010 and it is estimated that, as a result, 20% of those who received the free tickets (100,000 residents) have become regular users of public transport.[87]

8.54 Regulatory change would give the Authority power to create new ticket types for non-concessions for example 'hopper' style tickets across different public transport modes, but also across other modes such as bike and scooter hire. This would support the vision for a fully integrated transport network in the West Midlands. In London, TfL's £1.75 hopper fare gives users unlimited access to buses and trams within one-hour of tapping in. In 2019, it was estimated that 450,000 hopper journeys were being made each day,[88] helping to make travel more affordable and accessible to everyone.

8.55 Increased fare subsidies and concessions would come at a cost to the Authority and may not be fully funded through regulatory change to the West Midlands Bus Network. However, there are other options to raise additional revenue such as through measures which are being considered through the delivery of the LTP. Using these potential revenue streams to benefit improved Services and enhancing access may make these interventions more palatable and acceptable publicly and politically.

8.56 The trailblazing devolution deal, including BSOG, has given the Authority greater control of its budgets and its allocation of resources. However, for the benefits of this devolution deal to fully be realised, the Authority must also have greater control of the operation of the West Midlands Bus Network. This will help to ensure that the Authority's Region receives the maximum benefits from public investment.

Aligning the Network to Support the Authority's Wider Ambitions

8.57 As previously outlined, the Authority has ambitious plans to reimagine transport in the West Midlands to better support inclusive growth by providing a transport system that's fair to everyone and the environment. The Authority's bold ambitions can only be achieved with greater control of the West Midlands Bus Network, giving the organisation the power to make change.

8.58 Despite some progress in recent years through the Bus Alliance, there remains an acknowledged lack of accountability and influence over Services in the West Midlands due to the deregulated West Midlands Bus Network. This reduces the ability of the Authority to make transformational changes to the network to deliver a sustainable and integrated West Midlands Bus Network. The only way this can be achieved is through changes to the regulatory system to give the Authority more power to control its own destiny.

8.59 Regulatory change would enable the Authority to develop a West Midlands Bus Network that meets its wider ambition for reimagined transport in the West Midlands. This ambition cannot be achieved under the current deregulated bus network arrangements.

Summary

8.60 This paragraph 8 can be summarised as follows:

---

87 https://www.eltis.org/resources/case-studies/free-passenger-transport-exploring-benefits-and-disadvantages

88 https://tfl.gov.uk/info-for/media/press-releases/2019/september/new-figures-show-popularity-of-the-mayor-s-bus-hopper-fare-since-launch

(a) bus reform provides an opportunity for the Authority to deliver a better planned and more integrated West Midlands Bus Network that works for the benefit of all passengers and is more aligned with wider ambitions such as reducing emissions from the transport sector. This would not only deliver a better and cheaper experience for passengers, but also give the Authority additional opportunities to better support West Midland's most deprived communities;

(b) bus reform provides an opportunity for the Authority to deliver a long-term, financially sustainable West Midlands Bus Network that provides better VfM from public subsidies. The financial benefits from this would allow the Authority to expand the West Midlands Bus Network (including more Supported Services) and support other parts of the transport network to ensure that the West Midlands has a transport system that works for all; and

(c) bus reform provides an opportunity for the Authority to make transformational changes to the West Midlands Bus Network by giving it the power to make strategic decisions about **how it better complements the wider public transport network.**

Strategic Case Appendix

Delivery Options Development

Delivery Options Shortlist

1.1 The Bus Services Act requires that, where an LTA decides to consider Franchising of Services in its area, an assessment should be developed which demonstrates whether Franchising is the most suitable option to deliver its aims and objectives. An assessment should set out the options which have been considered in coming to the Franchising Scheme put forward for consideration.

1.2 Other suitable 'non-Franchising' options also need to be assessed and compared to Franchising within an assessment. The necessary trade-offs are identified and addressed as part of this Assessment and are considered central to the Authority's decision about which option to pursue.

1.3 As set out in paragraph 7 of this Strategic Case, the options considered in this Assessment are as follows:

(a) Do Minimum – '**the Reference Case'**;

(b) Do Something – **'the Future Partnership'**; and

(c) Do Something – **'Franchising'**.

1.4 This Appendix provides additional information relating to the development of the specification of the Delivery Options.

Do Minimum – 'the Reference Case'

1.5 The Franchising Guidance requires an assessment to set out a reasonable reference case against which the shortlist options can be assessed. Such reference case must be consistent with what is expected to occur and must be a reasonable future representation of the bus delivery model in the West Midlands if there was no policy intervention.

1.6 For this Assessment a continuation of the EP is assumed to be the reasonable reference case, as there is a good degree of certainty in what could be achieved if it were extended forwards in time. As set out in Bus Back Better, Operators and public sector organisations will only be eligible to receive this funding if they are part of an enhanced partnership (or Franchising) therefore it can be assumed that the Reference Case will continue to be in place without intervention. The details of the Reference Case are set out in paragraph 2 of this Strategic Case.

Do Something – 'the Future Partnership'

Introduction

1.7 The Future Partnership is based on the Reference Case, but through engagement with Operators and stakeholders (including written responses from Operators to a market engagement questionnaire produced by the Authority, and discussions with members of the Bus Alliance) a number of alterations have been made. The intention of the Future Partnership is to further increase collaboration between the Authority and Operators, and to address barriers to entry/expansion for Operators to ensure VfM by promoting competition, and to maximise the benefit of bus for residents and bus users.

1.8 The Future Partnership will involve the further development of the RTCC. Both Operator staff and the Authority will work within the same shared workspace to work in partnership to deliver Services in the Authority's Region. This will help ensure resources are best allocated to support delivery of the Services and support the Authority's ambitions.

1.9 A number of other alterations, compared to the Reference Case, have also been made, including:

(a) a stabilised bus market until 31 December 2024; and

(b) no future additional support post 31 March 2025.

Supported Services

1.10 Through a market engagement exercise with Operators and the Authority, some Operators – particularly potential new entrants – expressed a preference for Supported Services to be procured on a gross cost basis (rather than net cost as is currently the case). Accordingly, as part of developing the Delivery Options, the Authority decided that the Future Partnership would include Supported Services procured on a gross cost basis, with the additional advantage being that this would provide it with additional transparency on service profitability (and VfM). In addition, some of these Supported Services will be bundled together and procured alongside access to the required depot.

Fares and Ticketing

1.11 As part of the Future Partnership, an independent entity will be created under which ownership would be shared between Operators and the Authority to ensure 'buy in' from all parties. The entity will focus on selling nBus tickets to businesses, universities and third-party organisations. Costs recovered through sales commissions will fund this entity. The intention is that the team would be more focused and efficient than the current practice, with targets being set by the partners to increase accountability.

Fleet and Depot

1.12 As with the Reference Case, as part of the Future Partnership, the Authority will continue to support Operators transition their bus fleets to ZEB.

1.13 A key difference in the Future Partnership is that the Authority will own the Walsall depot, which will then be leased back to NX as per the current arrangements. The Authority will also purchase the Peartree depot and develop a number of new depots, as shown in Table 1-4, between 2025 and 2027. These depots will not be made available for Operators of Supported Services.

1.14 The Authority will recruit additional staff, (in comparison to the Reference Case) to manage the acquisition and ownership of these additional depots.

Table 1-4: The Future Partnership Depot Purchases and Developments

Partnership Area	Capital Investment (approx.)	Options and Cost	Acquisition Year	PVR
Sandwell and Dudley	£21,000,000	Peartree £7 million purchase, £14 million development	2025/2026	200
Coventry	£6,500,000	£3 million land acquisition and £3.5 million development	2025/2026	40
South Birmingham	£9,000,000	£4 million land acquisition and £5 million development	2026/2027	40
Wolverhampton	£6,500,000	£3 million land acquisition and £3.5 million development	2026/2027	40

Do Something – 'Franchising' Development

Introduction

1.15 The Franchising Scheme represents a more structural change to the operation of Services. It has also been shaped through engagement with Operators and stakeholders (including written responses from Operators to the market engagement questionnaire). This Delivery Option provides the Authority with the greatest level of control over the West Midlands Bus Network, taking on new powers to contract Services (through Franchise Contracts). This would effectively end the operation of the existing deregulated West Midlands Bus Network.

Defining Franchising

1.16 The powers to franchise are set out under legislation. However, there are several variables in terms of the model of Franchising and defining an approach which is suitable for the West Midlands. As part of this Assessment, the Authority has defined and developed Franchising and a Franchising Scheme through discussions with key stakeholders, the Authority's Leaders and Directors. The Delivery Options have been considered at a number of Franchising Assessment Working Group sessions. These discussions were considerate of:

(a) the plans set out in the previous assessment undertaken by the Authority; and

(b) the broader strategic ambitions for bus reform.

1.17 These discussions informed the scoping of the Franchising Scheme considered in this Assessment.

Early Scoping

1.18 The initial approach to Franchising and the Franchising Scheme can be summarised into three key decision areas, which are summarised in Table 1-5.

Table 1-5: Key Franchising Decision Areas

Key Decision Area	Options		
Geographical Area Franchised	**Whole of the West Midlands** – entirely replacing commercial operations	**Part of the West Midlands** – excluding specific areas with the Authority's Region from Franchising	**Specific routes only** – such as radial routes in and out of city centres
Types of Services Franchised	**All Applicable Services** – including all appropriate Services	**Groups of Services** – such as high frequency Services or Supported Services only	**Specific Services** – for limited change on specific corridor or route
Revenue Risk on Franchise Contracts	**Gross Cost** – the Authority takes full control of fare box revenues	**Net-cost** – Operators take risk on fare box and are paid fixed cost for operation	**Shared-risk** – sharing of revenue risk between the Authority and Operators

1.19 These decision areas provide the basis from which the Franchising Scheme was further specified. These decisions were made at an early stage in the development of this Assessment, and were informed by previous scheme consideration:

1.20 **Geographical Area Franchised** – Franchising will be across the Authority's Region. A smaller geographical area was considered, recognising, for example, that the bus network serving the Coventry area is different in nature from much of the rest of the Authority's Region (due to a number of different Operators and cross-boundary Services). However, Franchising the whole of the Authority's Region will allow for a share of the benefits of Franchising across the area and avoids the challenge of overlapping Franchised and commercial Services, as well as any regulatory change for the non-franchised region (for example the creation of a new enhanced partnership).

1.21 **Types of Services Franchised** – Franchising will apply to the entire network of Services in the West Midlands, rather than to a particular class of Services – for example Supported Services or core/secondary network Services. The current West Midlands Bus Network is well integrated with the majority of Services currently operated by a single Operator from around 9-10 depots. These operations and depots provide a basis for Franchising across the whole network.

1.22 **Revenue Risk on Franchise Contracts** – the Authority will take full control (that is procure Services on a gross cost basis) of the fare box and full revenue risk. This provides the ability for the Authority to drive passenger outcomes on the network and have full control of specification of Services on the network. Other revenue risk models would provide less control and require negotiation with Operators on the levels of risk shared. This is the model currently adopted in

London and Greater Manchester, and to be adopted in the Liverpool City Region and West Yorkshire.

1.23 These key decision areas provided the basis from which a more detailed scoping of the Franchising Scheme was formed.

Outline Approach

1.24 The outline approach has been developed on the basis of the key decision areas, providing a more detailed basis on which the Franchising Scheme can be assessed. This approach includes more detail on the following elements of the Franchising Scheme:

(a) Lotting and zoning strategy;

(b) Depot strategy;

(c) Procurement Rounds; and

(d) Phasing strategy.

1.25 The outline approach also develops some of the opportunities to reform provided by Franchising, including the approach to:

(a) Network;

(b) Cross-boundary Services;

(c) Fares and ticketing; and

(d) Fleet.

Lotting and zoning strategy

1.26 A lotting and zoning strategy has been developed for Franchising through a series of market engagement sessions with Operators and the Authority, written responses provided by Operators (both incumbent Operators and new Operators) to a market engagement questionnaire drafted by the Authority, and Franchising Assessment Working Group sessions. The strategy has been refined to present an assumption of what the Franchised Scheme would look like in the Authority's Region, recognising that some elements of the model will benefit from further refinement in the future.

1.27 Under the Franchising Scheme, Services would be contracted by the Authority for a defined time period, through Franchise Contracts. There are a number of different approaches to this, including:

(a) contracting Services individually; and

(b) contracting Services in discrete Lots, which can vary in amount and size. For example, there could be several Lots with relatively few Services in each or a smaller number of larger Lots with a greater number of Services.

1.28 Engagement with the Authority, with reference to the proposed approaches in Greater Manchester and Liverpool City Region suggests that a similar mixed-size lotting approach is also suited to a Franchising Scheme in the Authority's Region. Contracting Services as Lots reduces the resource required and likely timescales for delivering Franchising.

1.29 Contracting Services in discrete Lots is considered most likely to generate effective competition – an Operator with no existing Services in the Authority's Region is unlikely to be willing to bid to operate a single service but much more willing to enter the market to operate a group of Services, in a similar geography, that share the fixed costs of running a depot. This points towards **depots** being a logical 'unit' of lotting, as they incur fixed costs which are more difficult to divide across Lots or Franchise Contracts, and their being little appetite from Operators to share.

1.30 The anticipated Franchising Scheme splits the Authority's Region into geographic 'zones', based on current depot locations and bus network. Within each zone there will broadly be:

(a) one **'large Lot'** comprising major, high-frequency Services within that zone, which is let to a single Operator. This would likely be operated from a single depot (or a main depot and a secondary site for overnight bus storage and charging) designed to be commercially competitive to a large national Operator and have a total PVR requirement of approximately 140-200 vehicles; and

(b) one - three **'small Lots',** which comprise a specific group of Services (such as school Services, Services with specific fleet requirements (for example: minibuses) or secondary routes operating at lower frequencies – and often those routes which form today's supported network) which are designed to be competitive to SMOs, alongside the larger national Operators. These would typically have a PVR of 5-20 vehicles and be capable of being operated from a significantly smaller depot.

1.31 There are a number of considerations with respect to establishing how many Franchising 'zones' are appropriate for the Authority's Region. This is based on balancing the geography of the zone with the number of Services within the zone (for example, having broadly discrete zones with similar numbers of Services). In the case of the West Midlands, there are currently around 1,500-1,600 vehicles operating in the Authority's Region, and this would require something broadly between 7-10 zones based on the Lot sizes described above.

1.32 Following consideration and refinement of a range of alternative options, a system of nine geographic 'zones' is proposed, each being based around one large depot. This is largely reflective of the existing makeup of large depots within the West Midlands, whilst conscious of future developments in the West Midlands Bus Network. These nine zones are:

(a) Walsall;

(b) Wolverhampton;

(c) Dudley;

(d) West Bromwich;

(e) Birmingham North;

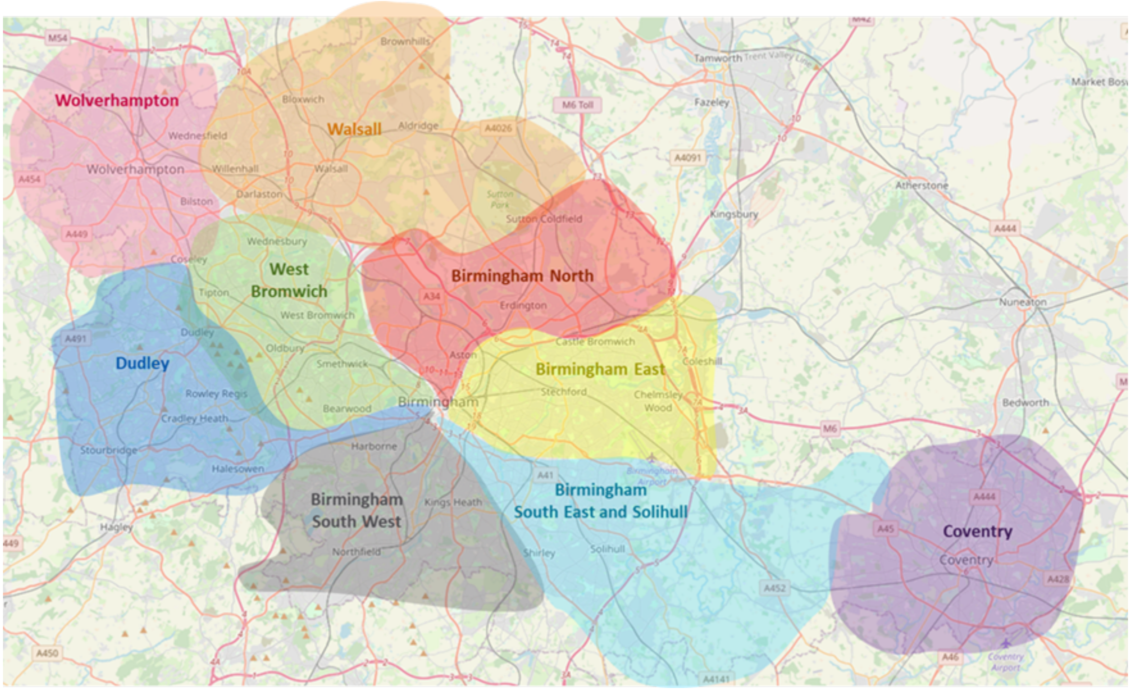
(f) Birmingham East;

(g) Birmingham South West;

(h) Birmingham South East and Solihull; and

(i) Coventry.

Figure 1-16: Nine Geographical Franchise 'Nine Zone' Lotting System



1.33 The key considerations behind the decision to grouping the Services into nine 'zones', were as follows:

(a) **Geography:** these zones and the large depots within them minimise (whilst not entirely eliminating) the overlap of Services, limiting the amount of 'dead running' Services where routes are operated a significant distance from their depot;

(b) **Size:** they result in each zone having roughly the same allocation of vehicles, aligned to the capacity of the depot in that zone and the nature of the bus network. By ensuring the Lots are each of a similar, manageable size (140-200 vehicles) this enables multiple opportunities for Operators to bid and helps to ensure a competitive process;

(c) **Birmingham:** the Birmingham network represents a concentration in the West Midlands Bus Network and therefore has a larger number of depots and vehicle requirements than other areas. The nine zones reflect a 'balanced' split of this area, aiming to avoid Lots which are either oversized or unfeasible; and

(d) **Depots:** ensuring alignment with the approach to depots in the Authority's Region, particularly the availability of existing or potential new sites in appropriate locations to house the Services contained within the Lot.

1.34 The lotting and zoning strategy has been developed with consideration of encouraging competition between Operators bidding on the Lots, ensuring that the Lot sizes are manageable and accessible for Operators (large Operators and SMO). Table 1-6 below shows the associated PVR for each of the nine zones. Birmingham South West is the largest zone by fleet size with a little over 200 vehicles required.

Table 1-6: PVR by Zone

Franchise Zone	PVR without Spares	PVR with Spares
Birmingham East	118	132
Birmingham North	159	178
Birmingham South East and Solihull	129	144
Birmingham South West	207	232
Coventry	146	164
Dudley	146	164
Walsall	163	182
West Bromwich	157	176
Wolverhampton	165	184
Total	**1,389**	**1,556**

Depot Strategy

1.35 The lotting and zoning strategy, by necessity, has been developed in tandem with the strategy for future depot locations and ownership. The makeup of existing large depots provides basis on which the geography of the zones was informed.

1.36 Each Franchised zone will be allocated one 'large Lot' accounting for the majority of local Services in that geography, which is expected to be operated from a single large depot in that area. Where depot capacity is limited, the 'large Lot' may require more than one depot site, this may be for a short-term period whilst a larger site is located. A 'large Lot' may be operated from more than one depot site on a long-term basis where appropriate (for example, where the geography of Services suits the use of separate locations, or availability for land is limited).

1.37 Under the Franchising Scheme, there are two broad approaches to the ownership and provision of depots:

(a) the Authority owns the depots, leasing the site to the Operator who is operating under a Franchise Contract; and

(b) Operators own the depots, providing their own site for operation.

1.38 The Authority taking the responsibility for the ownership and provision of depots is preferred to the alternative, due to the implications this would have on the wider Franchising process. Provision of depots by the Authority promotes additional levels of competition in the tendering of Lots, preventing advantages of 'incumbency' and encouraging bids from Operators who do not currently operate significant numbers of Services in the area. It reduces the potential for the operation of Lots from less appropriate locations, which may increase 'dead mileage' on the West Midlands Bus Network.

1.39 Depots currently in use within the West Midlands have been factored into the working assumptions on which the lotting and zoning strategy has been developed. However, the acquiring of existing depots and development of potential new sites is a continuing process. The depot strategy will continue to be refined as this process develops.

Procurement Rounds

1.40 The procurement of Franchise Contracts could be approached in a number of potential ways:

(a) 'Big bang' transition: all Services contracted at once (or in close succession);

(b) Individual transition: one 'large Lot' at a time over a longer timeframe;

(c) Gradual transition: grouping two - three large Lots at a time over a similar timeframe; and

(d) Slow transition: contracting Lots with longer gaps between them, for example at a similar rate to eventual steady-state contract reletting.

1.41 A gradual transition, phasing in two - three large Lots at a time was preferred to the alternative options. This is due to the balancing of practical considerations, such as the level of resource required to contract Lots and relative risks associated with a significant change to the operation of buses.

1.42 This allows a phased transition towards the Franchising Scheme, allowing the Franchised network to grow strategically across the Authority's Region and avoiding a 'patchwork' of Franchised and unfranchised Services during the implementation period.

Phasing Strategy

1.43 Opting for a phased transition, leads to a number of specific strategic decisions on the nature of the phasing strategy. There are three areas to outline specifically:

(a) The number of Lots phased at a time;

(b) The timescales for phasing and how long periods between each phase are; and

(c) The order in which Lots are phased in.

1.44 The adopted Lots transition is phased as three large Lots at a time, across three phases. This approach provides an even balance of the nine Lots across the transition period. The phases will be implemented across three years, with a years' time in between each phased period to allow for transition.

1.45 The indicative order of phasing will be as follows:

(a) Phase 1: Coventry; Birmingham North; and Walsall;

(b) Phase 2: Wolverhampton; West Bromwich; and Dudley; and

(c) Phase 3: Birmingham South East; Birmingham South West and Solihull; Birmingham East.

1.46 The ordering of the phases was based on a range of considerations:

(a) Practical considerations: such as the availability of depots and the development of the depot strategy. This dictates how feasible Franchising is in certain geographies (for example, Lots requiring new sites to be developed may suit a later phase of Franchising); and

(b) Strategic considerations such as:

(i) Geography: allowing the transition to a Franchised network to evolve 'strategically', avoiding a 'patchwork' of overlapping Franchised and unfranchised Services;

(ii) Profitability: balancing more and less profitable Lots across the implementation period, to avoid significantly greater cost to the Authority, or risking Operators 'withdrawing' earlier than planned; and

(iii) Intervention: allowing the potential benefits of bus reform to be brought forward.

1.47 The potential impacts of the phasing strategy and any mitigations identified will continue to be developed and refined by the Authority. The approach to phasing will also continue to be dependent on the developments of the lotting strategy and is therefore potentially subject to some change.

Network

1.48 The Franchising Scheme provides the greatest Authority influence in the West Midlands Bus Network. Under a 'deregulated' model there are potential inefficiencies in the network, which can lead to negative outcomes for passengers. Many are a consequence of the 'deregulated' model and can be difficult to address through partnership measures. Bus reform provides the Authority with overall strategic control of the network, providing the opportunity to address these weaknesses in the network, leading to:

(a) an improved service for passengers, generating additional bus patronage and/or revenue; and

(b) reductions in operating costs by better coordinating competing Services, leading to a smaller fleet requirement.

Inefficiencies

1.49 One example of the inefficiencies can be seen in the duplication of Services from different Operators, or the duplication of Services along a specific corridor (which may be provided by the same Operator). This duplication can lead to several negative outcomes, including:

(a) **Overbussing:** where the frequency and capacity of Services run along a single road or corridor is substantially greater than the demand for those Services;

(b) **Timetable integration**: without timetable integration between Operators, duplicate Services can provide irregular timetables with uneven headways; and

(c) **Route provision**: alongside the duplication of identical Services, two Operators may run Services along similar, but not identical, routes with significant crossover (for example along the same corridor for a proportion of the route). Rather than providing a consistent, integrated service along one route, service provision is split across routes. This is against best practice (and the principles in Project Fuse), leading to a less attractive service for passengers.

1.50 All three of the above contribute towards negative outcomes for passengers, creating a less frequent, simple, intuitive West Midlands Bus Network, requiring more advance planning and thought to use, and thus impacting on the overall VfM of Services.

Opportunities

1.51 With greater control of the network, there are opportunities to improve the network provision and eliminate some of the inefficiencies created by the deregulated market. This includes:

(a) Reducing the number of vehicles required on specific routes;

(b) Better coordinating the timetable of different routes to provide more regular frequencies;

(c) Reorganising route variations to provide more balanced Services (where appropriate); and

(d) Better integrating ticketing and Services to allow for a less disjointed network.

1.52 An outline assessment of the West Midlands Bus Network has been undertaken to understand where these inefficiencies may currently most obviously occur, and where they could be addressed through bus reform. Due to the dominant position of NX, there is less direct competition between Operators and therefore less duplication and inefficiencies than in some metropolitan areas. However, there are still cases where these inefficiencies exist.

1.53 Through an evaluation of the network, these cases of inefficiencies were grouped into three categories:

(a) **Duplicate Services** on routes and corridors with direct competition and **no integration**;

(b) **Duplicate Services** on routes with some integration; and

(c) **Similar Services** without integration.

1.54 These categories of Services provide a basis from which bus reform can be framed and inefficiencies in the network reduced, as an example of what could be achieved in the Round 1 of Franchise Contracts. Over time, particularly as more operational and commercial information becomes available to the Authority, the intention is that potential for additional service efficiencies will be investigated and introduced.

Cross-boundary Services

1.55 Under the Franchising Scheme, Services would be managed by the Authority. This is applicable to all Services operated across the West Midlands Bus Network and potentially Services that operate only partially within the Authority's Region.

1.56 Cross-boundary Services operate both within the Authority's Region and, for some period of time, outside of the Authority's Region. These Services will cross the boundary to the Authority's Region at a point in their route. Generally, a cross-boundary Service will start in the Authority's Region and serve a centre outside of the Authority's Region. However, other Services may cross the Authority's Region at a point in the route before returning, and others may spend the majority of their route outside the Authority's Region before crossing the boundary into the Authority's Region.

1.57 The legal position for Franchising cross-boundary Services is distinct from Services that operate wholly within the Authority's Region. Outside the Authority's Region, Services under Franchise Contracts must be operated in agreement with the neighbouring LA, and there are wider considerations such as the nature of the service and the operating context which will influence whether or not these Services are under Franchise Contracts.

1.58 The majority of cross-boundary Services relating to the West Midlands Bus Network are found in the Coventry area – due to its geography and relationship with centres outside of the Authority's Region (in Warwickshire). However, there are other cross-boundary Services across the West Midlands, serving centres in Staffordshire, Shropshire and Worcestershire.

Regulation

1.59 Under Franchising, regulation of cross-boundary Services can be broadly split into two options:

(a) **Contracting** the service; and

(b) **Permitting** the Service / through the Service Permit Regime.

1.60 Services that operate outside the Authority's Region that still serve as a core part of the West Midlands Bus Network may still be contracted, under the scope of maintaining network provision and with the permission of the neighbouring LA. Thus, a West Midlands bus service could potentially operate outside of the Authority's Region in line with commercial, deregulated Services operated elsewhere.

(a) Service Permit Regime with **strict** restrictions, such as:

(i) ensuring that the Services subject to the Service Permit accept the West Midlands ticket offer with the same fare structure;

(ii) coordination of timetables on key corridors in order to maintain a consistent headway for passengers; and

(iii) requirements for vehicle standards and/or branding.

(b) Service Permit Regime with **light** restrictions, such as simply meeting basic vehicle standards, but with no integration of ticketing, timetables or routes with the Franchising network.

1.61 There is the potential to use a combination of these measures to split a service where necessary, this would allow for connectivity cross-boundary whilst retaining the integrity of the Franchising network.

Aims and assumptions

1.62 There are some clear aims that sit behind the approach to Franchising in relation to cross-boundary Services:

(a) To ensure that the core network of Services within the West Midlands is under a Franchising Scheme, and under the direct control of the Authority;

(b) To minimise Services subject to Service Permits from directly competing with Services under Franchise Contracts, and abstracting revenue away from the Franchising Scheme network;

(c) To ensure that cross-boundary connectivity (between the Authority's Region and neighbouring LAs) is protected; and

(d) To minimise any negative impacts on the bus networks of neighbouring LAs.

1.63 These aims underpin the assumptions made about the approach to cross-boundary Services. There are three broad assumptions to make about the types of Services provided:

(a) That a service that operates mostly within the West Midlands (more than 90% by distance) will come under the Franchising Scheme;

(b) Similarly, a service that operates mostly outside of the West Midlands (less than 10% by distance) will be subject to the Service Permit Regime to allow it to serve the location within the Authority's Region; and

(c) Services that operate a significant amount both inside and outside of the Authority's Region (for example, Services along key corridors that continue to towns outside the West Midlands) should be assessed on a case-by-case basis.

1.64 These aims and assumptions have been applied to an initial assessment of the West Midlands Bus Network under the Franchising Scheme.

Fares and Ticketing

1.65 The Franchising Scheme sees the Authority take full control over the West Midlands Bus Network and full revenue risk. This includes control over fares and ticketing and therefore provides opportunity for reform in this area. Franchising would include further simplification of the ticketing system, in comparison to the Future Partnership. This includes:

(a) further simplification of tickets, with one single fare irrespective of Operator and complete end to single-Operator day/week tickets;

(b) complete consistency in the ticketing offer across sales platforms; and

(c) one definitive source of ticketing information, directly controlled by the Authority.

1.66 Additionally, Franchising provides the opportunity to undertake further, more radical changes to the fare structure without the need for agreement from Operators. These measures could include:

(a) greater multi-modal ticket integration (for example cheaper Metro + Bus single fares and/or day tickets);

(b) further simplification to the structure of day and week price caps on contactless and Swift, month tickets sold 'off-bus', and a limited range of cash tickets. This would result in a 'London-style' ticket offer which offers maximum simplicity to the passenger, with no input from the driver required for ticket sales (except for cash). This would lead to a significant reduction in boarding and dwell times; and

(c) as above, but with the withdrawal of cash as an on-bus payment method, further reducing dwell times and likely resulting in operating cost savings.

Fares and Concessions

1.67 Alongside the above reforms, Franchising also offers significantly greater opportunity to deliver more 'visionary' changes to the fare structure if desired, such as:

(a) adjustments or changes to the ticket system such as including new fares (for example, a new 'hopper' fare in which it would give unlimited bus travel to users for a limited period of time);

(b) new concessions, for example for students, or to those more vulnerable groups who most need financial support (including low income groups, young people aged 18 – 25 and care leavers); and

(c) wider fare subsidies, which could be funded from the wider Authority budget.

1.68 These more radical changes in approach to fares would be significantly more challenging to achieve cost-effectively without the greater control over the West Midlands Bus Network that Franchising provides.

1.69 It is worth noting that reforms to ticketing and their potential benefits, facilitated by Franchising, may not be solely achieved by Franchising and the greatest benefits are dependent on additional funding for the West Midlands Bus Network.

WEST MIDLANDS COMBINED AUTHORITY BUS ASSESSMENT BUSINESS CASE: ECONOMIC CASE

Contents

Figures

Tables

1 Introduction

Purpose of this Economic Case

1.1 This Economic Case focuses on establishing whether the benefits of reforming Services outweigh the costs of delivering change and if these reformatory changes represent VfM for the Authority. This Economic Case will follow and refer to the HM Treasury's Green Book Guidance[89] and the Franchising Guidance.[90]

1.2 A key purpose of the Franchising Guidance is to provide the Authority with the necessary and sufficient information on impacts, risks and practical implications of Franchising before deciding on the Delivery Options. The five cases of this Assessment, including this Economic Case, provide that information for decision makers to consider. It should be noted however that the Franchising Guidance states that "the legislation does not require the authority … to pass a particular test or prove that Franchising will deliver particular outcomes". In terms of this Economic Case, this means that there is no threshold requirement for the specific NPV or BCR for any of the Delivery Options to provide to be considered viable options.

1.3 The HM Treasury's Green Book Guidance states that the option appraisal process should lead to a preferred option. The preferred option must represent an acceptable balance between costs, benefits and risks to society and the public sector, allowing for any unquantifiable factors which could affect a decision. The HM Treasury's Green Book Guidance also requires that the impact on different users and other affected groups be assessed and all relevant costs and benefits be valued in monetary terms, unless it is not possible or not appropriate to do so. This approach recommends an assessment of the impact of the options on social welfare at a national scale, not just in the immediate vicinity where the option is located.

1.4 Both the HM Treasury's Green Book Guidance and the Franchising Guidance require the development of a reasonable Reference Case for the Delivery Options to be compared against. In the context of Services within the Authority's Region, continuation of the current EP was adopted as a reasonable Reference Case in the Strategic Case. The two Delivery Options introduced in the Strategic Case are compared with the Reference Case.

1.5 The differences between the Delivery Options are detailed within this Economic Case, presenting the impact on passengers, the Operators, the public sector, and wider society, compared to the Reference Case. This Economic Case discusses how the modelling and appraisal framework underlying this Assessment is appropriate and how, where possible, it quantifies the impacts of the Delivery Options. Results from the forecasting and appraisal framework are also presented in terms of benefits, revenue and costs of each of the Delivery Options. Where possible and appropriate, the distribution of these impacts across different groups in society (including passengers, the Authority, LAs, the Operators and wider society) has been presented.[91]

---

89 The Green Book. HM Treasury

90 The Bus Services Act 2017: Franchising Scheme Guidance

91 The distribution of impacts has been considered and presented as per TAG Unit A4.2 Distributional Impact Appraisal

1.6 This Economic Case concludes by presenting the NPV of monetised impacts and a resulting VfM appraisal of each Delivery Option, the latter of which is a key element of the fourth activity set out in the Franchising Guidance.

Structure of this Economic Case

1.7 This Economic Case is structured and presented across the following 13 paragraphs, in accordance with the requirements of the HM Treasury's Green Book Guidance and the Franchising Guidance previously described:

(a) Paragraph 2 – The Delivery Options: this paragraph sets out what is expected to happen to Services and the West Midlands Bus Network under the Reference Case as well as the interventions which are able to be delivered under each Delivery Option. It provides a high-level overview for how these interventions will benefit bus users and the wider region by delivering against the objectives;

(b) Paragraph 3 – Impact of the Delivery Options: the impact of each Delivery Option on passengers and the wider regions is discussed within this paragraph. This paragraph provides a high-level overview of the impact of transitioning to each Delivery Option;

(c) Paragraph 4 – Forecasting Approach: this paragraph presents the methodological approach to forecasting passenger demand, revenue and operating costs under each Delivery Option and describe the scenarios which have been considered and assessed;

(d) Paragraph 5 – Unconstrained Demand, Revenue and Cost Forecasting Approach: this paragraph presents the methodology and unconstrained forecasts of changes in demand, revenue and cost of operating Services under each of the Delivery Options[92];

(e) Paragraph 6 – Demand, Revenue and Costs Forecasts: paragraph 6 provides an overview of the key results from forecasting demand revenue and operating costs under each of the Delivery Options;

(f) Paragraph 7 – Approach to this Economic Assessment: this paragraph presents and discusses the methodology used to quantify the impacts of the Delivery Options;

(g) Paragraph 8 – Impacts on the Economy: the impacts of the Delivery Options that directly affect the economies of the Authority area and the UK more widely are presented in this paragraph. The implications of the Delivery Options for the Operators will also be addressed in this paragraph;

(h) Paragraph 9 – Impacts on the Environment: this paragraph presents the environmental impacts of the Delivery Options;

(i) Paragraph 10 – Impacts on Society: the welfare and social impacts of the Delivery Options relative to the Reference Case are presented in this paragraph;

---

92 In this context 'unconstrained' refers to forecasts of demand, revenue, and costs before the trimming and cutting processes are applied to identify which Services are run commercially, supported by the CAs, or are cut. These processes ensure that the West Midlands Bus Network operated remains financially sustainable for the Operators and the CAs. A full description of the modelling methodology is at paragraph 4 of this Economic Case

(j) Paragraph 11 – Impact on Public Accounts: this paragraph presents the relative costs of the Delivery Options on the Authority's budget and on wider public finances;

(k) Paragraph 12 – VfM Appraisal Outputs: this paragraph presents the outputs of the appraisal including the VfM appraisal of both the Delivery Options as a VfM Statement; and

(l) Paragraph 13 – Conclusions: the final paragraph considers the VfM Assessment together with how each Delivery Option delivers against the objectives outlined in the Strategic Case. This paragraph concludes whether there is an Economic Case for the Delivery Options and considers the other factors that will need to be reflected in the final decision of which Delivery Option to pursue.

Fulfilment of requirements of the Franchising Guidance

1.8 In producing this Economic Case, attention has been given to the requirements of the Franchising Guidance and the relevant sections of the HM Treasury's Green Book Guidance. Section 123B of the Transport Act requires authorities to consider, as part of their assessment for Franchising, whether the Franchising Scheme would represent VfM.

1.9 Table 2-1 below highlights how this Economic Case meets the Franchising Guidance for preparing an assessment under the Bus Services Act.

Table 2-1: Fulfilment of the requirements of the Franchising Guidance

Para	Content of Franchising Guidance	How the case meets this requirement
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.*	Paragraphs 8, 9 and 10 present the economic, environmental and societal impacts. The wider economic impacts are presented within paragraph 8.
1.46	*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*	The do minimum has been detailed in the Strategic Case Appendix. The continuation of the existing EP is assumed to be a reasonable Reference Case.

Para	Content of Franchising Guidance	How the case meets this requirement
	or changes to services that are likely to increase or decrease passenger journeys. The possibility of market entry or exit should also be considered.	
1.47	*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. 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.*	Paragraph 3 outlines the impacts of the Delivery Options on different groups in society, including those listed in the Franchising Guidance. Consideration is also given to SMOs in paragraph 3 as well as paragraph 8. The impact on neighbouring LAs is considered in paragraph 3.
1.48	*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.*	Overall impact on SMOs has been detailed in paragraph 8. Small Operators have been included within the modelling and assessment when data was provided.
1.49	*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.*	As stated previously, the impact on SMOs is described in paragraphs 3 and 8. Benefits and/or disbenefits to different user groups are described in paragraph 3, and monetised where applicable in paragraphs 8, 9 and 10.

Para	Content of Franchising Guidance	How the case meets this requirement
1.50	*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.*	The impact of transition is assessed within paragraph 3 with the mitigation actions referenced within this paragraph but detailed in the Management Case.
1.51	*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:* • *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);*	DIs are considered and described within paragraph 7. Impact on passengers is described qualitatively in paragraph 3 and monetised within paragraph 8.
	• *fare-box revenue – whether a gross cost or net cost franchising model is being proposed;*	Gross cost model, as described in the Strategic Case Appendix.
	• *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;*	BSOG has been considered as part of the overall operating cost outlined in paragraph 5 (payments represented as a negative cost to Operators), therefore impacting the number of Services afforded under each Delivery Option.

Para	Content of Franchising Guidance	How the case meets this requirement
	• *operating costs – such as costs for leasing assets, staff, training, marketing and branding for example;*	Operating costs are outlined and assessed in paragraph 11.
	• *capital costs – such as investments in depots or buses for example;*	Capital costs and the impact of these costs are described in paragraph 2.
	• *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;*	Administration costs for all options are outlined in paragraph 5.
	• *implementation costs – including additional staff required, for authorities, operators and elsewhere in the system, or expert advice to put the scheme into practice;*	Implementation costs for additional staff to support the tendering and implementation have been outlined in paragraph 5.
	• *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;*	The impact on operating margin is first outlined in paragraph 2. How operating margin affects the modelling and assessment is described in paragraphs 4 and 5. Operating margin has been considered by Franchising zone, and during the transition period.
	• *environmental impacts – such as changes in air quality due to changes in congestion or service levels.*	Environmental impacts are described in paragraph 9.
1.52	*With respect to enhanced partnership proposals in particular, the authority or authorities should ensure that it has considered:*	Transition and implementation costs are outlined in paragraph 3 with administration costs further detailed in paragraph 5. Administration costs have been discussed in

Para	Content of Franchising Guidance	How the case meets this requirement
	• *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*	detail with Operators and included where appropriate.
	• *ongoing management costs for the authority or authorities and for local bus operators.*	The ongoing management costs have been detailed in paragraph 5.
1.53	*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.*	The scale of impacts has been described qualitatively in paragraph 3 and have also been monetised in paragraphs 8, 9, 10 and 11.
1.54	*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.*	The key assumptions within this Assessment are set out in paragraphs 4 and 7.
1.55	*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*	The reasoning for the chosen appraisal period is clearly outlined in paragraph 7. The long-term sustainability of the Reference Case and the Delivery Options have been considered in paragraphs 4 and 5.

Para	Content of Franchising Guidance	How the case meets this requirement
	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	
1.56	*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.*	The NPV for the Reference Case and each Delivery Option is presented within paragraph 12. Results from the key sensitivity tests are also shown within this paragraph.

2 The Delivery Options

Introduction

2.1 This paragraph 2 introduces the Delivery Options for bus reform available to the Authority, as set out in the Strategic Case. This paragraph 2 discusses the variance between the two Delivery Options, including the Authority's influence over the West Midlands Bus Network and responsibility under each of the Delivery Options. Additionally, it outlines the efficiency and operational enhancements which can be potentially delivered under each of the Delivery Options.

The Delivery Options

2.2 As set out in paragraph 7 of the Strategic Case, the Delivery Options have been shortlisted and appraised. As set out in Bus Back Better, Government funding will only be available under an enhanced partnership or a Franchising Scheme. As a result, it was concluded that options such as VPA, SQP and AQPS are inappropriate mechanisms for bus reform for the West Midlands and were not further appraised.

2.3 The Delivery Options have been further analysed and assessed against the Reference Case. The Franchising Guidance requires the setting of a reasonable Reference Case, which both the Delivery Options can be assessed against. The continuation of the existing EP outlined in paragraph 7 of the Strategic Case has been assumed a reasonable Reference Case for this Assessment in which the Delivery Options can be appraised against.

2.4 The size of the West Midlands Bus Network will vary between Delivery Options in terms of number, frequency and routes of Services. For this Assessment, the Delivery Options differ whilst having the same Authority budget available. These differences in Delivery Options include difference in Operator margins that would be expected between Services and allocation of revenue risk. Additionally, the Authority has differing levels of control over the West Midlands Bus Network between Delivery Options.

2.5 The differences between Delivery Options result in different impacts on passengers and wider impacts on the Authority's Region, which is described in paragraph 3. A summary of the two Delivery Options is set out below.

The Future Partnership

2.6 The Future Partnership is based on the Reference Case albeit with several alterations.[93] The intention of the Future Partnership is to further increase collaboration between the Authority and the Operators, and to address barriers to entry/expansion for the Operators to ensure VfM by promoting competition, whilst maximising the benefit of Services for residents and passengers. The agreements negotiated with the Operators, under the Future Partnership, maximise what is possible under the Reference Case's legal framework. Under the Future Partnership, the Authority would still have limited control and influence over the West Midlands Bus Network. The Future Partnership includes a number of changes to the Reference Case including in the following areas:

(a) fares and ticketing; and

(b) depot arrangements.

Franchising

2.7 The Franchising Scheme provides full control of the West Midlands Bus Network to the Authority, with the Operators being required to enter into a tender process in order for the right to provide Services. Franchising would deliver the greatest level of control and flexibility for the Authority to define how Services are provided. Franchising comes with higher levels of risk, namely the exposure to varying potential levels of future patronage and hence revenue. This risk largely sits with the private sector in the Reference Case.

Summary of the Delivery Options

2.8 Both the Delivery Options are summarised below in Table 2-2, summarising the level of control and responsibility that the Authority has over key elements of the West Midlands Bus Network. There are a number of potential improvements/enhancements that would require specific funding streams to be secured in order to be implemented. Within this Assessment, no uncommitted funding has been included, and all options have been appraised with the same base budget availability so a fair comparison can be made.

93 Enhanced Partnership | Transport for West Midlands (tfwm.org.uk)

Table 2-2: Summary of the Reference Case and Delivery Options for the Authority

Area	The Reference Case	The Future Partnership	Franchising[94]
Operating Margin and profit sharing	Potential to share profit in the future to reinvest in the West Midlands Bus Network	Potential to share profit in the future to reinvest in the West Midlands Bus Network	Ability to reduce margin from transferring revenue risk away from the Operators
Fares and ticketing	Collaboration with the Operators but controlled by the Operators	Shared ownership with the Operators	Full control of Services under Franchise Contracts
Customer experience		Shared ownership with the Operators	Full control
Fleet vehicles	Owned by the Operators	Owned by the Operators	Full control and ownership
Depot ownership	Part ownership with lend lease agreements	Part ownership with lend lease agreements (more details shown below)	Full control and ownership
Network planning	Maximum frequency along corridors	Maximum frequency along corridors	Full control
Network enhancements	Shared responsibility with the Operators	Shared responsibility with the Operators	Full control
Bus priority[95]	Controlled by local highway authorities, often supported by the Authority	Controlled by local highway authorities, often supported by the Authority	Controlled by local highway authorities, often supported by the Authority

Interventions and Enhancements across the Delivery Options

2.9 The remainder of paragraph 2 introduces the effects of key interventions (shown above in Table 2-2) and enhancements that drive the main differences between the Delivery Options, based

94 Full control refers to the Authority having full power and ability to implement changes assuming the budget is available. In addition, under Franchising, the Operators will still be responsible for the day to day delivery of the service.

95 Relevant Local Highway Authorities have overall control of bus priority measures in the Authority's Region across all three options.

upon the strategic arguments outlined in paragraph 8 of the Strategic Case. The three strategic arguments on which the need for intervention is based upon are as follows:

(a) **Efficiency Case**: allowing the Authority to efficiently manage the West Midlands Bus Network on a day-to-day basis and deliver more Services for the same current level of public subsidy;

(b) **Operational Case**: enabling 'quick win' improvements for passengers, network efficiency improvements, changes to fares and ticketing, and improved fleet, without additional public sector funding; and

(c) **Visionary Case:** supporting the ability for reform to enable 'transformational' changes to the West Midlands Bus Network such as higher frequencies, new routes, and greater integration with rail and Metro. The 'Visionary Case' requires additional funding and political support and has therefore not been considered within this Assessment.

Efficiency Case

Operating Margins and Services Level

2.10 One of the key assumptions in the modelling and forecasting is the profit margin assumed for operating Services under the Franchising Scheme. The profit margin assumed in the Franchising Scheme, in which the Authority takes revenue risk for operating the Services, is lower than the profit margin assumed when Operators retain revenue risk in the Future Partnership and the Reference Case. In addition, the lack of competitive pressure within the current bus market in the Authority's Region may also cause the profit margin for the Operators in the Future Partnership and the Reference Case to be higher than in a more competitive environment. This is a key challenge in the bus market in the Authority's Region and has been described previously in more detail in paragraph 5 of the Strategic Case. Within the Franchising Scheme, it is assumed that Services under Franchise Contracts will have a margin of 7.5%. This figure is based upon a number of factors such as risk, level of competition, the Operator's wider portfolio and a reasonable reward balance. This assumption is also supported by an academic study by Cowie (2023) where it was concluded that the Operators in deregulated areas of the UK have been experiencing rising profitability compared to regulated markets (for example, London) are achieving 'normal economic profits'.[96] This evidence shows that Franchising margins are consistently lower than those in deregulated bus markets; a margin of 7.5% is a reasonable assumption based upon what is achieved elsewhere.

2.11 A direct result of the lower operating margins associated with the Franchising Scheme is the opportunity to provide additional Services within the same funding envelope. The cost of running these additional Services would otherwise be spent on higher margins for the current Operators. Therefore, under Franchising, a larger number of Services are able to be operated for the same budget resulting in higher benefits.

2.12 There are management and delivery costs incurred by the Authority in each of the Delivery Options that are incurred in the Reference Case. In comparison to the Reference Case, these costs are highest under Franchising, but the Future Partnership also has higher management

[96] Cowie, J (2023), Long run productivity and profitability in the British bus industry

costs than the Reference Case. This assumption is discussed in more detail in paragraph 4 and the rationale is included within the Financial Case.

Operational Case

Network Enhancements

2.13 A further difference between the Delivery Options appraised in this Assessment is how much the Authority can influence and secure network enhancements or improvements that benefit bus users. Within the Franchising Scheme, the Authority has full control and responsibility to specify and plan the network within which Services under Franchise Contracts are operated. Therefore, the Authority has the ability to eliminate the over-bussing or lack of integration between timetable issues which are outlined in paragraph 5 of the Strategic Case. Through the elimination of the oversupply of buses on some corridors and improved integration of Services, the Authority would make a number of cost savings while creating an uplift in demand.

2.14 The Franchising Scheme is the only Delivery Option that includes the impact of network enhancements that the Authority expect to deliver, with no additional budget required. These interventions are not included in the Reference Case or the Future Partnership.

2.15 The Franchising Scheme includes network efficiency improvements along multiple corridors where the Operators compete, causing an oversupply of buses with no timetable integration. These improvements will lead to a cost saving in the following corridors:

(a) Birmingham – Maypole (Service 50); and

(b) Sutton Coldfield – Birmingham (Services X3/X4/X5 and 110).

2.16 In addition, the following corridors have a number of competing Services operating the same or similar corridor with limited integration. Under Franchising, these corridors will be improved and reconfigured, resulting in cost savings and demand uplift due to improved integration:

(a) Birmingham – West Bromwich/Great Barr (Services 16/16A);

(b) Walsall – Mossley (Service 31);

(c) Walsall – Lower Farm (Service 32); and

(d) West Bromwich – Wednesbury (Service 40).

Fleets and Depots

2.17 The Commercial Case sets out more detail and the key assumptions regarding investment in bus fleets and depots for each of the Delivery Options.

2.18 The Authority would acquire new ZEBs as the older diesel/electric fleet are retired, and these vehicles would be made available to the Operators of the Services under Franchised Contracts. For the Future Partnership and the Reference Case, the Authority would continue to support the Operators with their transition to a ZEB fleet. Within this Assessment, there is no difference in the forecast size of the bus fleet under the Future Partnership or the Reference Case. In addition, the speed and funding of the transition to a ZEB fleet is the same so there is no net benefit for the Future Partnership as a result.

2.19 Within the Future Partnership, the Authority would purchase the Peartree depot and develop the site. In addition to this, the Authority would develop a number of depots including at sites in Coventry, Birmingham and Wolverhampton, with the expected acquisition expected to be in FY 2026/2027. There are additional costs associated with the managing and ownership of these depots which has been included with the forecasts. Overall, the cost of the Peartree depot and further developments at three other depots will cost the Authority £43 million (2023 prices). Further details are provided within the Financial Case.

2.20 Across the Reference Case and the Delivery Options, the Government is assumed to contribute 75% of the costs required for ZEB infrastructure through the equivalent of existing ZEBRA funding. Under Franchising, the additional costs are covered by the Authority. For both the Reference Case and the Future Partnership, it is assumed the remainder is contributed by the private sector Operators. Whilst the private sector Operators bear the cost of the additional cost of the transition to a ZEB fleet, this will impact the amount of the West Midlands Bus Network they are able to provide commercially. There is some uncertainty around the future of ZEBRA funding and if it will be available in the future. For this Assessment, it is assumed ZEBRA funding or equivalent will continue for the period of this Assessment. However, any reduction in ZEBRA funding or removal of ZEBRA funding will likely slow down the transition to a ZEB fleet in the West Midlands Bus Network under the Reference Case and the Delivery Options.

2.21 For the Franchising Scheme the Authority would acquire major depots within the Franchising zones and would make these available for Services under Franchise Contracts, thus reducing ongoing contractual payments for service. These depots would be used for the operation of the largest Lots within each Franchising zone. Smaller Lots may be operated from other depots owned or secured by the Operators. To ensure a successful transition towards a ZEB fleet, investment will be required for ZEB infrastructure at depots. For Franchising, this will be funded by the Authority through grants, where available, or through borrowing, to be repaid from the revenue received from the farebox. The depot purchase and development costs under the Franchising Scheme equate to £44.8 million (2023 prices). The total costs to fit-out the depots to accommodate the ZEB fleet is £70.6 million (2023 prices). Further details are provided in the Commercial Case. These costs would be partly recouped over time through reduced contractual costs.

Additional Interventions

2.22 If additional funding becomes available, there are a range of additional interventions that the Authority would be able to implement under the Delivery Options. However, as these interventions would require additional funding, any further intervention is uncertain and therefore the interventions have not been included in any of the Delivery Option forecasts.

3 Impact of the Delivery Options

Introduction

3.1 The anticipated impacts of the increased Services output, network enhancements and depot acquisitions described in paragraph 2, are set out in this paragraph 3. This paragraph 3 describes the impacts of these interventions on different groups of society as required by the Franchising Guidance set out in paragraph 1. Other impacts of the Delivery Options which are not quantitively included in the model and appraisal are also discussed within this paragraph 3.

This paragraph 3 also outlines which Delivery Options can support delivery of the West Midlands BSIP. The BSIPs four main objectives are as follows[97]:

(a) More sustainable and attractive service offer, including to motorists;

(b) Consistent good delivery of the service offer;

(c) Ensuring a good passenger experience for all; and

(d) Reducing impacts on environment.

3.2 This paragraph 3 concludes with discussion about the potential impacts during the transition stage of both Delivery Options.

3.3 When referring to impacts of the Delivery Options, they are in comparison and relative to the Reference Case in order to assess the Delivery Options. An example, as shown below, is where Franchising provides an increase in service level compared to the Reference Case. As with the other options, Franchising presents a scenario where bus demand is continuing to fall (compared to the present day), but with Franchising this decline is slower than under the Reference Case, as illustrated in paragraph 6.

Impact of Interventions

Impact on Passengers

3.4 The impact of any network enhancements achieved through an increased Services output and more balanced distribution of resources under the Franchising Scheme (compared to the Reference Case) would benefit existing passengers by providing a more integrated West Midlands Bus Network, reducing journey times and introducing new routes. This is one of the more significant impacts of the Franchising Scheme and the scale of the impact on passengers is monetised in the Economic appraisal and discussed further in paragraph 4. A better integrated West Midlands Bus Network is a key output for the Authority to retain and attract new passengers and to achieve their BSIP objective of a 'More sustainable and attractive service offer'.

3.5 Both Delivery Options will attract new passengers compared to the Reference Case because of fares and ticketing enhancements and greater Services output. Greater Services output and fares and ticketing enhancements compared to the Reference Case will impact existing passengers, by providing improved interchange opportunities between bus and other public transport models largely through coordination of timetables, and offering ticketing initiatives can also ensure passengers receive the best value for multiple modal trips.

3.6 The Franchising Scheme will attract more new passengers to the West Midlands Bus Network than the Future Partnership, partly due to the greater level of Services retained. The majority of new trips will shift from private vehicle users, whilst a small minority of new users will come from other modes including active travel users and rail passengers. The number of new bus users is modelled and forecast for the appraisal through an elasticity-based approach, which is detailed in paragraph 4.

---

97 Transport for the West Midlands. Bus Service Improvement Plan 2024

Fares and Ticketing

3.7 Both Delivery Options involve changes to fares and ticketing which will benefit existing bus users and potentially attract new users compared to the Reference Case. Under Franchising, the Authority would take full control of bus fares and ticketing in the Authority's Region. As part of the Future Partnership, it has been negotiated with the Operators that a new entity would be created with the purpose of increasing nBus ticket sales, this entity would have stakeholders from the Authority and the Operators to ensure collaboration.[98]

3.8 The changes to fares and ticketing outlined supports the first BSIP objective by providing a more simplified and attractive ticketing offer. Through Franchising, it is likely that there are more benefits for this to be realised than under the Future Partnership, as there is little need for negotiation with the Operators and the Authority has full discretion of what ticketing structure and fares to introduce. The impacts of these changes have been estimated and appraised within this Economic Case, with the methodology to forecast the impact detailed in paragraph 4.

Improved Customer Experience

3.9 As identified in paragraph 5 of the Strategic Case, the Authority ranks in the bottom three out of English authorities in regard to passenger satisfaction on Services. Improvements through fares, ticketing, and balancing the distribution of resources as set out above, can support the ambition of the Authority. In addition, the key objective identified by the Authority in its BSIP is 'Ensuring a good passenger experience for all' across the Authority's Region. To achieve this, an array of improvement and initiatives would most likely be required, such as improved customer information and infrastructure, increasing passenger safety and providing a better customer experience.

3.10 Delivering this objective is most likely to be achieved through Franchising, as a result of the West Midlands Bus Network being under full control of the Authority. Delivering this objective of the BSIP under the Future Partnership would require continuous negotiation with the Operators for any customer experience improvements to be offered. Due to the uncertainty of which customer experience improvements would be delivered under each Delivery Option, customer experience benefits have not been quantified within this Assessment. However, it is reasonable to assume that passengers would benefit from an improved customer experience offer among both Delivery Options.

More Reliable Services

3.11 Under Franchising, the implementation of bus priority measures becomes more likely due to the realignment of costs and benefits. The implementation of bus priority measures will create more punctual and reliable Services to the benefit of passengers. In addition, ticketing reforms (for example, working to increase the use of contactless ticketing) and simplification of the fares offered across the Authority's Region may support quicker boarding of passengers and reduce delays at bus stops, further improving journey times and journey reliability. Similarly to network improvements, more reliable Services will help generate bus patronage, reducing the negative external impacts associated with travel and benefit the economy. The scale of these benefits will be proportionate to the journey time improvements perceived by passengers.

---

98 Details on the nBus ticket is provided in paragraph 2 of the Strategic Case

3.12 Under Franchising, the Authority, working in partnership with local highway authority partners, would have control over the specification of bus priority measures, including their alignment with Services themselves. The public sector itself will benefit from any additional revenue generated because of increased reliability, offering further incentives to introduce reliability and punctuality measures.

3.13 For the Future Partnership, the Authority would continue to negotiate with the Operators to align bus priority improvements with Services to ensure the maximum benefit is realised. Operators also have an incentive to provide reliable Services, as improved reliability will increase revenue (modal shift from passengers from other modes). Additionally, incentive payments may be received from the Authority for improvements in reliability.

3.14 Both Delivery Options and the Reference Case can support LAs with the implementation of bus priority measures if funding is available. However, given Franchising better enables alignment of bus priority improvements, the BSIP objective *'Consistent good delivery of the service offer'* is likely to be achieved and delivered faster under Franchising (as opposed to the Future Partnership and the Reference Case), although this will be largely dependent on the level of funding available. Under Franchising, the Authority and the LAs could work together on planning Services and bus priority in a single-system approach. Alternatively, whilst objectives can be aligned through a partnership, Operators may not always use the interventions provided or may not invest any savings in wider improvements for passengers.

3.15 Under the Delivery Options, there is likely to be a slight net benefit to passengers. Any improvements are likely to be immaterial in relation to the economic benefit to the West Midlands Bus Network which is reported in this Assessment. Individual priority measures will significantly impact the locality close to where the priority measure has been implemented, however it is unlikely to significantly benefit the whole of the West Midlands Bus Network. It is therefore not appropriate to estimate and monetise this impact and only a qualitative assessment has been carried out for the purposes of this Assessment.

Neighbouring Authorities

3.16 As detailed in paragraph 7 of the Strategic Case, the Delivery Options are likely to have an impact on bus users in the neighbouring areas especially those users that regularly cross boundaries into the Authority's Region. A number of workshops have taken place with neighbouring authorities in order to maximise the benefit of the Delivery Options on users. Overall, it is expected that both Delivery Options will have positive impact to passenger experience and improve quality of service available. In addition, any minor negative impacts the Authority will seek to mitigate through continued engagement with neighbouring authorities.

Environmental and Social Impacts

Modal Shift

3.17 The change in level of Services provided in the Delivery Options relative to the Reference Case, and the resulting change in patronage, will result in modal shift from private vehicles to local Services. The scale of this impact for each Delivery Option is shown in paragraphs 8 and 9. This modal shift will reduce the overall environmental and social impacts associated with travel that affect the wider population in the Authority's Region and beyond. Greenhouse gas emissions, particulate emissions (air quality impacts), levels of congestion and accident rates will all decrease with modal shift to bus away from private car usage. This change is captured in the appraisal of each Delivery Option through the use of DfT's MEC approach.

3.18 In addition, modal shift to bus from active travel modes or other public transport modes from a social and environmental perspective is unlikely to result in material net disbenefits. In many cases, changes in the Services offered would alter the type of destinations that passengers access, in addition to the choice of mode. Recent work for the Authority suggests there is a quantifiable health benefit overall from each bus trip compared to the overall choice of alternatives including car, resulting from increased time spent walking to and from bus stops. A qualitative assessment has been carried out to determine the volume of benefit to physical activity for each Delivery Option.

Transition to a ZEB Fleet

3.19 'Reducing Environmental Impact' of the West Midlands Bus Network is a key objective in the BSIP, and an efficient roll out of ZEBs is vital to meeting this target. Emissions from buses will be reduced across all Delivery Options, including the Reference Case, as old vehicles will be replaced by new lower-emission vehicles over time.

3.20 For the Reference Case and the Future Partnership, this will be dependent on agreement with the Operators. Under Franchising, the Authority would have full control of the vehicle fleet and will be able to closely manage the introduction of the new vehicles, which will allow better realisation of the benefit of reduced bus emissions and improve the efficiency of the transition.

3.21 There is a high cost associated with the transition to lower emission bus vehicles, in particular ZEBs, and, without intervention, there is a risk that this cost premium may slow down such a transition. For the Future Partnership and the Reference Case, it is assumed that the Operators would buy and own the vehicles. For Franchising, the Authority would purchase the vehicles and lease them to the Operators. For the purpose of this Assessment, it is assumed that ZEBs are introduced at the same rate across the Reference Case and the Delivery Options.

3.22 Some benefits of ZEB introduction can be captured and assessed through the DfT's MEC approach. This approach captures the net benefit of more Services and more bus journeys being on ZEBs under the Delivery Options.

3.23 Through Franchising, the Authority would be able to deploy ZEBs in areas of poorer air quality first, to realise the highest benefit due to the Authority having full control of the roll out of the ZEB fleet. In comparison, under the Reference Case and the Future Partnership, the roll out of the ZEB fleet will be heavily influenced by commercial priorities. Although agreements between the Authority and the Operators could exist to ensure the deployment of ZEBs to the areas with poorest air quality, this involves a large amount of uncertainty.

3.24 For this Assessment it is important to note that a targeted roll out of ZEBs is possible under the Reference Case and the Delivery Options. Differences in the pace of transition to ZEBs between areas will have limited impact on the overall benefits for each Delivery Option. For these reasons, no benefits resulting from targeted rollout of ZEBs have been included within this Assessment.

3.25 Under the Franchising Scheme, the cost of purchasing the ZEB fleet is significant and has been included within this Assessment under the proviso that the costs will be funded through a mix of grant funding and borrowing paid for through the farebox. The modelling framework reflects the benefits and other impacts of ZEBs, as well as the cost. The budget implications of transitioning to ZEBs are also included within the Franchising Scheme.

Impact on the Operators

3.26 A key impact of the Franchising Scheme, as described in paragraph 2, is the impact on the Operators. Compared to the Reference Case and the Future Partnership, the Operators would no longer be responsible for deciding the West Midlands Bus Network. Pooling of resources (likely via TUPE) would reduce overheads for the Operators, and this should be reflected in the bidding process. Additionally, the elimination of wasteful competition on the West Midlands Bus Network would allow new Services and/or route changes to be carried out with no additional funding.

3.27 The difference in service level between the Future Partnership and the Reference Case is smaller than in the Franchising Scheme, with a number of small interventions resulting in modest changes to the commerciality of Services. These changes in turn affect the pace at which Services transfer into the supported network.

3.28 Under the Reference Case and the Delivery Options, there is a possibility that Operators may exit the market through necessity or choice, or because of not securing any Franchise Contracts. In addition, the new Operators could join the market to deliver Services in the Authority's Region. This is most likely under Franchising, but is theoretically possible under the Reference Case and the Delivery Options.

3.29 As the current market is largely dominated by one Operator, the Franchising of Lots gives an opportunity for smaller Operators to enter the market, where previously they may not have been able to gain a foothold in the market due to the monopolistic market conditions. The design of the lotting strategy allows for a number of 'small Lot' Franchise Contracts for every 'large Lot'. The smaller Lots are designed to be competitive to small and medium sized Operators due to the lower vehicle requirements. More detail on the lotting strategy is provided in the Strategic Case Appendix.

3.30 Furthermore, as set out above, under Franchising the Operators will no longer have to invest directly for new vehicles/depots and infrastructure improvements for the larger Lots in each Franchising zone. For smaller Lots within each Franchising zone, the Operators will still invest in the depots, but the vehicles and infrastructure will be funded by the Authority. Under the Reference Case and the Future Partnership, the Operators will continue to invest in fleet and depots as they are currently, noting that the Future Partnership would see the Authority also purchasing some strategic depots for Supported Services to operate from.

WEI

3.31 The interventions previously described in paragraph 2 resulting in an increased Services level and increased accessibility to the West Midlands Bus Network for both Delivery Options will benefit the economies of the West Midlands and the UK. Both will benefit from a wider range of WEI.

3.32 Reducing time costs for passengers (and in particular business passengers) can generate improvements in productivity, most of which are captured through conventional time-saving benefits. However, when there are spillovers to third parties that are not fully internalised in the time costs perceived by businesses or users of the West Midlands Bus Network, then there can be WEI driven by agglomeration benefits.

3.33 Agglomeration benefits occur when people and jobs are effectively 'brought closer' together through better transport links, resulting in increased participation in the workforce. A larger workforce means there is better matching between jobs and the people with the most appropriate skills who will be relatively more productive and therefore increase economic output. WEI also comes from the better matching of labour supply and demand resulting in increased productivity. Finally, a small proportion of benefits all come from transport interventions enabling new businesses to be able to sell into or out of the West Midlands. In both cases, most of the benefits are captured through the conventional time-saving benefits but some distortions cause the benefit to not be fully captured. The resulting WEI from each Delivery Option are discussed in paragraph 8.

Impact of Transition

Franchising

3.34 Transitioning from the Reference Case to Franchising risks the Operators ceasing to run commercial Services prior to or during transition stages. The loss of these commercial Services would cause severe short-term disbenefits to bus users as well as social and economic impacts to the Authority's Region. This risk could be mitigated through short-term agreements and contracts with the other Operators; however, this is likely to come at a significantly increased cost to provision due to a lack of competition and reduced efficiency. This risk is most likely to be realised if the sequence in which Services under a Franchising Scheme causes non-franchised Services to become commercially unviable, in which case the Operators could stop running the Services. This risk is most complex for NX, as the largest Operator in the Authority's Region.[99] The risk of cessation of commercial Services by NX and others has been considered during the development of the Franchising Scheme so that this risk may be mitigated as much as possible.

3.35 If the Operators feel obliged to end operation of some Services, (i.e. those where the commercial viability is particularly marginal), this would be done on a 'route by route' basis and would therefore be similar to the current 'business-as-usual' situation which happens if an Operator deems a route unviable commercially. The Authority would assess the loss of the service against its minimum access standards and decide whether to intervene and run the route as a Supported Service, at a cost to the Authority's budget. The Authority would most likely provide funding to support Services where minimum access standards were not met, as the loss of the service would be unacceptable, although this would be done on a 'route by route' basis. However, growing calls on the Authority's budget from other areas may limit the level of funding allocated towards running these Supported Services.

3.36 The Authority would not be passive in its approach to managing these risks to ensure the continuous running of the Services. This approach is discussed further in the Management Case alongside details of the contingency budget set aside for this. Assuming the transition to Franchising is done efficiently and effectively, the majority of commercial Services would be able to continue without an impact on passengers. Existing Supported Services and new Supported Services identified through the tendering procedures would continue to be operated as long as the funding is available. £5 million has been allocated for the costs of tendering additional Services during this transition. As the costs would be required for the period prior to the Franchise Contracts starting, the costs are considered to be minimal and manageable and therefore do not impact the case for Franchising, and the impact on the Authority or passengers has not been appraised within this Assessment.

---

99 Services operated by NX accounted for 94% of bus patronage in 2023

The Future Partnership

3.37 The Future Partnership has been developed with collaboration and input from the large Operators, which mitigates the transition risk that the Operators may withdraw or terminate Services. The impact of transition to the Future Partnership from the Reference Case was considered to be marginal and therefore not included within the appraisal.

Risk of Delivery Options

3.38 Alongside the risk of transitioning to one of the Delivery Options previously described above, there are number of further risks in relation to:

(a) Procurement;

(b) Operating;

(c) Implementation; and

(d) Revenue.

3.39 These risks and the Authority's approach to mitigating them have been set out in detail in paragraph 6 of the Management Case.

Summary

3.40 As this paragraph 3 has shown, in comparison between the two Delivery Options, Franchising would enable the greatest level of intervention in Services and has the potential to deliver the largest benefit to passengers and residents as well as in relation to the objectives set out in the Strategic Case and the BSIP. For both Delivery Options to be appraised, the benefits associated with each must be weighed against costs of intervention, risks, and wider affordability and deliverability issues.

3.41 This Assessment and the remaining paragraphs within this Economic Case establish that the benefits for both Delivery Options are greater than the costs and the VfM of each will be discussed with a summary provided in paragraph 13.

4 Forecasting Approach

Introduction

4.1 This paragraph 4 presents the forecasting approach for demand, revenue and costs and how they differ across the Delivery Options. For this appraisal to be robust, it is vital that the forecasts developed for these three aspects of bus operations are appropriately detailed and reliable. The forecasts generated within this Economic Case underpin the financial and commercial analysis described elsewhere in this Assessment.

The Current State of the West Midlands Bus Network and Main Economic Drivers

4.2 As evidenced throughout the Strategic Case, the commerciality of the West Midlands Bus Network is reducing due to multiple external and internal factors. The cost of operating Services must be balanced by the incoming funds, in the form of farebox revenue or public sector subsidy for Services to remain operational.

4.3 This affordability equilibrium of Services is not isolated to individual routes, or even the Operators, but encompasses the whole of the West Midlands Bus Network as a system. Six conditions impact the equilibrium of the West Midlands Bus Network system:

(a) social and economic factors, as well as effects from the wider transport network which influence demand (exogenous demand drivers);

(b) wider macro-economic and supply chain conditions as well as local operating environment (for example network congestion) affecting the cost base (exogenous cost drivers);

(c) the legal and regulatory system under which buses are operated;

(d) strategic choices about Services directed by the Operators and/or the Authority (as relevant) on fares, ticketing, routeing and timetables (endogenous demand and cost drivers);

(e) the public funding available for subsidising Services; and

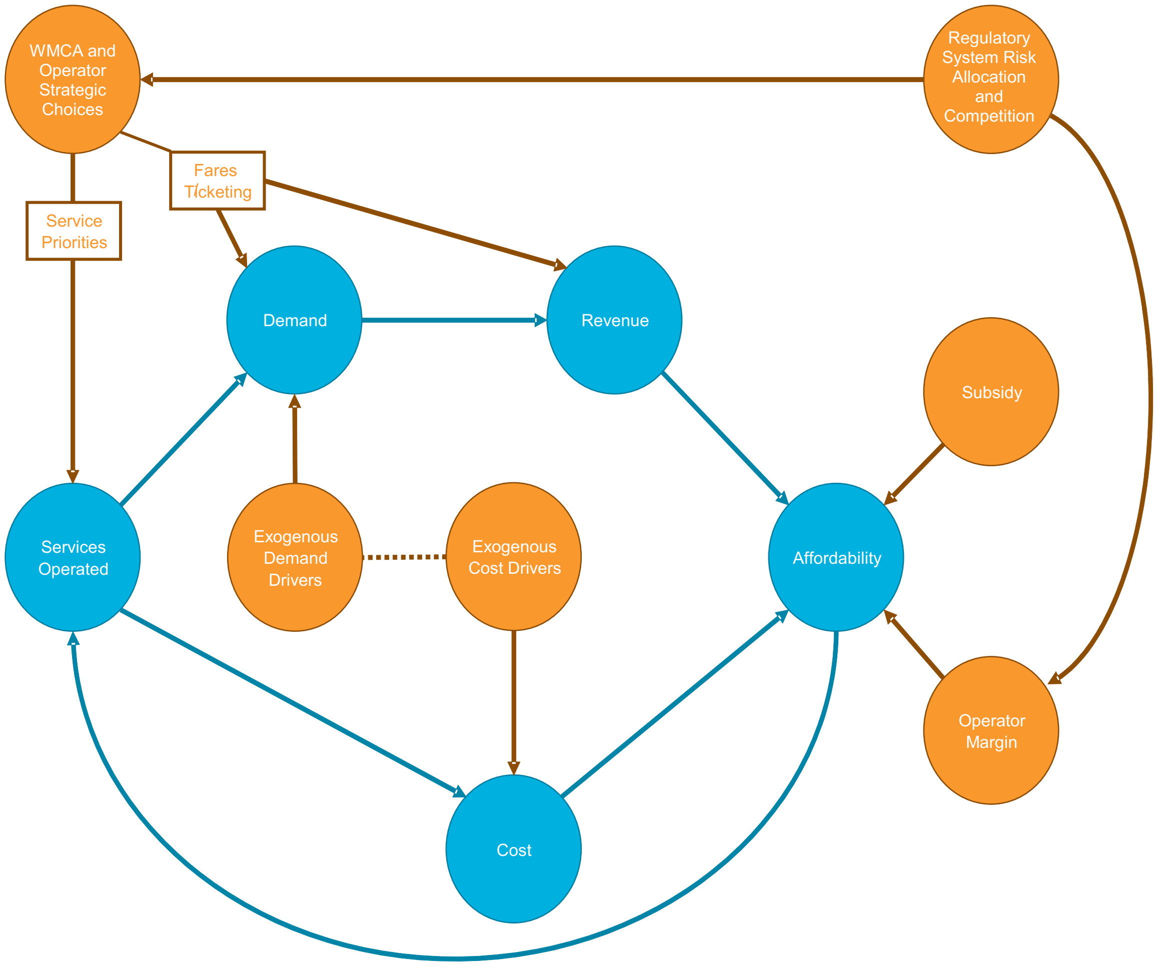
(f) the Operator profit margin to make running Services commercially attractive.

4.4 The exogenous drivers of demand set the potential for bus use in the Authority's Region. However, the actual demand that can be reached depends on the Services operated. The choice of which Services to operate depends on the overall affordability of the West Midlands Bus Network.

4.5 The Authority is able to change the point of the equilibrium through strategic decisions, either directly by prioritising which Services to operate, subsidies/grants or through fares and ticketing which have an impact on demand and revenue. The degree to which the Authority can influence these decisions is dependent on the regulatory system under which Services operate, which has been shown previously in Table 2-2. Under the Reference Case and the Future Partnership, the Authority's control is limited. Under the Franchising Scheme, the Authority would have full control over most elements of the West Midlands Bus Network and Services.

4.6 As set out in paragraph 2, the level of operating margin required depends on the risks that the Operators are exposed to under each regulatory system and are influenced by the level of competition in the market. These interactions are summarised in Figure 2-1 below.

Figure 2-1: System Diagram of the West Midlands Bus Network



4.7 As presented in paragraph 5 of the Strategic Case, the West Midlands Bus Network has been experiencing declining patronage for more than 50 years. Between 1974 and 2020, bus boardings dropped by 54%. This decline was compounded by the Covid-19 Pandemic and patronage is still struggling to recover to pre-Covid-19 levels. The resultant fall in revenue has made parts of the West Midlands Bus Network unaffordable for the Operators which, without continued public sector subsidy, would have led to Service cuts. On the assumption that there will be no additional budget available to subsidise Services, and on the basis that the reduction in patronage has been over a long period, it is reasonable to expect that, without a significant increase in bus funding, the trend of patronage decline will continue. The approach to forecasting, described in the remainder of this paragraph 4, has therefore been developed in this context.

The Forecasting Approach

Overview

4.8 In the context of the current broadly deregulated system, Services are either operated commercially or are Supported Services.[100] As demand, revenue and costs change, there will be a different equilibrium between Services operated commercially, Supported Services, and

---

100 There are some Services which are partially supported where only particular days or periods are operated on a supported basis

Services becoming viable/unviable given the funding envelope. The modelling approach seeks to establish what the equilibrium point is in any given year as the conditions above vary under different futures.

4.9 Under the current regulatory system, where Supported Services cannot directly compete with commercial Services, the decision to transfer commercial mileage to supported mileage follows a two-stage process:

(a) the Operators decide which of their existing Services they can continue to run on a commercial basis – either through '**trimming'** parts of routes which are not commercially viable such as unprofitable days or time periods or dropping whole Services from the West Midlands Bus Network; and

(b) the Authority decides which Services it will support based on the gaps in the West Midlands Bus Network and its available budget – '**cutting'** routes which are not affordable.

4.10 The modelling framework has been designed to reflect the situation described above – first looking at the overall income against the cost and determining the margin by service, then modelling the processes of trimming or dropping routes (decisions taken by the Operators) and cutting (decisions taken by the Authority based on the available budget for Supported Services).

4.11 This process is repeated for each modelled year and can be summarised in three key stages, which are discussed in more detail below:

(a) forecasting of 'unconstrained' demand, revenue and cost;

(b) portfolio assessment of all Services to determine which Services and periods would be commercially operated and which will be trimmed or dropped from the West Midlands Bus Network; and

(c) an assessment of which Supported Services can be supported and which will be cut, based on the available budget.

Unconstrained Demand, Revenue and Cost Forecasts

4.12 The model uses historic demand, revenue and cost data provided by the Operators and the Authority. The data is disaggregated by Services and was provided for FY 2022/2023.

4.13 During this period, the Operators received grant funding to account for revenue lost due to Covid-19, and some special event and school Services. These included Covid-19 BSOG, Network Stability Fund and Network Planning Fund payments. The revenue data provided was modified to reflect this, using payment information provided by the Authority.

4.14 Cross-boundary Services are removed from the Operator data and not subject to the trimming and cutting processes described below. They would be managed through a Service Permit Regime as necessary, in a coordinated approach between the Authority and the other LAs involved.

4.15 The 'unconstrained' projections use the FY 2022/2023 data as a base year and the modelling pivots of the network operated at that point in time. Whilst this may not capture some of the subsequent changes to routes and Services, it provides a reasonable approximation of the demand, revenue and costs associated with the Services. The forecasting models cover a 25-year period through to FY 2046/2047.

4.16 An elasticity model is used to forecast future demand, which is unconstrained, in this context meaning the forecast is made before the trimming and cutting processes are applied. This reflects the demand potential of the FY 2022/2023 West Midlands Bus Network in response to projected future changes to the key economic and social factors affecting bus use.

4.17 In FY 2022/2023, residual effects of the Covid-19 Pandemic continued to impact bus patronage, which recovered a further 10% in FY 2023/2024 to approximately 90% of pre-Covid-19 levels. A corresponding uplift was applied to the demand forecast in FY 2023/2024 to reflect this recovery.

4.18 As the exogenous drivers (outlined earlier in this paragraph 4) are independent of decisions made about Services under any regulatory system, the same exogenous forecasts underpin the Delivery Options.

4.19 Capped Fares are reflected in the forecasts with the West Midlands scheme having been guaranteed until January 2025. On the end of the arrangement, fares are assumed to increase to £2.70.

4.20 Under the Reference Case, the operation of Services is assumed to continue with the status quo; without strategic changes to Services, the continuation of the current ticketing structure and fares remaining constant in RPI real terms.[101] This was considered a prudent central assumption whilst fares historically have been kept low in the Authority's Region, and there are BSIP targets to reduce average fares per kilometre in real terms, fares in recent years have grown slightly faster than inflation.

4.21 No explicit endogenous changes are applied in the modelling. Revenue is treated as a function of demand, calculated by applying derived yield values per journey to the demand forecasts. As fares remain constant in real terms, yield is also assumed to be constant within the model.

4.22 Once the demand potential based on operating the 2022/23 network has been established along with corresponding revenue and cost forecasts, the affordability equilibrium assessment of the West Midlands Bus Network is conducted in the trimming and cutting stages.

Trimming

4.23 Each Operator will decide which Services to operate commercially based on the profit margin across its portfolio,[102] or, in the case of larger Operators, possibly the portfolio of each depot, with a target margin that needs to be achieved. Individual Services may make margins above or below this target, and in some instances may even seemingly be loss-making, however on aggregate, the Operators aim to achieve or exceed the required margin and take corrective action when they do not.

4.24 Managing Services as a portfolio is commercially advantageous to the Operators as it allows them to maximise the Services they run and use of their assets, supporting higher levels of

---

101 All modelling has been conducted in RPI real terms. Therefore, an inflationary (RPI) increase in fares will elicit no change in demand

102 As ENCTS payments are negotiated separately by each Operator, the effective yield generated will vary. The base year yield remains associated with each route

demand across the West Midlands Bus Network including by operating some Services on a marginal cost basis.

4.25 Where the desired margin is not being achieved due to a fall in revenue or increase in costs, an Operator will seek to trim underperforming parts of its portfolio generating the least profit or the biggest loss. An Operator may decide to stop operating an entire service or reduce the level of service on an existing route. Changes to Services will typically entail not operating during certain days or time periods but could also include route changes or reductions in frequency. Conversely, where the margin exceeds target, an Operator may decide to introduce new routes or enhance the level of Services on existing routes.

4.26 In the modelling, a single assessment is conducted for all Services collectively for each Franchising zone,[103] rather than separate assessments for each Operator's portfolio. This is reflective of how a service's commercial viability is based not only on the current Operators required margin but that of other Operators who may not adopt the same margin as a measure of commercial viability. It is assumed that the average margin percentage underpins the commercial viability of the Operators' businesses and therefore would remain broadly constant going forward.

4.27 For each forecast year, the portfolio of Services is assessed to establish which Services will be commercially operated, based on the income generated by these Services, the cost, and the Operators' required profit margin, which varies by Franchising zone as seen in the data they provided. The model assesses whole Services and where appropriate, individual periods but does not consider the other ways in which the Operators may reduce or trim Services, for example reduced frequency or the length of a service, which are assumed can have less significant impacts than cuts to whole Services.

4.28 The income stream for commercial Services comprises farebox revenue, the payments that the Operators receive from the Authority for carrying passengers who receive free concessionary travel under ENCTS, and, for the base year only, BSOG received by the Operators from DfT.

4.29 The Authority receives funding for ENCTS through the Transport Levy from its constituent LAs, which is allocated in the model to commercial Services based on:

(a) The ENCTS demand, forecast from Operator base year data, carried on the Services and periods determined to be commercial; and

(b) The effective FY 2022/2023 yield, by Operator, per ENCTS trip derived from Operator base year data, assumed to remain constant in real terms.[104]

Cutting

4.30 Once the commercial Services and periods have been determined, the model assesses which of the remaining Services and periods can be supported and those to be cut from the West Midlands Bus Network. What can be supported is based on the net cost of the Services and periods in scope and the budget remaining available for Supported Services Contracts.

---

103 See the Commercial Case: Lotting Strategy

104 The revenue on which margin is based includes public sector funding for ENCTS

4.31 The net cost of each Service and period to the Authority will include the margin applied to the gross operating cost by the Operator less any farebox revenue generated. As with the commercial margin, the modelling uses a single average margin value across all Services in each zone as it is not reasonably possible to capture how this might vary on a service-by-service basis. As discussed elsewhere, the average margin assumed for Supported Services is assumed to be 7.5%,[105] in comparison to commercial Services which average between 6-7% for the Authority's Region (but vary by zone). This current margin is atypical due to the impact of Covid-19, where the Operators suffered significant loss in farebox revenue due to a dramatic fall in patronage as shown in paragraph 5 of the Strategic Case.

4.32 In the Reference Case, a year-on-year increase of 0.4% in the cost of Supported Services is assumed over the first 10 years. This expected increase is due in part to an increase in the margin sought by the Operators for Supported Services due to the impacts of limited competition. This could make it viable for a cross-boundary Operator to compete to run the service at a higher cost base but slightly lower margin, increasing the Supported Service cost to the Authority.

4.33 In the Future Partnership, this growth is assumed until implementation date, where depot purchase is assumed to facilitate competition and reduce the cost base of running the Supported Service.

4.34 The annual budget for Supported Services is modelled as the bus subsidy budget, derived from the broad bus budget, less any ENCTS payments to the Operators.

4.35 The decision of which Services to support is modelled as being based on the relative net cost per passenger alone, with a separate budget for each Franchising zone used in the cutting process. As other metrics to this decision are secondary to cost, this is judged to provide a reasonable approximation of the outcome at a network level.

4.36 There is an interdependency between the commercial and Supported Service assessment. This is a result of the feedback effect occurring due to a proportion of the demand from cut Services being reabsorbed by the West Midlands Bus Network. This effectively increases revenue on remaining Services, which can enable more Services to be commercially operated and more Services to be supported.

4.37 Where an Operator has to reduce commercial Services one of three things may happen:

(a) another Operator may step in if it has a lower cost base for that Service or can generate more revenue;

(b) the Authority may step in, providing direct subsidy, and contract the running of the service or period to the Operators on a supported basis; and

(c) the Service or period is cut from the West Midlands Bus Network, with alternative ways of providing any essential connectivity which is lost being investigated.

---

105 Relatively little data is available which shows what margin the Operators are making in West Midlands on Supported Services, in part connected with the majority of Supported Services being let as net cost contracts. The assumed margin of 7.5% is consistent with the assumed margin on Franchise Contracts (explained elsewhere in this document) having the advantage of reducing the potential for unintended distortions affecting the results. Sensitivity testing of alternative margin assumptions has been carried out is reported later in this Economic Case

4.38 In principle, the Authority will seek to maintain as much of the West Midlands Bus Network as possible through running Supported Services Contracts. However, its ability to do this depends on the budget it has available and the cost of operating Supported Services. Where costs exceed budget, in line with its powers the Authority will consider which Services it can support, and Services or periods will either be cut from the West Midlands Bus Network or reconfigured.

4.39 The lotting strategy element of the Commercial Case sets out nine Franchising zones into which Services in the Authority's Region are divided as part of the Franchising Scheme. When each zone is let the Services within each zone would then be split into a series of Lots, with the Services in each Lot being let as a single Franchise Contract. For the purposes of this Assessment the budget used for the 'trimming' and 'cutting' processes described above has been divided between the zones on a per capita basis.

4.40 This ensures that the unavoidable cutting of Services is balanced across the Franchising zones so, for example, those cuts are not concentrated within the zone where bus operation is least profitable. To ensure any excess budget is redistributed to other Lots, the model applies the cutting in order of commercial profit starting with the most profitable area first, transferring any remaining or surplus funding downwards across the zones.

4.41 The funding for contracting Services will be taken from the Authority's broad bus budget. This also covers bus administrative costs and the reimbursement to the Operators for ENCTS on commercial Services. Further detail on the budget used for the Reference Case and the two Delivery Options can be found in the Financial Case.

4.42 How the budget is balanced in practice is more complex. In part because the amount paid to each Operator for ENCTS is not fixed in absolute or pro-rata terms but determined by periodic negotiations, and because administrative costs will change in response to wider budgetary pressures.

The Forecasting Approach across the Delivery Options

Reference Case

4.43 The appraisal of the Delivery Options considers the net benefits and costs against the Reference Case. A reasonable Reference Case needs to establish what changes would occur to the bus market under business-as-usual conditions including any enhancements committed to, or highly like, on the part of the Authority or the Operators. The Reference Case should not include any of the West Midlands Bus Network enhancements that are assumed to be included and delivered as part of either Delivery Option.

4.44 Under the current regulatory context, most Services within the West Midlands Bus Network are run by commercial Operators who have control over when and what Services they run. Services will be affected by the underlying exogenous impacts on bus travel because of macro social and economic changes in the Authority's Region; and, in the Reference Case, by any endogenous effects because of changes to Services or fares made by the Operators, for commercial Services, or the Authority, for Supported Services.

4.45 A future of ongoing decline in bus revenue would result in commercial Services being trimmed or reduced as they become financially unviable for the Operators. Unless the Authority introduces additional Supported Services (at increased cost) to cover the reduction in commercial Services, the West Midlands Bus Network will contract, resulting in disbenefits to passengers. The Reference Case, therefore, does not align with the objectives of bus reform which are set out in paragraph 6 of the Strategic Case.

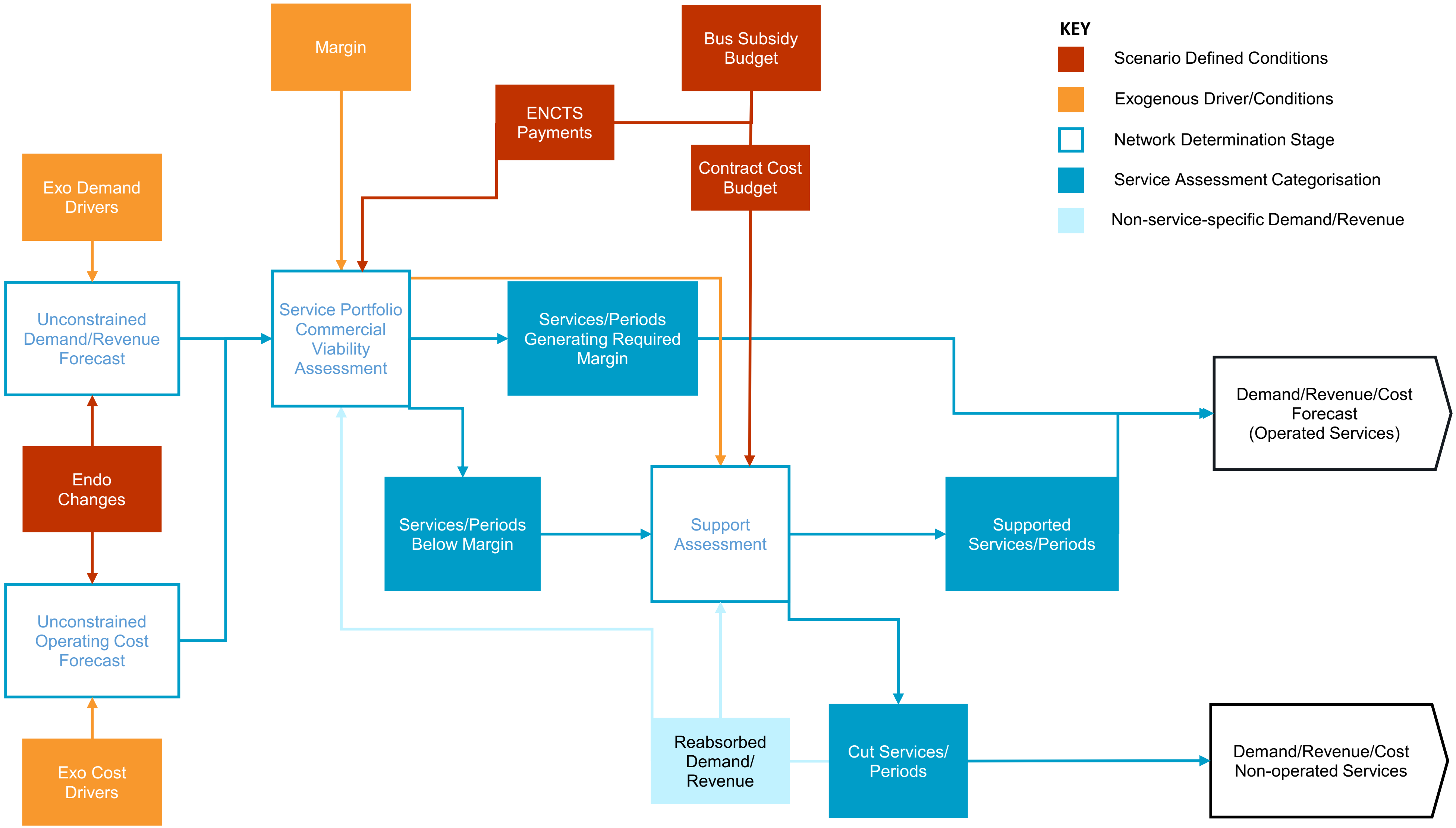
The Future Partnership

4.46 The approach described for the Reference Case also broadly applies to the Future Partnership, which uses the same base year Operator data, the same exogenous growth forecasts and the same trimming and cutting processes.

4.47 However, the Future Partnership assumes that the Authority has negotiated a deeper partnership that allows it to exert greater influence over the delivery of Services in the Authority's Region, allowing additional determination over what Services are operated, fares and ticketing.

4.48 The Future Partnership, as described in the Strategic Case and in paragraph 2 has been modelled and reflects the extent of change that the Authority believes that the Operators would reasonably agree to under the Future Partnership, recognising there is already a strong EP under the Reference Case in place in the Authority's Region. It has been informed by discussions with the Operators as an appropriate and robust comparator for the Franchising Scheme. The changes and interventions considered under the Future Partnership are assumed to generate bus user benefits which are described in paragraphs 8 and 10. Figure 2-2 below shows the forecasting approach for the Reference Case and the Future Partnership.

Figure 2-2: Forecasting Approach Diagram for the Reference Case and the Future Partnership



Franchising

4.49 Under Franchising, the Authority would take control of Services operating entirely in the Authority's Region, with some Services, including cross-boundary Services, operating under Service Permits. This effectively gives the Authority full decision-making power over fares, ticketing and the network of Services operated within the Authority area. The Authority would use its control over the West Midlands Bus Network to deliver further enhancements including further service rationalisation and coordination improvements for a number of routes, presently operated by combinations of major and small Operators, allowing resources to be used elsewhere on the West Midlands Bus Network.

4.50 The overall Authority control of the West Midlands Bus Network would also mean that Services currently tendered by the Authority would no longer need to be contracted as separate Services.

4.51 As with the modelling of the other options these endogenous changes are captured within the unconstrained forecasts. Network enhancements elicit a demand, revenue or cost response which is estimated using elasticities. The elasticities used and the magnitude of the response itself are described in more detail in paragraphs 5 and 7.

4.52 Franchising changes the process which determines what Services are operated. As Services, (excluding cross-boundary Services operating under Service Permits) are contracted under Franchise Contracts to the Operators, there is no decision point for determining commercial Services and periods. In this instance the determination process becomes a single assessment point (only cutting rather than trimming and cutting), where all Services are considered collectively within each Franchising zone with the choice of which are operated based on:

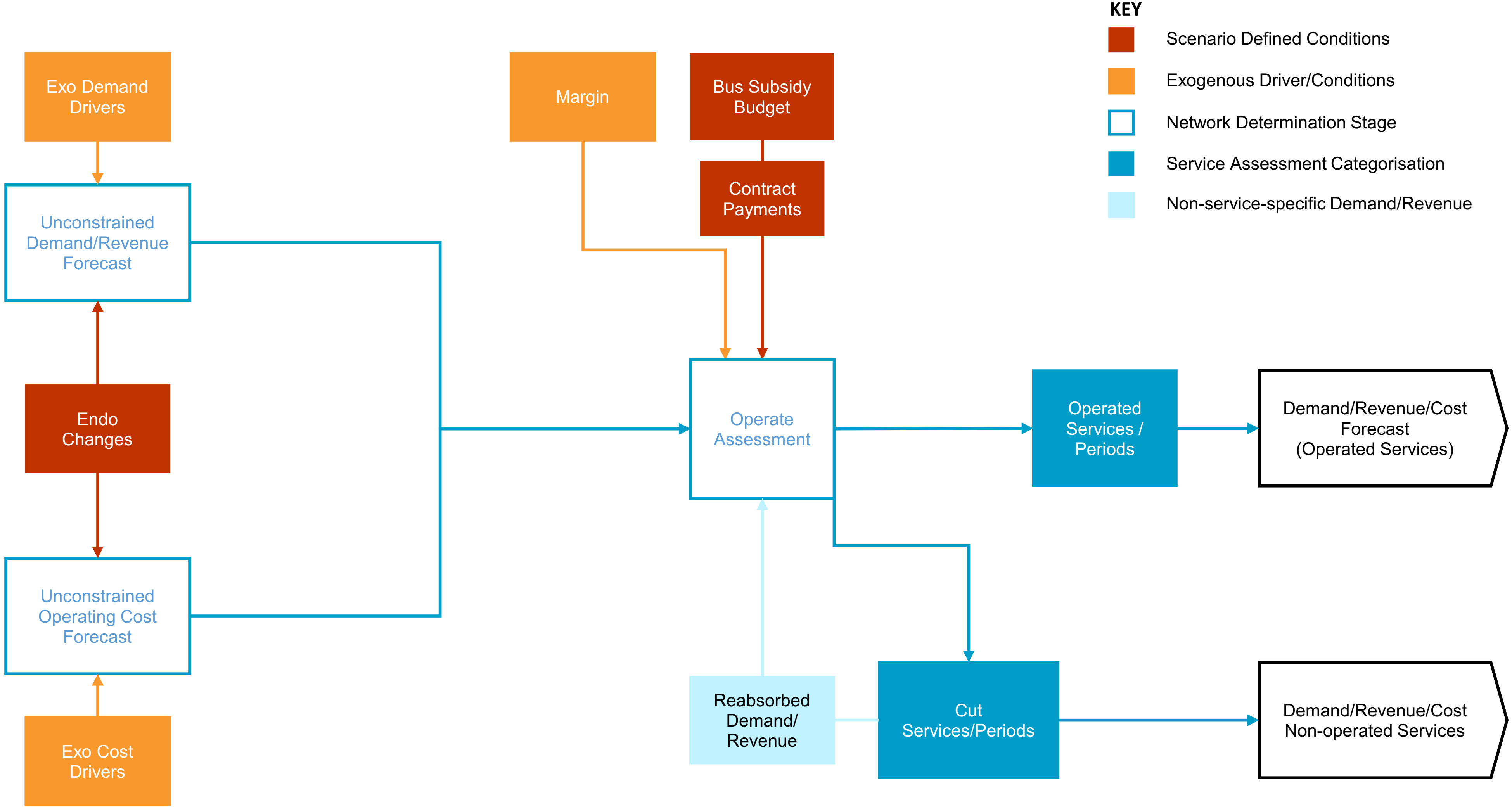
(a) the cost of Services;

(b) the mark-up applied by the Operators as part of the competitive bidding process; and

(c) the total income for operating Services, comprised of the farebox revenue generated and the level of funding available.

4.53 As with Supported Services under the Reference Case and the Future Partnership, the decision of which Services to operate is modelled based on the relative net cost per passenger. Figure 2-3 below shows the forecasting approach for the Franchising Scheme.

Figure 2-3: Forecasting Approach Diagram for Franchising



Key Modelling Assumptions

4.54 The forecasting approach for the Delivery Options uses a range of assumptions which inform the demand, revenue and cost forecasting, as well as the affordability of the West Midlands Bus Network.

4.55 Subsequent paragraphs of this Assessment outline the data and assumptions used to forecast demand, revenue and operating cost for each Delivery Option. However, the key overarching assumptions in developing this Assessment, are set out below:

(a) The collective average profit margin across the portfolio of all commercial Services in the Authority's Region is assumed to remain constant over the forecast period. This has been based on FY 2022/2023 revenue and cost data provided by the Operators and the Authority. This means that, where the Operators see their average commercial profit decline due to rising costs and/or falling revenue, they will seek to trim or drop Services to return to their target average margin;

(b) Where the Operators have to trim/drop Services to maintain commercial viability, they are assumed to do so on the basis of the ratio between revenue and operating cost for each individual service, hence maximising the profit margin for the portfolio;

(c) In contrast, where the Authority decides to and can afford to provide additional funding for Supported Services, it is assumed that those Services with the lowest cost per passenger ratio will be supported first, in order to cater for as many passengers as possible and maximise the social benefit associated with the Supported Services. In reality, the Authority may not use this method and whether Services will be supported will be decided on a case-by-case basis. For example, Services which serve rural or deprived areas and better fit with the Authority's strategic aims may be prioritised even if the service has higher cost per passenger ratio that other Services at risk of being cut;

(d) Supported Services under tendered contracts are assumed to have a 7.5% margin on revenue, which is uplifted over time to reflect the assumed increase in cost of operating Supported Services (as described in paragraphs 4.32 and 4.33).[106] While there is limited data from the Operators which informs this assumption, it is considered reasonable and in line with benchmarked mark-ups in similar contracts (the rationale underpinning this assumption is provided in paragraph 4 and Table 4-8 of the Financial Case); and

(e) Services under Franchise Contracts are assumed to have a 7.5% margin on revenue.[107] The margin that the Operators will target for these Services will be based on a number of factors, such as level of competition, risk and reward balance or other wider portfolio considerations.

4.56 Because of the different administrative and management costs associated with each Delivery Option, the effective subsidy budget available from the Authority for procuring Services is lowest

---

106 Equivalent to 8.1% mark-up on operating costs

107 Equivalent to 8.1% mark-up on operating costs

for Franchising. Budgets, sourced from the Authority and the Financial Case, are summarised below in Table 2-3.

Table 2-3: Budget Available Under Each Delivery Option

Option	Budget for FY 2027/2028 (expressed in FY 2022/23 prices)
The Reference Case	£71.2 million
The Future Partnership	£70.9 million
Franchising	£69.5 million

Source: The Authority and the Financial Case

Addressing Uncertainty

4.57 Uncertainty is inherent to forecasting and must therefore be a key consideration in determining the social, economic and environmental impacts of the Reference Case and the Delivery Options assessed in this Economic Case. The two main areas of uncertainty are the following:

(a) future growth trajectory of bus patronage, recognising there is a level of uncertainty in socioeconomic forecasts and the elasticity response of patronage; and

(b) availability of funding and ability for the Authority to support an increasingly less commercial network.

4.58 The HM Treasury's Green Book Guidance and DfT's Uncertainty Toolkit[108] propose a scenario development and assessment process as one of the tools to appraise the performance of the Reference Case and the Delivery Options under different forecasts of the future, through the use of different assumptions for the key identified areas of uncertainty. The aim of this process is to test a wide range of different futures to understand whether the Reference Case or either of the Delivery Options is the most appropriate way forward and which brings about the best changes.

4.59 The objective of this scenario development process is to appraise how the relative performance of the Reference Case and the Delivery Options varies depending on uncertainty factors. This allows consideration of conditions under which it would be appropriate, from this Economic Case perspective, to choose one Delivery Option over another one, informing the Authority's overall decision-making process.

Future Trajectory of Bus Patronage

4.60 The central case demand forecast has been developed based on best understanding of the impact of exogenous and endogenous drivers on demand. However, there is some uncertainty

[108] TAG: Uncertainty Toolkit, Supplementary Guidance, Department for Transport, 2021.

in the socioeconomic forecasts and long-term elasticity response of the market to drivers of growth.

4.61 The Authority has previously carried out work to consider the potential range of future bus patronage growth, using the UTG Metropolitan Bus Model to specify and test potential scenarios. This work has been used to inform the demand scenarios in this Assessment. The forecast growth under the Reference Case was compared with the growth rates of the Delivery Options to determine a reasonable range of uplifts to test.

4.62 As such, three possible 'extents' of the spectrum of uncertainty have been considered:

(a) a central case 'Base' demand forecast based on the expected growth of, and response to, exogenous drivers;

(b) an 'upside' demand scenario where a percentage uplift is applied to the central case forecast, increasing gradually to reach 15% by Year 5 of Franchising; and

(c) a 'downside' demand scenario where a reduction is applied to the central case forecast, gradually increasing in magnitude to reach a 15% reduction by Year 5 of Franchising.

Availability of Funding to Support the West Midlands Bus Network

4.63 The Authority and the Government currently provide significant financial support to Operators, but face competing demand for funding, and so it is not guaranteed that the current level of funding can be maintained.

4.64 Furthermore, bus costs are forecast to grow faster than bus revenues so the same level of funding will not be able to continue to support the current West Midlands Bus Network financially. As Services run by Operators become commercially unviable the Operators are likely to trim these Services to maintain their target profit margin. Therefore, if the same level of funding is available the West Midlands Bus Network will reduce in size and reach.

4.65 For this, three scenarios, as set out in paragraph 9 of the Financial Case, have been proposed:

(a) a Base Funding Scenario: the current level of funding (based on the planned funding for FY 2024/2025) for Services is maintained in nominal terms, with available budget growing in line with TAG RPI;

(b) an Upside Funding Scenario: an additional £50 million per year is made available by the Authority. This is indexed by RPI, remaining constant in real terms over the appraisal period; and

(c) a Downside Funding Scenario: the available budget is 10% lower than the central case from FY 2031/2032, continuing across the appraisal period.

5 Unconstrained Demand, Revenue and Cost Forecasting Approach

Introduction

5.1 This paragraph 5 presents the forecasting approach to estimate unconstrained demand, revenue and costs for the West Midlands Bus Network. Unconstrained demand, revenue and costs forecasts are projections of the potential demand, revenue and costs that would be supported if the FY 2022/2023 West Midlands Bus Network were retained.

5.2 The forecasts for demand and revenue comprise two parts:

(a) the change as a result of social and economic exogenous drivers, which is common to all regulatory cases; and

(b) the changes (endogenous drivers) brought forward under the Delivery Options.

5.3 Similarly, the costs forecasts comprise of the following two parts:[109]

(a) growth in the underlying cost drivers, which is common to all regulatory cases; and

(b) the changes brought forward under the Delivery Options.

Demand Forecasting Approach

5.4 The approach to forecasting has been developed using industry good practice, parameters from 'The demand for public transport: a practical guide' (TRL, 2004), the 'Black Book' and in alignment with DfT's TAG.

5.5 Demand has been forecast using an elasticity model which estimates the changes in bus demand caused by the behavioural change of passengers as a result of exogenous and endogenous drivers. This approach is considered appropriate as opposed to a full public transport model as the impacts of reform are incremental, and predominately impact an existing passenger population. This approach allows for forecasting and analysis on an individual-bus-service level.

Base Year

5.6 The forecasts have been based on passenger data from FY 2022/2023 provided by the Operators and the Authority.

5.7 Demand data has been provided by the Operators from ETM records. The demand data from all the Operators is disaggregated by route and ticket or concession type.

5.8 The revenue data for commercial Services comes from data of on-bus ticket sales collected from ETM alongside demand data, mobile and online ticket revenues, the Authority annual payments to the Operators for passengers using season tickets and ENCTS reimbursements to the Operators.

5.9 For the yield calculation, the yield value is derived separately for singles, multi-trip products and ENCTS. The yield value for singles is inferred directly from the demand and revenue data.

Exogenous Forecasts

5.10 Demand for bus travel is impacted by social and economic factors that are independent of how buses are operated. These exogenous effects influence the underlying demand for bus travel regardless of any approach taken to bus reform. The following exogenous drivers that can impact bus demand and have been captured as part of this Assessment are:

---

109 It should be noted that costs are presented net of Operator margin, allowing a more equivalent comparison among Delivery Options, where margin differs between commercial and Supported Services

(a) GDP: although GDP increases are associated with increases in travel demand, this increase usually translates into high car ownership levels with detrimental effect on bus travel. The overall effect of GDP on bus travel, when factoring for car ownership, is therefore net negative;

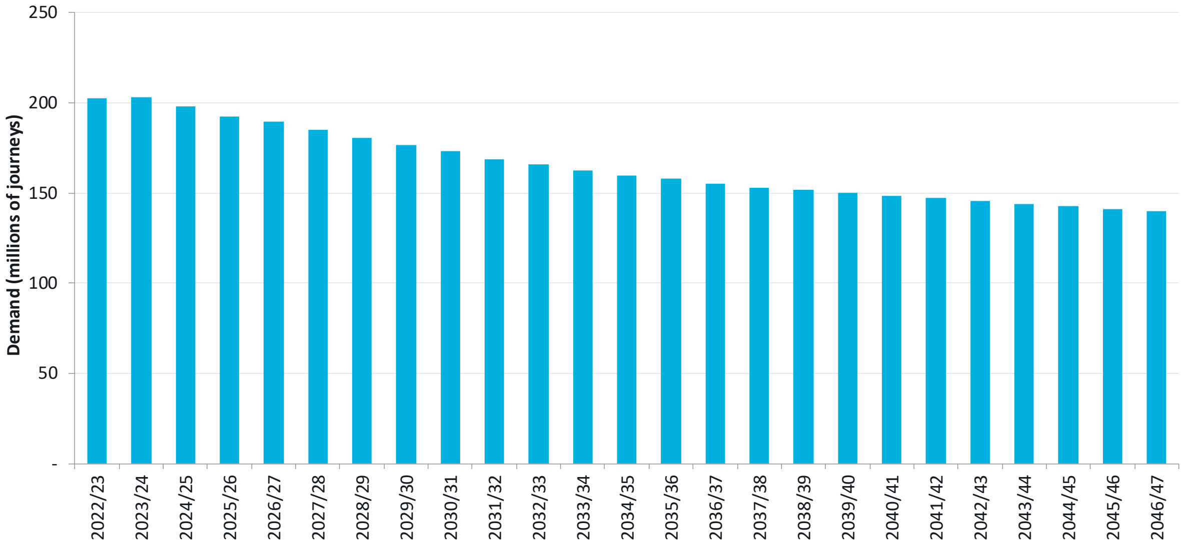
(b) Population: a larger population will result in increased bus usage and therefore demand

(c) Employment: increases in employment are associated with increased travel through more people commuting and travelling for business as well as having greater disposable income to spend on discretionary travel; and

(d) Car ownership and cost of car ownership (car operating cost): declining costs of car travel and increased car ownership will have a detrimental impact on bus travel due to modal shift away from bus.

5.11 As previously described in the Strategic Case, bus patronage has been in decline for many decades and the impact of exogenous effects is forecast to generate a continued decline in bus patronage within the Authority's Region. The unconstrained demand trajectory under the Reference Case is shown below in Figure 2-4. Bus demand, based on these modelled factors alone, is forecast to be around 65 million passengers lower by FY 2046/2047 under the unconstrained Reference Case.

Figure 2-4: Unconstrained Demand Forecast for the Reference Case



Source: Economic Case forecasting models

Endogenous Forecasts

5.12 The endogenous forecasts capture the passenger impacts of changes made to Services in the Authority's Region either by the Authority or the Operators. Separate endogenous forecasts have been produced for each Delivery Option, including the Reference Case against which they are compared.

Network Interventions

5.13 The network interventions and enhancements are described in paragraph 2. Under the Reference Case and the Future Partnership there are no anticipated changes to the West Midlands Bus Network. However, the level of service across the West Midlands Bus Network will reduce as a whole, as a result of only a limited number of Supported Services being able to operate within the Authority's budget when commercial Services cease to operate as they become unprofitable. The Future Partnership does have other interventions, such as the acquisition of depots to improve competition, and fares and ticketing which cause the demand to be higher than the Reference Case.

5.14 For Franchising, proposed Service changes are expected to be delivered, as outlined in paragraph 2. The demand impact for network interventions is modelled using a long and short-term elasticity approach. The revenue impact of the network interventions is proportionate to demand in both cases.

Fares and Ticketing

5.15 Under Franchising, the Authority proposes a range of measures to improve and simplify ticketing. These changes are expected to result in an increase in demand. When evaluating comparable proposals, research for Nexus found that passengers perceived a willingness-to-pay benefit that would equate to an uplift in demand of 2.5% for extensive ticket simplification.[110]

5.16 Under the Reference Case, the range and validity of tickets would remain the same, and therefore no demand or revenue impact is applied.

5.17 Under the Future Partnership, subject to negotiation with the Operators, additional fare capping would be implemented, and further ticketing simplicities introduced. A demand uplift of 1% has been assumed, representing a proportion of the benefit achievable with the full fare simplification measures. An approximately offsetting fare cut of 1% is assumed.

5.18 Under Franchising, the Authority would have full control of the fares and ticketing of Services under Franchise Contracts. This would facilitate the introduction of a single sales channel or app, providing further simplification for passengers. A demand uplift of 2% is applied, recognising recent measures have gone some way to simplify fares in the Authority's Region, with an offsetting fare cut of 2%.

Revenue Forecasting Approach

5.19 Fares paid by passengers are the primary form of revenue generated from the commercial operation of local Services. However, a proportion of journeys are paid for under ENCTS, a reimbursement to the Operators for the provision of concessionary travel which is funded from the public sector purse. Whilst not strictly a revenue stream in the same way that farebox revenue is, it is appropriate to treat it as such for the purposes of appraisal and the wider Assessment. Therefore, forecasts are produced for farebox revenue and ENCTS revenue.

Commercial Services Operator Remuneration

5.20 Where a service is operated commercially, the Operator retains revenue. The revenue received by an Operator across all its commercial Services is a combination of the fares received for singles, the revenue from its own single-Operator tickets and a portion of the revenue generated from the sale of nBus and nNetwork tickets. This proportion is based on estimations of the passenger journeys taken on an Operator's Services using each product.

110 Simplified Ticketing Research (Nexus, 2013)

Supported Services

5.21 Services operated wholly under contract to the Authority (fully Supported Services) are mostly tendered as net cost Services.[111] Under a net cost service, the Operators take on income and cost risk but retain all passenger revenue; subsidies are paid by the Authority for any unprofitable Services. For some commercial Services, Operators receive de minimis payments from the Authority.[112] These payments are made, for example, where the hours of operation or the route of commercial Services are extended at the request of the Authority. In these instances, the payment is received in addition to any fare revenue generated by these Services.

ENCTS

5.22 There is a statutory requirement for local Operators to accept ENCTS passes, as discussed in the Strategic Case. Whilst it uses audited Operator estimates of the number of journeys made on their Services using ENCTS passes, the reimbursement is impacted by Operator specific variations in operating cost and the available budget for ENCTS. ENCTS is primarily funded by HM Treasury and forms part of the DLUHC formula grant provided to each LTA. This funding is not explicitly allocated to any Operator but the negotiated amounts for Services are paid to the Operators and any remainder retained by the Authority to fund concessionary travel on Supported Services.

Revenue Forecasting Approach

5.23 Farebox revenue forecasts are calculated using the forecast demand, which is segmented by different ticket types and the yield per journey for each product.[113] Where appropriate, the yield is changed in line with fares changes. ENCTS revenue forecasts are calculated similarly but using the derived per journey subsidy amount paid to each Service provider instead of yield.[114] The yield value of ENCTS is assumed to remain constant in real terms. This has been assumed to allow a consistent representation of the commerciality of Services overall.

Cost Forecasting Approach

5.24 Paragraphs 5.24 to 5.45 describe the cost of operating buses within the Authority's Region and how the costs of the Future Partnership and Franchising compared against those incurred under the Reference Case. As part of this comparison, it considers the cost to the private sector, costs to the Authority and costs to HM Treasury under each Delivery Option.

5.25 As discussed in paragraphs 2 and 3, this Economic Case does not appraise all the interventions proposed as some interventions do not require the introduction of Franchising or implementation of the Future Partnership (such as bus priority measures). Therefore, in comparing both Delivery

---

111 This includes a self-payment for the use of the Authority Tickets

112 De minimis payments can be provided by LAs to pay for enhancements to existing commercial Services, such as extensions or diversions. These payments are capped as they were limited by EU state aid rules

113 In this context, yield is used to describe the average value of fare revenue received per trip for each ticket category, taking into account any variations/discounts/concessions etc and as such, not specifically aligned with any published fare value

114 This includes payments made for ENCTS use on Supported Services

Options to the Reference Case, the net impact of these interventions would be neutral and would not influence the case. The interventions which are appraised are therefore:

(a) Network enhancements;

(b) Fares and ticketing changes; and

(c) The introduction of a ZEB fleet.

The Reference Case Operating Costs

5.26 The data provided by the Operators and the Authority has been used to estimate the operating costs. The forecasts are based on a single base year (FY 2022/2023), with growth factors applied to estimate the increase in costs over the appraisal period. To allow for appropriate growth rates to be applied and relevant cost changes to be made for the appraisal, costs have been itemised into the following groups:

(a) Driver costs;

(b) Depreciation;

(c) Fuel;

(d) BSOG (a negative cost, payments made to Operators);

(e) Tyres;

(f) Insurance;

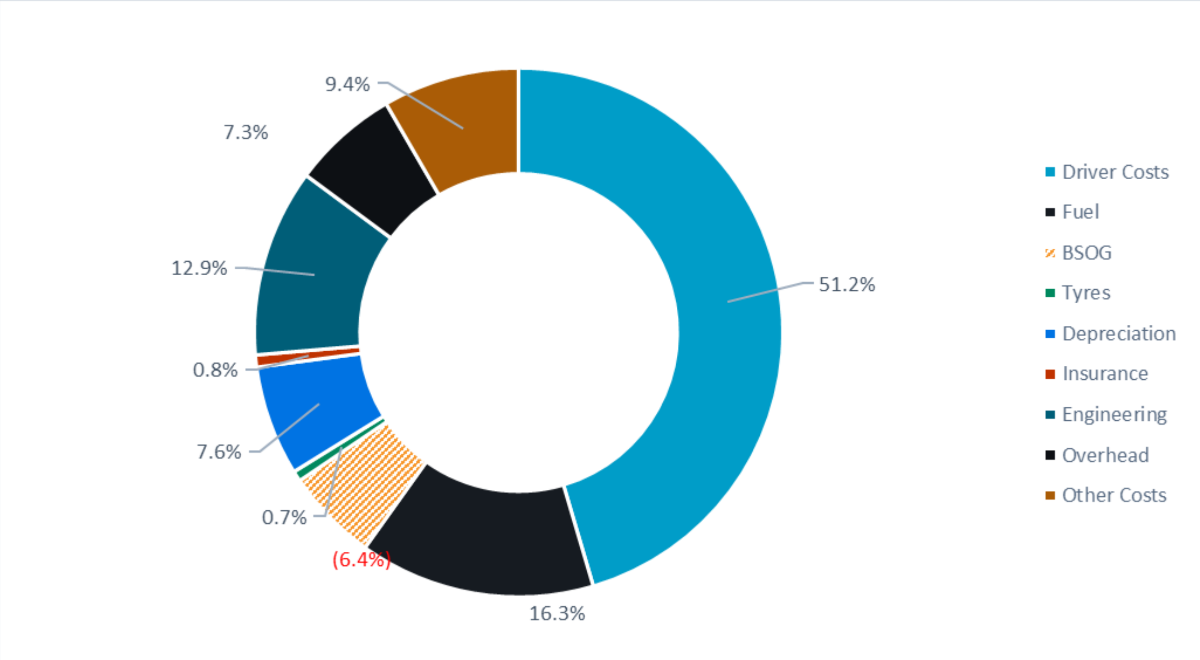
(g) Engineering;

(h) Overheads; and

(i) Other costs.

5.27 The base year breakdown of costs is presented in Figure 2-5.

Figure 2-5: Bus Operating Cost Breakdown



Source: Economic Case analysis of Operator data

Cost growth

5.28 The growth of costs will be different for each cost group due to the influence of different market factors.

5.29 Fuel is tied to the Diesel Fuel Index from the TAG Databook,[115] expressed in real RPI terms. As BSOG is linked to the cost of fuel, its change is also tied to the to the Diesel Fuel Index.

5.30 For all cost groups other than fuel and BSOG, the growth rate is treated relative to RPI growth. As such, RPI growth is adjusted for each of the cost groups based on Confederation of Passenger Transport data (which shows how each of the cost items grew historically relative to RPI).[116] The underlying increase or decrease in growth rates beyond RPI is affected by factors such as average national and local wages, changes in materials costs and changes in insurance premiums. The total cost growth by segment for all Services is presented in Table 2-4.

Table 2-4: Cost Growth Rates (real growth)

Cost item	Base Index	Real annual growth rate
Driver costs	RPI	+0.5%
Fuel	Diesel fuel index	-
BSOG	Diesel fuel index	-

115 Table A1.3.7 of the May 2024 TAG Databook

116 Analysis of CPT Cost Index reports 2014 to 2019, Midlands data

Cost item	Base Index	Real annual growth rate
Tyre cost	RPI	-0.5%
Depreciation	RPI	+1.0%
Insurance	RPI	-1.5%
Engineering	RPI	1.0%
Overhead	RPI	-
Other costs	RPI	+3.0%

5.31 Overall, the combined impact of the growth in costs for Services is equivalent to a composite annual growth rate of 0.62% (CAGR) above RPI over the period 2022 to 2046.

Operating Cost Impact of Network Interventions

5.32 The cost of running Services is affected by the total distance operated by the vehicles providing the service (service kilometres). It is also affected by factors such as the length of the route, journey speed, the frequency of journeys, time taken up by positioning journeys (dead mileage), allowances for unpredictable delays (balancing time), accommodations for driving hours regulations, and any refuelling/recharging movement. These factors combine to establish the PVR, which is the maximum number of vehicles required at any period over the course of a day to deliver the timetable of the Service.

5.33 For each operating cost item, the total annual cost will be predominately influenced by either the Services kilometres, or by the PVR. The total cost of each item is therefore calculated using one of these. For each service change, uplifts to total vehicle kilometres and PVR have been derived and are applied to the relevant cost items to generate the forecast operating cost.

5.34 For proposed service rationalisations or coordination of headways, no additional cost is assumed as there is no change to the level of service provided, simply a more even timetable of the existing Services.

5.35 For interventions on routes where two or more Operators are currently competing, a reduction in PVR is assumed to represent the efficiency gained from avoiding duplication of the West Midlands Bus Network. It is assumed that the magnitude of any changes proposed are such that there would be no negative impacts to the passenger journey experience, such as crowding.

Zero Emission Fleet Costs

5.36 The Reference Case and the Delivery Options considered within this Assessment are expected to transition the bus fleet to ZEBs. This transition will affect:

(a) Vehicle costs;

(b) Depot/infrastructure costs;

(c) Fuel costs; and

(d) Driver costs.

Vehicle Costs

5.37 The appraisal has looked at the transition to ZEBs. Whilst the costs of purchasing electric buses will decrease relative to diesel buses over time, there is uncertainty about the rate of change and the eventual cost of transitioning. For appraisal purposes, subsidised vehicle costs are assumed to remain constant at today's prices over the forecast period. The current cost of a ZEB is assumed to represent a net cost to the Authority of £296,000 per bus (in FY 2022/2023 real prices). This figure includes the acquisition of the bus and is net of the BSOG on acquisition of electric buses which covers 75% of the difference in cost between a ZEB and a new diesel bus.

Depot Infrastructure Costs

5.38 Using ZEBs requires new charging infrastructure at depots. No on-route charging infrastructure has been assumed for the operation of battery buses as on-route charging is not a solution that most Operators consider to be attractive at this time (and even allowing short charging windows within operations would still require extra vehicles and/or disadvantage passengers).

5.39 Depot fit-out costs, which assumes DfT funding for ZEB related infrastructure, are assumed at £60,000 per ZEB.[117]

Treatment of Fuel Costs

5.40 The energy costs for charging battery electric buses are lower than the equivalent fuel cost for diesel buses. This will result in a net 'fuel' saving in the operating cost of buses. The energy cost for a battery electric bus is assumed to be three quarters of the equivalent fuel costs.

Additional Driver and Vehicle Costs

5.41 Battery electric buses have a more limited range than their diesel counterparts. In some instances, this will mean a vehicle cannot complete a days' service under a single charge. To counter this issue, the Operators may increase the number of vehicles used to fulfil the timetabled service, relative to the number of diesel vehicles used. This reduces the operating kilometres of each vehicle and therefore the required range. Vehicles having to return to the depot during the course of a day to recharge also ties up drivers on non-productive work, reducing efficiency and potentially increasing resource requirements.

5.42 An average uplift in the PVR of 5% above the number of diesel vehicles is assumed to be required for operating the service using battery electric vehicles. This has a corresponding impact on the number of drivers required. The same uplift is assumed for the driver costs.

Administration and Management Costs

5.43 The Authority will have increased costs associated with preparation, implementation and then management of each Delivery Option. Authority staff costs, administration costs and office costs will also increase under the Delivery Options. The values for these costs have been informed by the Management Case.

---

[117] Information provided by TfWM, based on consultancy work conducted by Evenergi for CEBC

5.44 Following initial implementation costs, ongoing management costs for the Authority to manage the Future Partnership would amount to £0.8 million per annum (FY 2024/2025 prices). Further detail is presented in the Financial Case and the Management Case. The Reference Case also contains ongoing management costs for the Authority, amounting to around £0.5 million (FY 2024/2025 prices). An increase in costs to the Authority of 1.5% of the cost of Supported Services is assumed, associated with increased management costs as more of the West Midlands Bus Network becomes supported over time.

5.45 Following initial implementation costs, ongoing management costs for the Authority to manage Franchising would amount to £4.2 million per annum (FY 2024/2025 prices). Further detail is presented in the Financial Case and the Management Case.

6 Demand, Revenue and Costs Forecasts

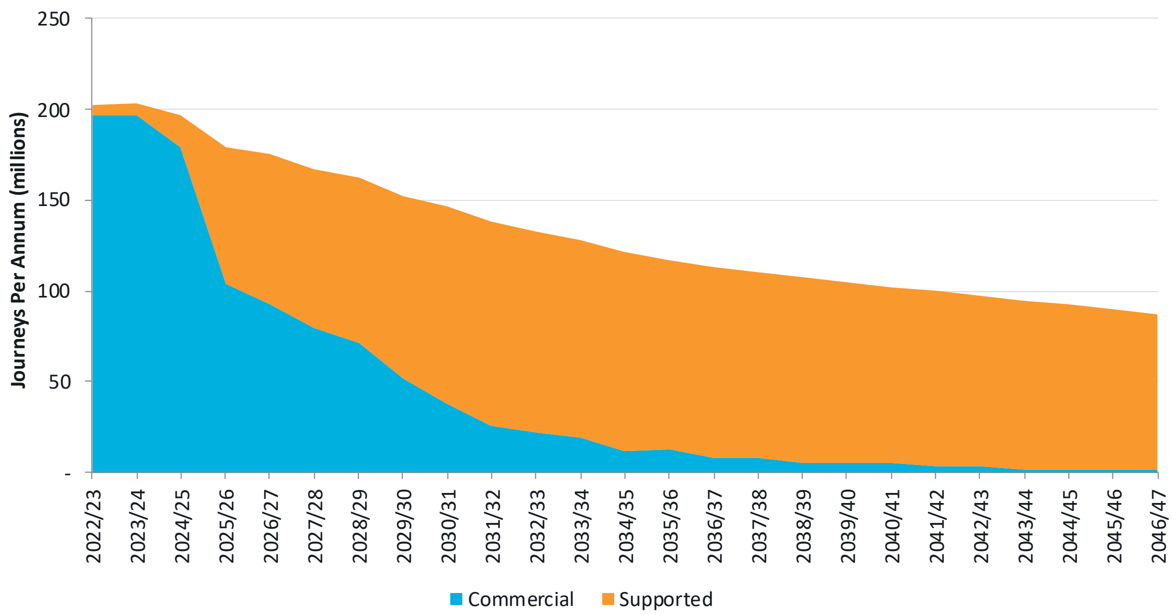
Introduction

6.1 This paragraph 6 provides an overview of the demand, revenue and cost forecasts for the Delivery Options. As described in paragraphs 4 and 5, the forecasts take into account the long-term impact on bus patronage and the constrained funding available to the Authority to support Services. The 'central' scenario with the central demand forecast and funding assumptions, as described in paragraphs 4.60 to 4.65, has been used throughout this paragraph 6. Other scenarios have been tested with their forecasts shown at the end of this paragraph 6. The forecasts do not include cross-boundary Services which are considered separately.

Demand Forecasts

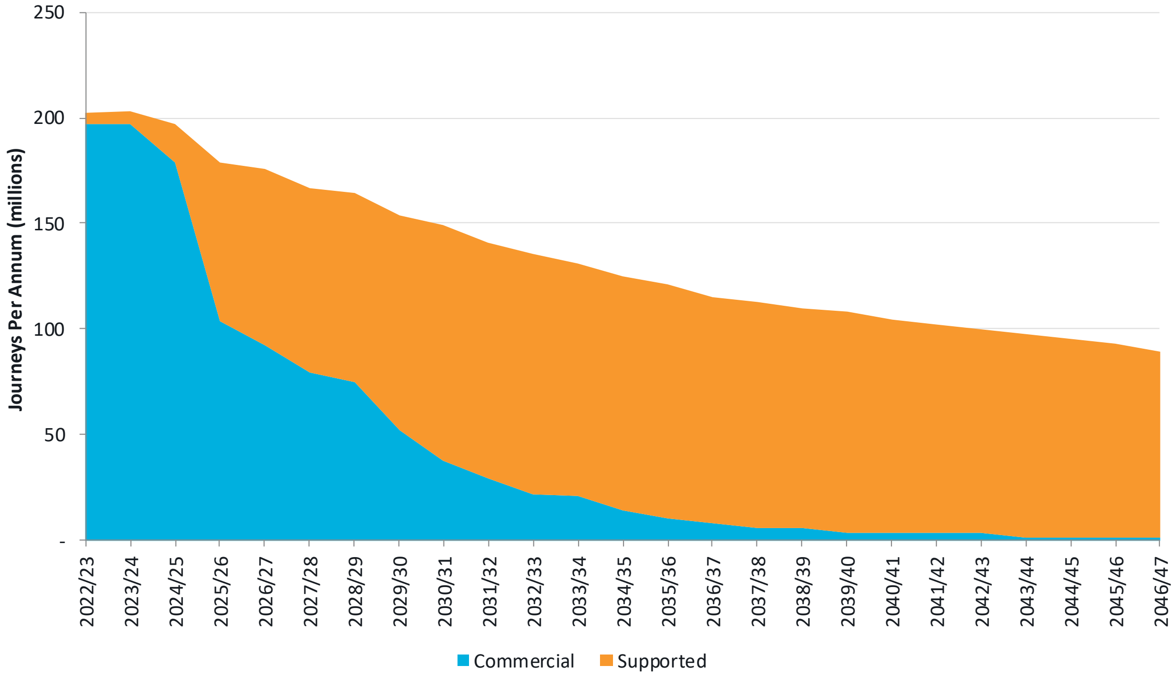
6.2 The demand forecasts for the Reference Case and the Delivery Options are shown in Figure 2-6, Figure 2-7 and Figure 2-8, for the central scenario. The proportions of bus demand on commercial and Supported Services are shown within the graphs - noting that under Franchising, all Services are represented as being supported.

Figure 2-6: The Reference Case Demand Forecast



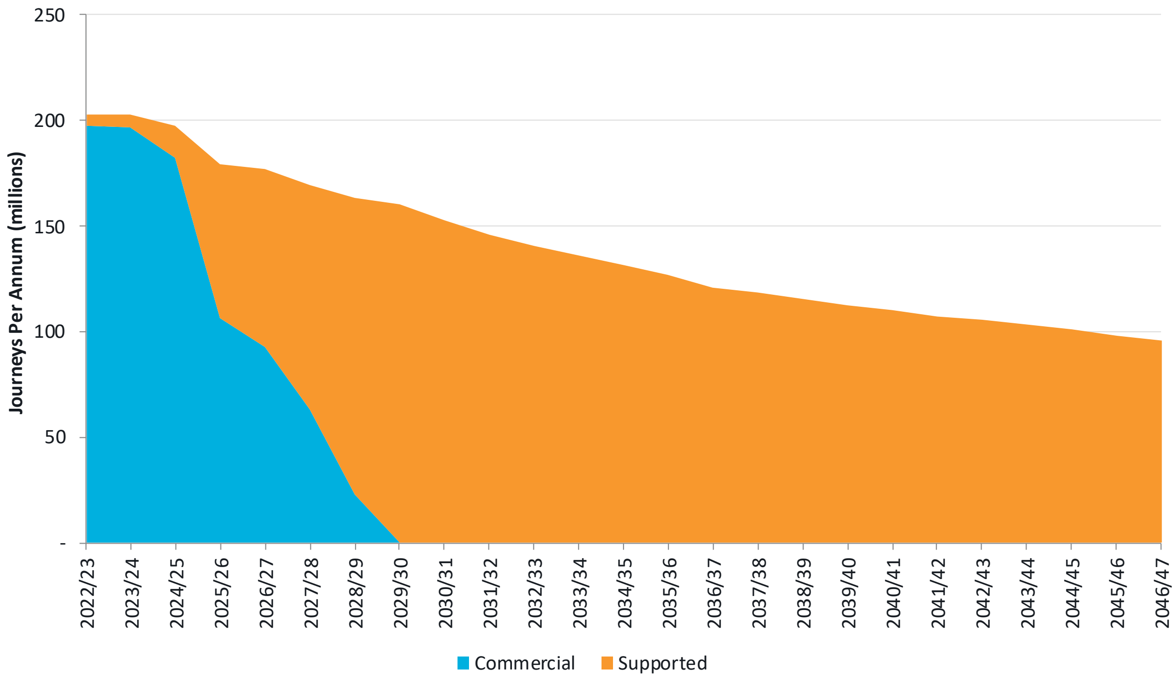
Source: Economic Case forecasting models

Figure 2-7: The Future Partnership Demand Forecast



Source: Economic Case forecasting models

Figure 2-8: Franchising Demand Forecast



Source: Economic Case forecasting models

6.3 All Delivery Options show an initial increase in demand as the West Midlands Bus Network continues to recover from the Covid-19 Pandemic, with the Operators supported by ongoing grant funding. However, following this the long-term trend of declining patronage will continue at different rates across all Delivery Options. As Services become unprofitable, the majority eventually become supported in the Reference Case and the Future Partnership. The Future Partnership enables somewhat more Services to stay commercial for longer than the Reference Case.

6.4 In the Reference Case and Future Partnership, the proportion of Supported Services increases significantly. Several factors contribute to this. Historically, support payments made by the Authority to Operators have contributed to maintaining commercial routes. Rising costs and falling revenues from reduced patronage have reached a tipping point of the affordability of routes, meaning fewer are meeting levels of profitability required to be operated commercially. Services which were previously commercial may only require a small amount of subsidy to be viable but are considered as 'supported' in the model framework. This means the budget is supporting more, but better performing, Services than in the past.

6.5 Franchising allows the greatest proportion of bus demand to be maintained in the West Midlands Bus Network followed by the Future Partnership and the Reference Case. A summary of bus demand in the West Midlands Bus Network in FY 2046/2047, is presented in Table 2-5.

Table 2-5: Bus Demand in FY 2046/2047 journeys

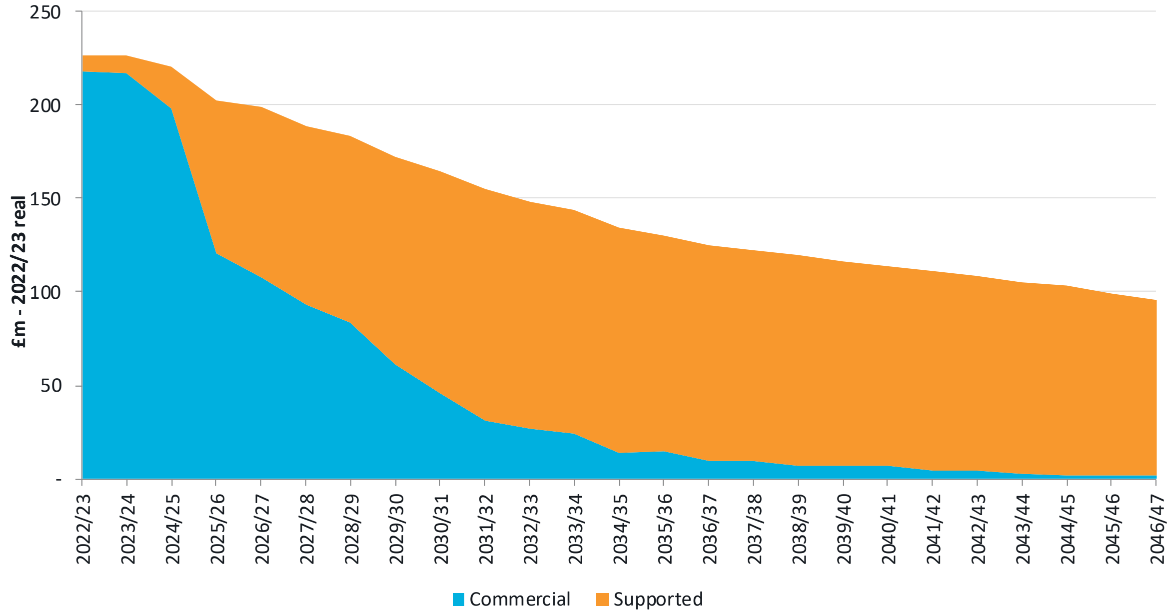
Delivery Option	Total Demand (million)	Commercial Demand (million)	Supported Demand (million)
The Reference Case	86.7	1.2	85.5
The Future Partnership	89.4	1.2	88.2
Franchising	95.7	-	95.7

Source: Economic Case forecasting models

Revenue Forecasts

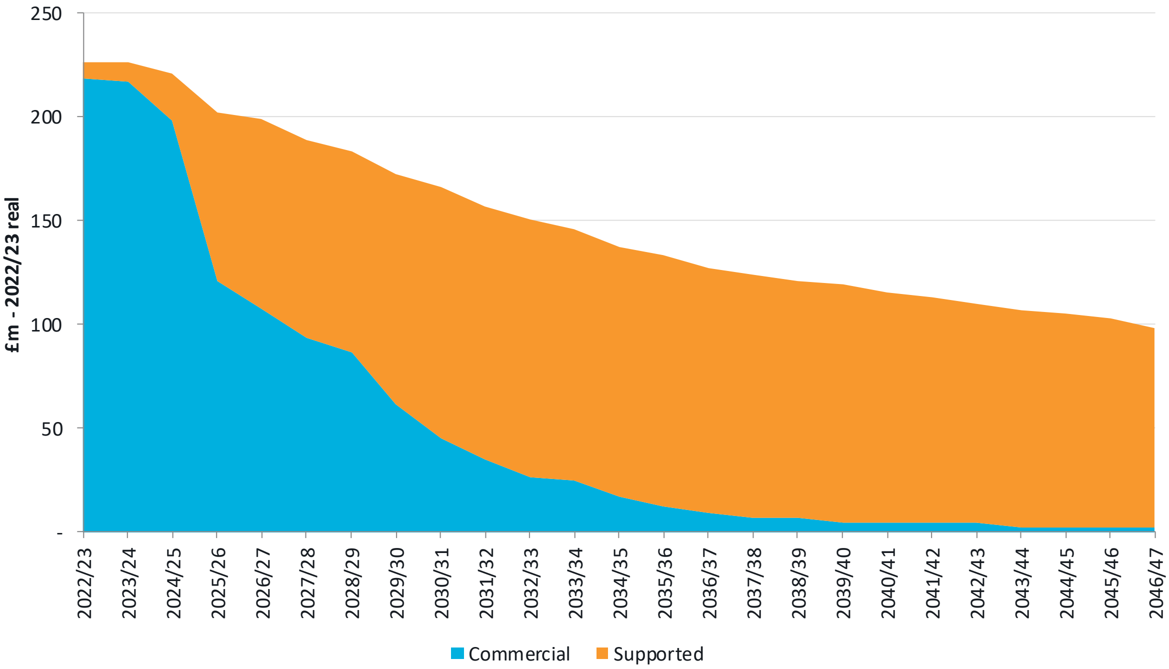
6.6 The revenue forecasts for the Reference Case and the Delivery Options are shown at Figure 2-9, Figure 2-10 and Figure 2-11 for the central scenario. The proportions of bus revenue on commercial and Supported Services are shown within the graphs.

Figure 2-9: The Reference Case Revenue Forecast (£million, FY 2022/2023 prices)



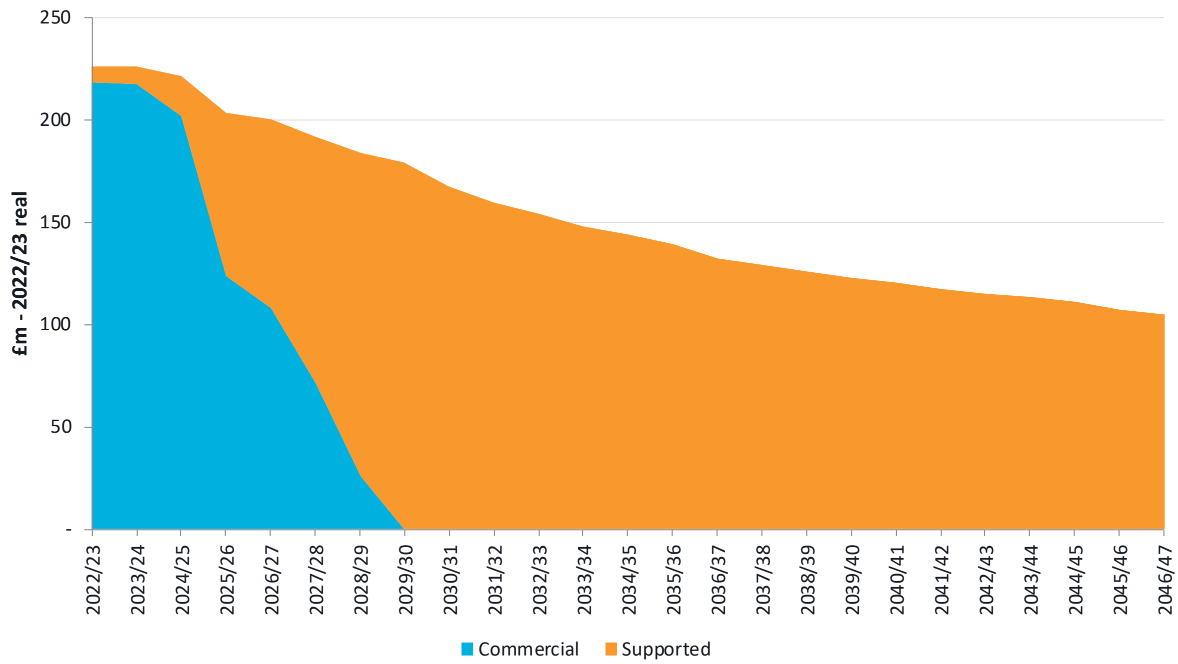
Source: Economic Case forecasting models

Figure 2-10: The Future Partnership Revenue Forecast (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

Figure 2-11: Franchising Revenue Forecast (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

6.7 A similar pattern is observed in the revenue forecasts that was seen in the demand forecasts with an initial increase followed by a slow decline across all Delivery Options. Franchising allows the greatest proportion of bus revenue to be maintained, followed by the Future Partnership and the Reference Case. A summary of bus revenue in the West Midlands Bus Network in 2046/2047, is presented in Table 2-6.

Table 2-6: Bus Revenue in FY 2046/2047 (£million FY 2022/2023 real prices)

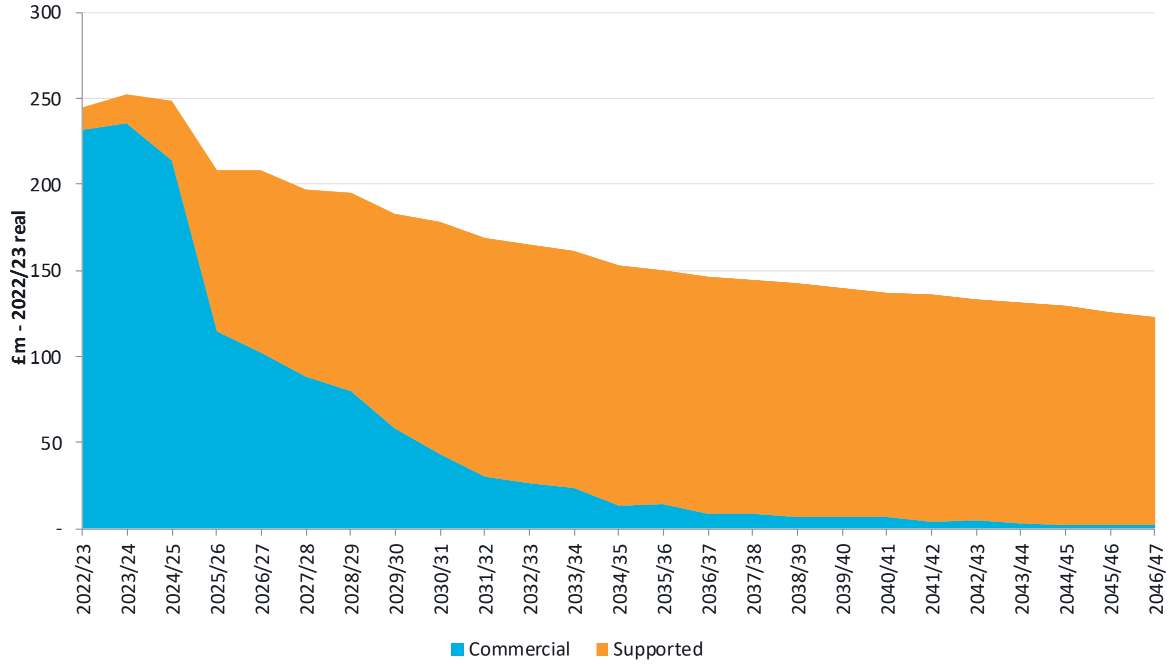
Delivery Option	Total Revenue	Commercial Revenue	Supported Revenue
The Reference Case	96.1	1.9	94.2
The Future Partnership	98.5	1.9	96.6
Franchising	104.6	-	104.6

Source: Economic Case forecasting models

Operating Costs Forecasts

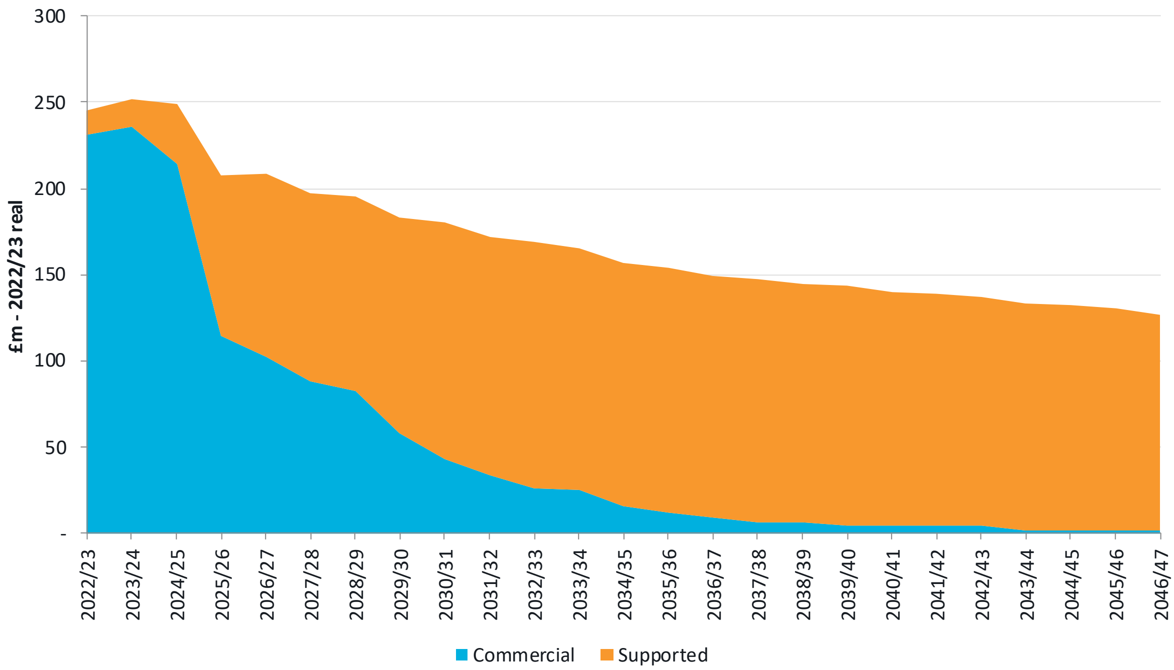
6.8 The operating costs forecasts for the Reference Case and the Delivery Options are shown at Figure 2-12, Figure 2-13 and Figure 2-14 for the central scenario. The proportions of bus operating costs on commercial and Supported Services are shown within the graphs.

Figure 2-12: The Reference Case Operating Cost Forecast (£million, FY 2022/2023 prices)



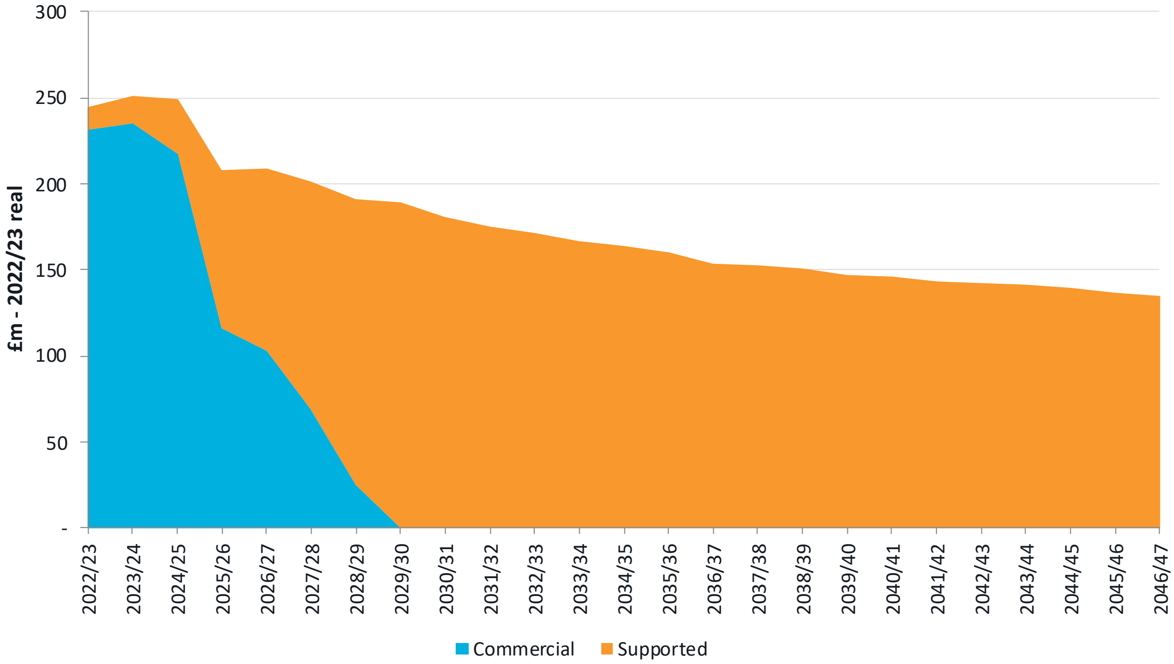
Source: Economic Case forecasting models

Figure 2-13: The Future Partnership Operating Cost Forecast (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

Figure 2-14: Franchising Operating Cost Forecast (£m, 2022/23 prices)



Source: Economic Case forecasting models

6.9 Similarly to the revenue and demand forecasts shown above, the same pattern is replicated for operating costs. There is an initial increase, followed by slowly declining operating costs as demand falls and Services are withdrawn. Franchising allows the most Services to be retained, resulting in higher operating costs compared to the Future Partnership and the Reference Case. A summary of bus operating cost in the West Midlands Bus Network in FY 2046/2047, is presented in Table 2-7.

Table 2-7: Bus Operating Cost in FY 2046/2047 (£million FY 2022/2023 real prices)

Delivery Option	Total Operating Cost	Commercial Operating Cost	Supported Operating Cost
The Reference Case	123.4	1.8	121.5
The Future Partnership	126.4	1.8	124.5
Franchising	134.5	-	134.5

Source: Economic Case forecasting models

Cost of the Delivery Options to the Authority

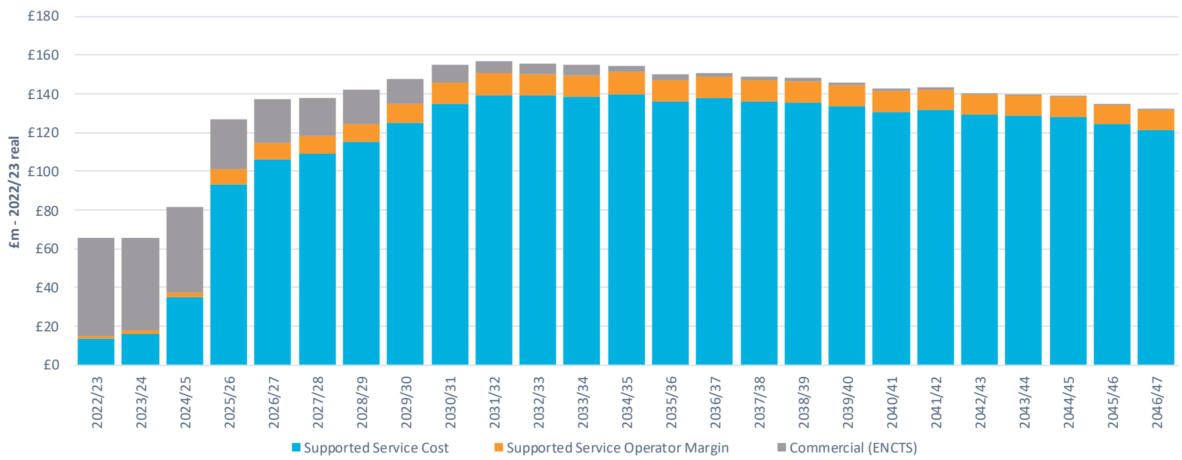
6.10 Currently, the Authority tenders Supported Services Contracts predominantly as net cost contracts, where the Operators retain revenue whereas in gross cost contracts the Authority retains the revenue. For Franchising, all Services would be tendered as gross cost contracts. The cost of delivery across the Authority's Region from the position of the Authority is presented in Figure 2-15 and Figure 2-16. These firstly consider the total value of payments from the Authority to the Operators under the Delivery Options (the 'gross impact on the Authority') which comprise contract payments under Supported Services Contracts,[118] ENCTS payments made to the Operators (for the Reference Case and the Future Partnership), and contract payments for Services (under the Franchise Contracts). Secondly, the fares income on Supported Services or Services under Franchise Contracts are taken into account, offsetting the costs above (the 'net impact on the Authority').

Gross Impact

6.11 As shown above, the Delivery Options see an increased proportion of Supported Services, which has a significant impact on the gross cost of Services to the Authority. As under the Franchising Scheme, all Services are controlled by the Authority and the gross cost is much higher than the Reference Case and the Future Partnership. However, as the proportion of Supported Services increases considerably over time, the difference between the Future Partnership and the Reference Case, and the Franchising Scheme, reduces.

6.12 The components of the gross impact on the Authority for the Reference Case and the Delivery Options are shown within Figure 2-15, Figure 2-16 and Figure 2-17. The components include the direct cost of operating Services, the Operator margin for delivering those Services, and (for non-franchising schemes only) the ENCTS payments made for commercial Services. The dotted lines within the graphs show the total from the previous figure(s) for reference.

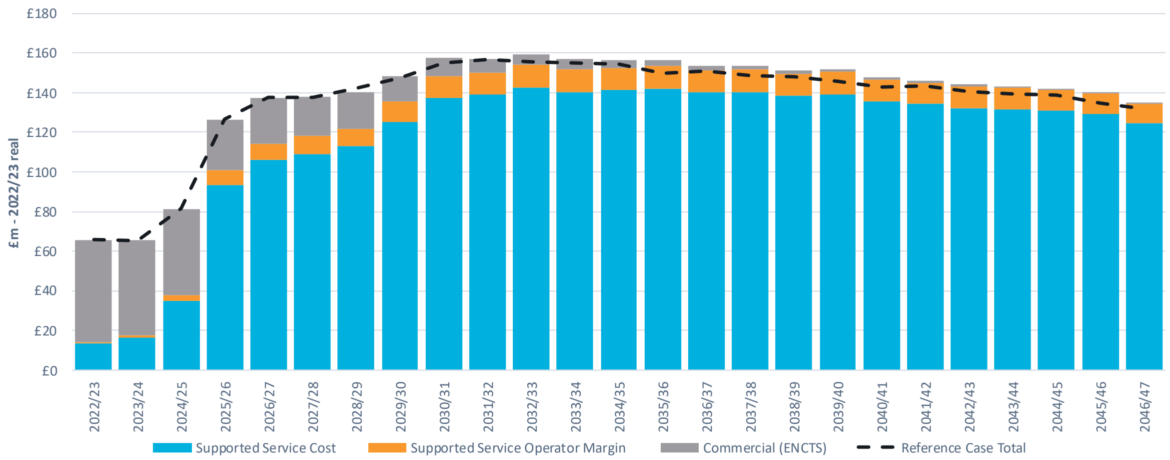
Figure 2-15: Gross Impact on the Authority, the Reference Case (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

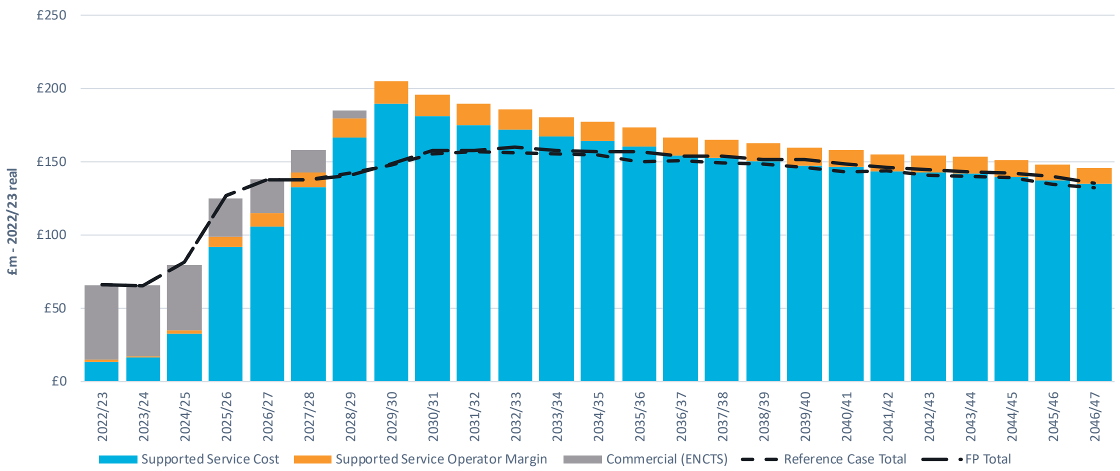
118 Whether Services are procured under gross cost or net cost contracts is disregarded in this analysis for the purposes of clearer illustration of the differences between Delivery Options

Figure 2-16: Gross Impact on the Authority, the Future Partnership (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

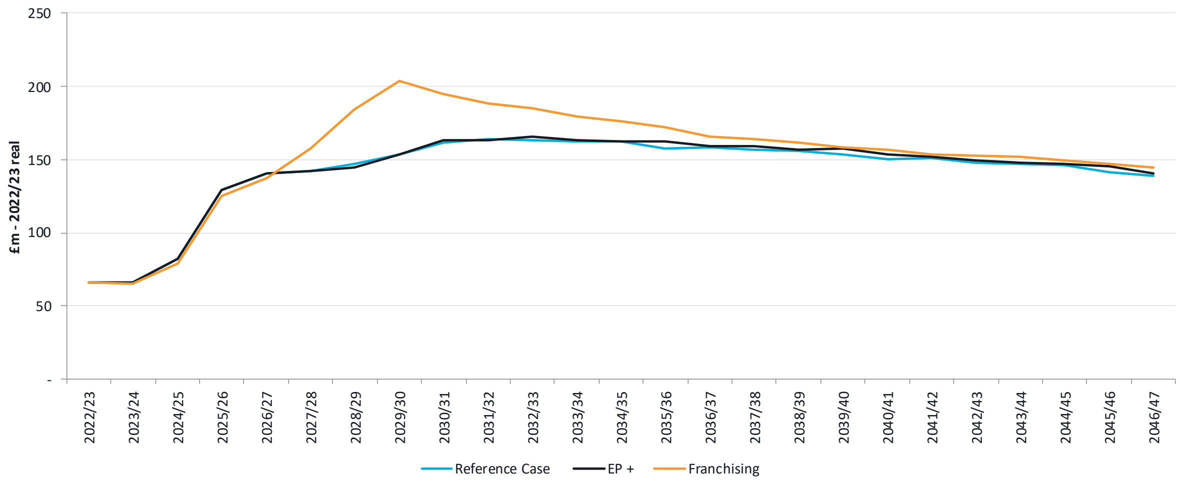
Figure 2-17: Gross Impact on the Authority, Franchising (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

6.13 Figure 2-18 provides an overview of the Reference Case and the Delivery Options and the gross impact on the Authority.

Figure 2-18: Gross Impact on the Authority of the Delivery Options (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

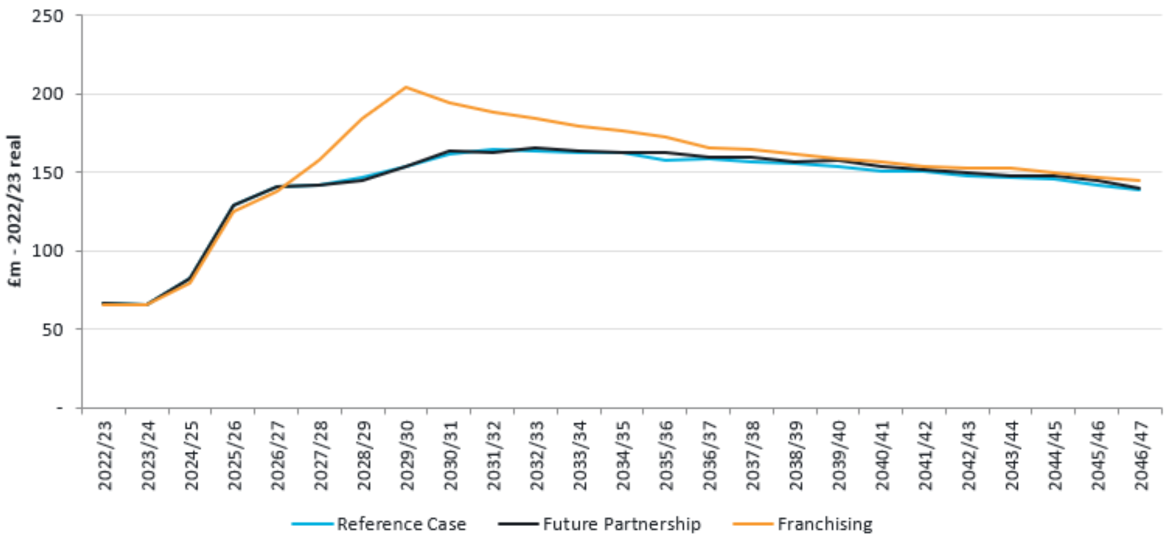
Net Impact

6.14 Fare revenue from Supported Services partially offsets the gross impact on the Authority described above. Under the Future Partnership and the Reference case, the Supported Services will not be highly profitable. If they were, they would be part of an Operator's commercial portfolio, but the revenue received from these Services will cover a proportion of the costs incurred.

6.15 For Franchising, the proportion of the costs covered by the revenue generated will be higher than the other Delivery Options as the profitable commercial Services will be included within the Authority's revenue stream. The increase in retained revenue under Franchising means the Authority has to manage a greater revenue risk. The financial implications of revenue risk are discussed further in the Financial Case.

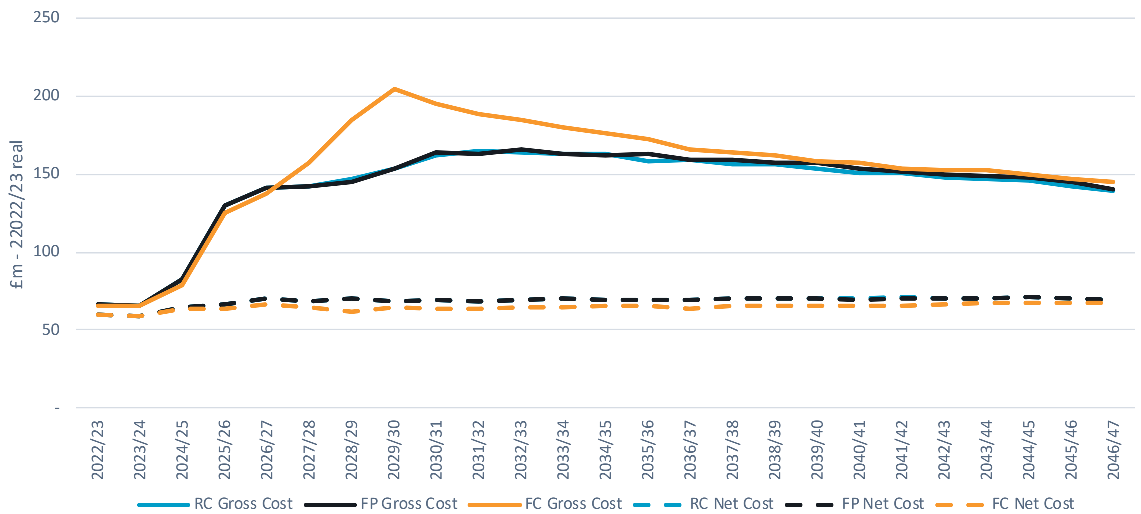
6.16 Franchising will incur the lowest net overall cost to the Authority (when the costs, net of revenue, are considered). The Future Partnership and the Reference Case have a similar net impact position to each other. This is shown in Figure 2-19 and Figure 2-20.

Figure 2-19: Net Impact on the Authority of the Delivery Options (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

Figure 2-20: Gross and Net Impact on the Authority of the Delivery Options (£million, FY 2022/2023 prices)



Source: Economic Case forecasting models

Comparison of Forecasts Across Scenarios

6.17 Table 2-8, Table 2-9 and Table 2-10 summarise the forecasts of demand, revenue and operating costs for the Reference Case and each of the Delivery Options.

6.18 The results show that in all cases, Franchising outperforms the Future Partnership and the Reference Case, with Services carrying more demand and generating more revenue for all combinations of bus patronage and Authority funding.

6.19 Whilst there exists uncertainty around the long-term impacts on demand and funding, these results show that, across scenarios, Franchising performs better than the Reference Case and the Future Partnership. For Franchising, demand ranges in FY 2042/2043 between 81 million and 160 million passengers (compared to a range of 76 million to 153 million for the Future

Partnership) and revenue in FY 2042/2043 between £92 million and £173 million (compared to a range of £86 million to £167 million for the Future Partnership).

Table 2-8: Summary of Bus Demand in FY 2042/2043 across Scenarios (journeys)

Option	Base demand			15% uplift in demand by 2031/32 and onwards			15% reduction in demand by 2031/32 and onwards		
	Base funding	Upside funding	Downside funding	Base funding	Upside funding	Downside funding	Base funding	Upside funding	Downside funding
The Reference Case	97m	125m	90m	119m	147m	113m	76m	102m	70m
The Future Partnership	100m	127m	93m	122m	150m	115m	78m	104m	72m
Franchising	105m	133m	98m	129m	158m	122m	83m	109m	76m

Source: Economic Case forecasting models

Table 2-9: Summary of Bus Revenue in FY 2042/2043 across Scenarios (£million, FY 2022/2023 real prices)

Option	Base demand			15% uplift in demand by 2031/32 and onwards			15% reduction in demand by 2031/32 and onwards		
	Base funding	Upside funding	Downside funding	Base funding	Upside funding	Downside funding	Base funding	Upside funding	Downside funding
The Reference Case	108m	141m	99m	129m	162m	122m	87m	119m	80m
The Future Partnership	110m	142m	102m	131m	164m	124m	89m	121m	82m
Franchising	115m	148m	107m	138m	171m	130m	94m	126m	85m

Source: Economic Case forecasting models

Table 2-10: Summary of Bus Operating Costs in FY 2042/2043 across Scenarios (£million, FY 2022/2023 real prices)

Option	Base demand			15% uplift in demand by 2031/32 and onwards			15% reduction in demand by 2031/32 and onwards		
	Base funding	Upside funding	Downside funding	Base funding	Upside funding	Downside funding	Base funding	Upside funding	Downside funding
The Reference Case	133m	198m	119m	149m	214m	137m	116m	181m	105m
The Future Partnership	137m	201m	123m	152m	219m	139m	119m	184m	108m
Franchising	142m	210m	128m	160m	229m	146m	126m	192m	110m

Source: Economic Case forecasting models

7 Approach to this Economic Assessment

Introduction

7.1 This paragraph 7 outlines the approach that has been taken to assess the impacts of the Delivery Options. This paragraph 7 outlines the methodology and key assumptions that have been used for calculating and monetising:

(a) User Benefits;

(b) Marginal External Impacts; and

(c) WEI.

7.2 The net impact of the Delivery Options compared to the Reference Case are presented in this paragraph 7. Both monetised benefit and relevant non-monetised benefits are discussed. Guidance from TAG and the HM Treasury's Green Book Guidance indicate that the VfM assessment is comprised of monetised benefits, non-monetised benefits and consideration of uncertainty in this analysis.

7.3 The following paragraphs in this Economic Case reflect the structure of DfT's standard 'Appraisal Summary Table', detailing the impacts of the Delivery Options on the:

(a) Economy (paragraph 8);

(b) Environment (paragraph 9);

(c) Society (paragraph 10); and

(d) Public Accounts (paragraph 11).

7.4 This Assessment also considers how the benefits will impact and be distributed among different social groups and demographics within the West Midlands. The groups relevant for each impact are defined by DfT guidance.[119]

Establishing the Appraisal Period

7.5 To appraise the Delivery Options, it is necessary to consider the length of time over which costs and benefits of intervention will be recorded. Typically, with transport intervention, an appraisal period of 60 years is used to reflect the period over which infrastructure investment still has residual use without needing complete renewal.

7.6 There is no significant infrastructure investment central to the Delivery Options which drive the appraisal period. The largest capital investment is the purchase of the ZEB fleet funded by the Authority in the Franchising Scheme. A monetised appraisal period of 40 years has been used starting from FY 2027/2028. To facilitate the introduction of ZEBs there will be further spend on charging facilitates and other associated infrastructure driven by the fleet investment.

7.7 The 40 year appraisal period aligns with the life cycle of a ZEB which is between 15 and 20 years. ZEBs typically need to renew their batteries or fuel cells (hydrogen only) midway through

---

[119] TAG Unit A4.2 Distributional Impact Appraisal

this length of time. For the Reference Case and the Delivery Options, the last diesel buses in the bus fleet are expected to be replaced in 2041 and their replacements would need to be renewed around 2056. A 40-year appraisal period was considered reasonable as it would fully realise the benefits of the Delivery Options, including the environmental benefits associated with the deployment of ZEBs. It is important to note that, in extrapolating demand, revenue, and costs beyond the forecasting horizon, care has been taken to ensure that the monetised appraisal is not unduly influenced by any individual year close before or after that horizon.

Economic Assessment Treatment of Revenue and Costs

7.8 Revenue and costs have been forecast from FY 2022/2023 to FY 2046/2047. The appraisal start date is assumed to be FY 2027/2028 and continues for 40 years. For appraisal years after the final forecast year no further growth is assumed. Revenue and costs for these years are the average of the last five forecast years. The final forecast year is FY 2046/2047 and the five year average starts from FY 2041/2042. For the Future Partnership, a six year average is used due to volatility of demand, revenue and costs in the forecast years. This assumption is made as reliable forecasting data and assumptions are not available for a longer period.

7.9 In line with the HM Treasury's Green Book Guidance and TAG, a number of adjustments have been made to the revenue and costs for the purpose of this Assessment.

7.10 The adjustments made are:

(a) **Conversion of costs to 2010 GDP Deflator real:** this has been done using RPI, to inflate to nominal terms, and GDP deflator indices, to derive real appraisal values from May 2024 version of DfT's TAG databook[120];

(b) **Conversion to market prices:** this adjustment is made to bring the costs in line with the transport user 'perceived cost' created by the effects of taxation. An uplift of 19% is applied to the costs, as per DfT's TAG requirements[121];

(c) **Optimism bias**: an optimism bias of 44% has been applied to the vehicle and depot costs, as per DfT's TAG.[122] Optimism bias is an economic construct, which, as a part of the economic assessment of each Delivery Option, is applied to costs to account for the observed tendency for underestimation of project costs; and

(d) **Discounting to 2010 PVs**: in line with the HM Treasury's Green Book Guidance[123] and TAG, costs have been discounted at 3.5% per annum for 30 years from now and 3.0% for the remaining 15 years of the appraisal period to 2066.

---

120 TAG databook annual parameters sheet

121 Chapter 5 of TAG Unit A1.2: Scheme Costs

122 Chapter 3 of TAG Unit A1.2: Scheme Costs

123 Annex 6 of The Green Book

Monetised Appraisal

7.11 The appraisal has been conducted in line with the latest TAG guidance available at the time of this Assessment and associated TAG Databook parameters provided by DfT.[124] All values are shown as 2010 PVs and 2010 Market GDP Deflator Real prices.

Estimating Benefits per Trip

7.12 DfT's prescribed approach to deriving bus user benefits is to assess the change in the GC of travel between the Reference Case and the Delivery Options. This includes GT and the monetary cost of travel to the passenger. The time component is a composite measure of people's journeys that considers each leg of a trip – walking to a stop, wait time, in-vehicle journey time, walk from a stop, and interchange (if applicable) weighted relative to in-vehicle time to account for difference in passenger perceptions.[125] The monetary cost of travel can be converted into time units by the application of a value of time.[126]

7.13 Transport demand is responsive to changes in travel costs. This change is typically forecast using observed elasticities to forecast the demand impact based on passengers' responsiveness to changes in fares or to the components of journey times. The same elasticities can be used to estimate the average GC change experienced based on predicted change in demand.

7.14 The forecasting approach applied for the VfM assessment works dynamically at an individual Service level, representing the affordability and commercial difficulties affecting the Operators and LAs. The framework offers spatial detail and capability in comparison with an aggregate approach.

7.15 The demand forecast for the Reference Case and the Delivery Options has been based on the elastic response of bus users to changes in service levels and fares, as described in paragraph 4.57. The consolidated demand change between the Reference Case and the Delivery Options has been used to estimate the average passenger benefit, that is the benefit which would result in the overall forecast change in demand. The assumptions for this calculation as well as a worked example are provided in the Economic Case Appendix.

7.16 The benefits per journey are estimated based on the change in GT minutes, creating the demand forecasts shown in paragraph 6. For existing journeys, passengers receive the full-time benefit. The interventions will generate additional bus journeys that would not have occurred in the Reference Case. Based on the TAG 'rule of a half', for new journeys passengers receive half the value of the equivalent time benefit.[127]

7.17 Total journey time benefits have been monetised within this Assessment using passenger values of time. The values of time vary based on whether a journey is for business, commuting or other purposes. To calculate the total user benefits, the forecast demand is segmented into

---

124 May 2024 TAG Databook

125 Weightings as per Chapter 6 of TAG Unit A1.3 User and Provider Impacts

126 Sourced from table A1.3.2 of the May 2024 TAG databook

127 TAG UNIT A1.3 User and Provider Impacts - Page 2

these groups. The values of time and journey purpose splits for bus users are taken from the TAG Databook.[128]

Marginal External Impacts

7.18 Travel and transport use is associated with a number of impacts include social, environmental and economic impacts. These impacts affect the wider society and impact users of other transport modes and 'non-transport' users. These impacts are broadly created by vehicle movements and include:

(a) Congestion: any vehicles using public highways will generate congestion affecting journey times and journey reliability of other road users;

(b) Greenhouse Gas Emissions: many forms of transport are associated with greenhouse gas emissions such as CO2;

(c) Local Air Quality Impacts: most forms of transport generate emissions such as particulates and NOx. These create adverse health conditions in people exposed to them particularly when created in high concentration;

(d) Accidents: in any form of transport there is an inherent risk of accidents occurring. The costs of any accidents include those associated with injury, death, pain and suffering or property damage. Increasing the number of vehicle kilometres on the road will increase the numbers of accidents, incurring a social cost;

(e) Noise: transport generates noise which can impact on the health and wellbeing of those exposed to it;

(f) Infrastructure Costs: vehicles generate wear and tear on the infrastructure they use, meaning they have to be maintained, repaired and replaced at a cost to the infrastructure provider. Increased vehicle movements will increase the rate of wear and tear and increase these costs; and

(g) Indirect Tax: the use of some vehicles generates tax income for HM Treasury through fuel duty. Any change in the amount these vehicles are used will affect the quantum of tax generated.

7.19 The MEC values in TAG A5.4 provide the marginal cost associated with an additional kilometre of vehicle travel by region. The West Midlands is used to estimate the net changes in MEC resulting from each Delivery Option. The MEC of these externalities is set out in Unit A5.4 of TAG (May 2024) and estimates the change in these costs as a result of the transport interventions and within the VfM assessment it will measure the MEC of travel as a result of the Delivery Options. The proposed interventions in Services impact the MEC of travel as a result of reductions in private car usage, introduction of ZEBs and increases in Services.

---

128 May 2024 TAG databook annual parameters and table A1.3.16

Impact of Reduced Car Use

7.20 Both Delivery Options will increase bus usage in the Authority's Region compared to the Reference Case, and a proportion of this bus usage will be as a result of modal shift away from private cars, reducing the total external costs of vehicle journeys in the Authority's Region.

7.21 Using an approach consistent with TAG, a per trip MEC is calculated based on an average length of a car journey in each Franchising zone.[129] This unit cost is applied to all new bus journeys which would otherwise have been taken by car, assumed to be 25% of the increase in bus demand based on the TAG bus diversion factors for Metropolitan areas.[130]

Impact of Additional Services

7.22 Additional Services will generate a disbenefit as buses generate external costs, although typically smaller values per passenger journeys than with cars. As the Delivery Options generate more Services than the Reference Case this will cause a disbenefit in terms of externalities.

7.23 TAG provides PSV MEC rates for congestion, air quality, greenhouse gas, and indirect taxation impacts. PSV MEC for road infrastructure maintenance costs, accidents, and noise are assumed to be zero, and for the purposes of this Assessment ZEB local air quality, greenhouse gas, and indirect taxation MEC have also been assumed to be zero.

7.24 The PSV external costs have been calculated using the unit rates per PSV kilometre from TAG and applying an uplift on the number of service kilometres operated as a result of the interventions.

Impacts of ZEBs

7.25 The greenhouse gas and air quality externalities vary depending on how a vehicle is powered. Transitioning to a ZEB fleet from a diesel engine bus fleet will reduce the greenhouse gas and air quality impacts of bus.

7.26 The Reference Case and the Delivery Options assume that the whole bus fleet in the Authority's Region will transition to using ZEBs. Under Franchising, the Authority has the opportunity to accelerate the transition to a ZEB fleet, but there is uncertainty surrounding this. Therefore, it is not assumed that the Delivery Options will accelerate this transition therefore there is no environmental net benefit for either Delivery Option.

Revenue Impacts

Impacts on Services

7.27 Both the Delivery Options would allow a greater number of Services to be operated than the Reference Case. This leads to a greater number of fare-paying passengers in the West Midlands Bus Network which will increase the revenue generated. The total costs of operating Services will slightly increase partially offsetting some of this revenue increase.

---

129 Internal analysis using outputs from PRISM modelling

130 Table A5.4.6 from the May 2024 TAG databook

Impacts on other Public Transport Modes

7.28 Bus competes with rail and the tram network in multiple places across the West Midlands. As a result of reform, some passengers may shift away from these modes to bus. The Authority want to support integration between all modes, but this has not been represented in this Economic Case. The drop in demand on rail services as a result of this mode shift, will impact ticket sales and therefore revenue, affecting the Government's transport budget.

7.29 The impact on rail revenue has been calculated based on:

(a) a yield per rail journey of £2.26 (2023 prices) has been assumed a reasonable estimate of the average yield of rail journeys that could be abstracted to bus. This assumption is based upon average adult heavy rail fares and does not include Metro fares.[131] This value is assumed to remain constant in GDP Deflator real terms (noting that any real increases in rail fares may lead to additional demand transferring to Services, if bus fares do not increase in real terms); and

(b) using TAG bus diversion factors an assumed 29% of the induced bus demand from interventions coming from journeys that would have otherwise been taken by rail.[132]

Impacts on Exchequer

7.30 Fewer car journeys and rail journeys, as a result of bus reform, will have a direct impact on tax income. Fewer car journeys will reduce fuel consumption and the tax income from the duty paid on it. Fewer rail journeys will already reduce indirect taxation due to reduce tax from rail fares. In addition to these impacts, an increase in bus patronage will reduce indirect tax this, as it is assumed in TAG that money spent on untaxed public transport travel would have been spent elsewhere in the economy where this is indirect tax.

Social Benefits of Services

7.31 Improving connectivity within the West Midlands Bus Network can increase access to education and employment opportunities as well as access to activities that reduce social exclusion. Increased patronage will generate social benefits as a result. For the Delivery Options, the value of the social impact of improved Services have been calculated by:

(a) Estimating the number of return (non-business) trips that only occur because of the enhanced Services based on the demand uplift in each Delivery Option and applying the TAG bus diversion factor for 'no travel' of 12%[133];

(b) Applying the social benefit value from TAG for return trips, which is £3.84 for concession pass holders and £8.17 for non-concession pass holders, in 2010 prices[134]; and

---

131 TfWM Rail Yield Analysis

132 Table A5.4.6 from the May 2024 TAG databook

133 Table A5.4.6 from the May 2024 TAG databook

134 Table A1.3.18 of the May 2024 TAG databook

(c) Applying value of time growth to the social benefit values to estimate the benefits over the appraisal period.

7.32 The social benefits highlighted above are not in addition to the user benefits, as indicated in the relevant research published by the DfT[135] and in the TAG Databook[136] on the value of the social impact per return bus trip. However, they do provide context and rationale for how transport intervention can deliver social benefit by monetising the proportion of benefits relating to trips that would have otherwise not taken place.

Non-monetised Impacts

7.33 As required by the HM Treasury's Green Book Guidance and TAG, the VfM assessment must consider the monetised impacts and non-monetised impacts where these are relevant and material. In addition, the assessment should consider any uncertainty, which is considered through scenario and sensitivity testing. Within this Assessment, although a proportion of impacts have been monetised, some impacts which are part of the assessment of the Delivery Options have not been.

7.34 These non-monetised aspects have been assessed using DfT's TAG[137] seven-point scale: Large Beneficial; (Moderate) Beneficial; Slight Beneficial; Neutral; Slight Adverse; (Moderate) Adverse and Large Adverse. These, together with the monetised impacts as well as the uncertainty in deriving these, have been used to determine VfM categorisations for each of the Delivery Options under consideration.

Distributional Impacts

7.35 DI assessments consider the different impacts of a proposed scheme on the particular social groups defined in TAG. As part of the DI assessment, the proportion of the population impacted by a proposal who fit into each of these social groups is compared to the proportion living in a LA area, and the UK population as a whole.

7.36 Unlike typical transport interventions, where the outcome may have a significant impact on a certain geographic population, bus reform affects the whole of the Authority's Region. The distribution of benefits across both Delivery Options are spread relatively evenly across the Authority's Region, benefiting all social groups and geographies.

7.37 Further interventions made possible by bus reform are likely to have more impact on different geographic areas and social groups and would need to be assessed on an individual intervention level. These future interventions such as bus priority improvements are not certain, they have not been assessed within this Economic Case.

7.38 TAG unit A4.2 recommends that the first step in the DI assessment is to identify the broad areas that are likely to be impacted by the transport intervention, and whether there will be positive or negative effects on different social groups. For the purpose of this Assessment, the following metrics identified by TAG have been put forward for further consideration in the second step

---

135 Monetising the social impact of bus travel, Mott MacDonald and Department for Transport

136 Table A1.3.18 of the May 2024 TAG databook

137 Appendix A of Transport Analysis Guidance, The Transport Appraisal Process

recommended by TAG, the assessment of a proposed scheme's impacts on different social groups:

(a) User benefits;

(b) Accessibility;

(c) Air Quality; and

(d) Affordability.

7.39 Whilst there are other relevant metrics set out in TAG, such as noise, accidents, security, or severance, they are not considered to be materially impacted by any of the Delivery Options under consideration, or that their impacts do not disproportionately affect any particular social group. As such, they have not been further assessed as part of the DI analysis.

User Benefits

7.40 The split of user benefits is relatively even across the Franchising zones in the Authority's Region.

Accessibility

7.41 The main measure of accessibility for the Delivery Options assessed is the number of Services that operate under each.

7.42 As this Economic Case has described earlier, Franchising would enable a greater number of Services to be operated than the Future Partnership scenario. The Future Partnership, in turn, enables the operation of more Services than the Reference Case for all patronage and funding scenarios. There will be a higher demand for these Services in a Franchising outcome than the Future Partnership or the Reference Case.

7.43 A greater level of accessibility is therefore provided by the Delivery Options than by the Reference Case, providing opportunities for more disadvantaged social groups, such as people with disabilities, younger or older people, or those from minority groups to access leisure, recreation, and employment opportunities throughout the West Midlands.

Air Quality

7.44 Every year in the West Midlands, up to 2,300 people die early due to long-term exposure to air pollution.[138] The distribution of poor air quality often disproportionately affects the most underprivileged areas. In order to address this, the Authority's Region has 7 AQMAs, as well as a CAZ in Birmingham.

7.45 Poor air quality that is caused by high levels of air pollution can negatively impact the health of a population. This can have a knock-on effect by causing long-term health issues, reducing productivity and life expectancy of the population, see Table 2-11.

---

138 Air Quality (wmca.org.uk)

Table 2-11: Life expectancy in the West Midlands

Metric	Birmingham	Coventry	Dudley	Sandwell	Solihull	Walsall	Wolverhampton	West Midlands	England
Male life expectancy at birth (years)	76.3	76.8	78.3	75.7	79.5	76.9	76.3	77.1	78.9
Female life expectancy at birth (years)	81.1	81.6	82.4	80.6	83.6	81.2	80.4	81.6	82.8

Source: Office for Health Improvement and Disparities

7.46 Life expectancy is lower than the national average for males and females in all the West Midlands apart from Solihull. The two areas with the lowest life expectancy are Wolverhampton and Sandwell. Birmingham has a CAZ, whilst the whole of Sandwell Borough has an AQMA in place. This highlights the importance of air quality to health outcomes in the West Midlands.

7.47 In the Reference Case and the Delivery Options, increased uptake of ZEBs will lead to an improvement in air quality in the places where the ZEB fleet is rolled out. Whilst the Delivery Options may allow for the rollout of ZEBs to targeted areas with highest air quality issues, this has not been quantified in this Economic Case because there is no current plan as to where specifically in the Authority's Region, or on which routes, ZEBs would be rolled out to. This would not be expected to have any material impact on the case for either Delivery Option due to the likely low scale of any monetised impact when compared with other appraisal elements, thus the air quality impact is neutral.

Affordability

7.48 Affordable Services play a key role in enabling certain social groups to access opportunities that may not be otherwise available due to lack of alternative transport modes. This is particularly important for younger and older people that may use bus as their primary means of transport.

7.49 Birmingham has the largest proportion of population which is 14 years and younger and the smallest proportion of people aged 60 and above. In comparison, around 27% of Dudley and Solihull populations are over 60, as well as having very low proportion of 15- to 24-year-olds. The age profiles of the districts in the West Midlands are shown in Table 2-12.

Table 2-12: Residential population in West Midlands by district

Population age profile	Birmingham	Coventry	Dudley	Sandwell	Solihull	Walsall	Wolverhampton	West Midlands average
14 years and younger	20.91%	18.68%	17.70%	20.80%	18.07%	20.17%	19.74%	18.12%

Population age profile	Birmingham	Coventry	Dudley	Sandwell	Solihull	Walsall	Wolverhampton	West Midlands average
15 to 24	15.69%	16.50%	10.75%	12.40%	10.43%	11.77%	11.81%	12.11%
25 to 39	21.67%	21.46%	19.17%	21.05%	17.64%	19.93%	20.59%	19.43%
40 to 59	23.99%	24.06%	26.19%	26.17%	26.77%	25.29%	26.12%	25.86%
60 to 74	8.32%	8.60%	10.96%	9.10%	11.06%	9.97%	9.82%	10.64%
75 years and older	9.42%	10.69%	15.22%	10.49%	16.02%	12.87%	11.92%	13.84%

Source: Office for National Statistics TS007A – Age by five-year age bands

7.50 As well as this, affordable Services are important for ensuring deprived social groups have access to opportunities and to important Services. Table 2-13 shows that over a third of Birmingham LSOAs are in the top 10% most deprived nationally, with over a quarter of Walsall LSOAs in the same situation.

Table 2-13: Indices of multiple deprivation in the West Midlands by District in 2019

2019 Indices of Multiple Deprivation	Birmingham	Coventry	Dudley	Sandwell	Solihull	Walsall	Wolverhampton	West Midlands average
Deprivation - Proportion of LSOAs in most deprived 10% nationally	41%	14%	11%	20%	12%	26%	21%	26%

Source: Ministry of Housing, Department for Levelling Up, Housing and Communities English indices of deprivation 2019.

7.51 The Delivery Options will help with affordability of the West Midlands Bus Network for the most disadvantaged and vulnerable social groups. The Future Partnership includes fare capping and reductions in the price of multi-Operator tickets, whilst the Franchising Scheme gives the Authority full control over fares and ticketing for the Services. It is reasonable to assume that neither Delivery Option would lead to negative affordability outcomes for low income groups in the West Midlands, and it is likely that fares and ticketing interventions in both Delivery Options would lead to positive affordability outcomes for low income groups.

Summary

7.52 The Delivery Options would provide benefits across the Authority's Region, without a disproportionate impact, either positive or negative, on any geographical area or social group. Franchising, however, could enable the operation of more Services under a given funding package than the Future Partnership, or the Reference Case, would. Because of this, there is a chance that Franchising would have greater potential to address some of the challenges related to equity, affordability, air quality, and accessibility than the Future Partnership or the Reference Case would.

7.53 The Authority's Region could see greater possible advantages through Franchising than with the Future Partnership, due to the control that the Authority would have over the West Midlands Bus Network, and how it can align the benefits of Services to those areas most in need of them. There has been no specific consideration given to how Franchising could influence distributional outcomes to those most in need.

8 Impacts on the Economy

Introduction

8.1 The study of the economic impacts for this Economic Case is presented in the order set out in the DfT Guidance. Initially, this paragraph 8 considers how buses contribute towards growing and enhancing the economy of the West Midlands. The economic impacts appraised include those benefits which affect economic output including productivity impacts from time savings, other transport user benefits, impacts on Operators, and wider economic impacts associated with the Delivery Options.

8.2 The results refer to the core demand and the funding scenario that assumes a constant Authority budget, in real terms. The impacts results presented in this paragraph 8 and the subsequent paragraphs 9, 10 and 11 are calculated as net figures against the Reference Case to allow direct comparison between the Delivery Options.

Passenger Benefits

Business Bus Passenger Benefits

8.3 Business passengers receive only a small amount of the benefit of Services compared to those using buses for commuting and other journey purposes, as business use only constitutes 1% of bus demand.[139] The business bus passenger benefits equate to £7.8 million for the Future Partnership and £18.6 million for Franchising.

8.4 Paragraph 3 discussed the slight beneficial impacts of the proposed interventions to improve customer service and integration with other modes. Franchising will deliver an integration benefit, whilst the Future Partnership would only deliver part of the customer experience benefit compared to Franchising. These benefits have not been specifically modelled as part of this Assessment.

Transport User Benefits from Other Modes

8.5 Road transport users using other modes benefit from bus reform through decongestion from the modal shift to bus, and the related societal impacts. To the extent that additional Services, incremental to the Reference Case, require additional vehicles on the road, these Services would generate additional congestion. However, given that additional Services would be filled by passengers at least partly diverted from private car, the net impact on congestion is likely to be positive. Compared to bus use for business journeys, non-bus users receive a higher

---

139 Table A1.3.16 of the May 2024 TAG Databook

proportion of the impacts due to a higher journey purpose share of 26.9%.[140] The number of vehicles required for the Delivery Options may cause a small disbenefit, but this has not been modelled and the number of vehicles is assumed to stay constant.

8.6 The net impact on non-bus business journeys stems primarily from the reduction in MEC imposed as a result of car travel, monetised using the DfT MECs approach. The total travel benefit accrued for non-bus business journeys as a result of fewer car journeys is £2.6 million and £7.7 million for the Future Partnership and Franchising respectively.

Private Sector Transport Provider Impacts

Overall Impact on the Operators

8.7 The Delivery Options will have a number of impacts on the Operators within the Authority's Region in three main ways:

(a) the enhancements to Services will increase the cost of operating Services;

(b) the enhancements to Services will increase revenue generated; and

(c) the number of Services operated under Supported Services Contracts increases over time for the Reference Case and the Future Partnership due to the reduction in commerciality of the West Midlands Bus Network over time. This reduces the overall margin received by the Operators.

8.8 The net effect on the Operators under the Delivery Options compared with the Reference Case is shown in Table 2-14, where the impacts should be thought of in terms of flows towards the Operators, meaning negative values represent incremental costs, and more negative values means greater incremental cost is incurred. The commercial costs and revenues under the Franchising Scheme are for those Services that continue under commercial operation during the transition period.

8.9 SMOs are likely to benefit from the opportunities that the Franchising Scheme presents. SMOs will be able to bid for individual Lots with pre-specified Services, rather than the capital-intensive and more risky challenge of entering the market under the current regulatory conditions.

Table 2-14: Summary of Aggregate Operator Impacts

2010 PV	**The Future Partnership (£million)**	**Franchising (£million)**
Passenger Revenue	£1.4	-£173.2
Supported Services Contract Payments	£44.5	£281.4
Operating Costs	-£46.1	-£95.6
Net Impact	**-£0.2**	**£12.6**

140 Table A1.3.16 of the May 2024 TAG Databook

Source: Economic Appraisal

WEI

8.10 Transport interventions can lead to a range of WEI which benefit the wider economy. The benefits are often greatest where markets are not operating efficiently, and transport interventions can help to overcome this. For example, better connecting areas of high unemployment with industrial areas may lead to an increase in the number of people employed, and improvements to the attractiveness of the industrial site due to its improved access to a pool of labour.

8.11 The scope of analysis envisaged at each of the levels set out in TAG[141] reflects this distinction, whereby 'Level 1' benefits cover direct economic impacts in the transport market assuming the scheme brings about insignificant land-use change, excluding all WEI. 'Level 2' benefits build on this to capture wider 'connectivity' related economic impacts that can be estimated without explicit land-use modelling. These are:

(a) **Agglomeration** (static clustering): positive productivity effects which increase with the scale and concentration of economic activity within a conurbation. Through bus reform, agglomeration benefits arise from firms and workers being located 'closer' to one another;

(b) **Output change in imperfectly competitive markets**: improvements to competition that arise from increasing the number of accessible suppliers of goods and Services. Transport improvements can stimulate competition, through new entrants joining the market; and

(c) **Labour supply impacts**: reductions to commuting costs remove barriers to work and increase the range of opportunities available to jobseekers. Transport improvements can encourage new workers to join the labour market.

8.12 Table 2-15 provides a summary of the WEI for the Delivery Options. It shows that Franchising provides significantly more WEI than the Future Partnership. Both Delivery Options still provide a net benefit for WEI compared to the Reference Case. There is a lot of uncertainty surrounding the WEI estimates provided, which should be considered fairly illustrative and shouldn't be given much weight in the final decision.

Table 2-15: Wider Economic Impact Summary

Benefit	The Future Partnership (£million)	Franchising (£million)
Agglomeration	£66.7	£246.2
Imperfectly competitive markets	£0.7	£2.2
Labour Supply Impacts	£1.9	£6.8

141 Section 3.2 of TAG Unit A2.1 Wider Economic Impacts Appraisal

Total WEI	**£69.3**	**£255.2**
% of total conventional benefit	**19.4%**	**29.5%**

Source: Economic Appraisal

Additional Economic Impacts

Reliability Impact on Business Passengers

8.13 The reliability impacts anticipated for bus passengers depend on the delivery and funding for bus priority measures. Whilst improvements to reliability are a key consideration, they stem more from bus priority measures – something not covered by regulatory change. A benefit of Franchising is that the Authority would have the responsibility to deliver reliability interventions and receive the benefits of increased fare income. This provides an incentive for the Authority to deliver on reliability issues, as an important feature of Franchising.

8.14 However, given reliability improvements are dependent on additional funding becoming available, and it is not known if any reliability improvements would only be delivered under one of the Delivery Options, this Economic Case has not included reliability and the potential monetised benefits reliability improvements may bring about.

Regeneration

8.15 There are assumed to be no material regeneration benefits as a result of bus reform. Although improvements to service frequency, additional Services and service route changes will deliver connectivity enhancements, these are not expected to directly support or enhance public transport accessibility to major developments. The impact has therefore been assessed as neutral for the Reference Case and the Delivery Options.

Summary

8.16 A summary of the impacts on the Economy is provided in Table 2-16.

Table 2-16: Summary of the Impacts on the Economy

2010 PV	The Future Partnership (£million)	Franchising (£million)
Business Users	£10.4	£26.3
Transport Providers	-£0.2	£12.6
Reliability (Business Users)	Neutral	Neutral
Regeneration	Neutral	Neutral
Wider Impacts	£69.3	£255.2

Source: Economic Appraisal

8.17 The non-monetised impacts (reliability and regeneration) are considered to have a comparable, neutral impact in Franchising and the Future Partnership scenarios. Business bus passenger impacts are nearly six times higher in Franchising than in the Future Partnership. As discussed above, the impact on transport providers is different under each Delivery Option. Under Franchising, with the revenue, operating cost, and investment cost impacts resulting in a negative impact on the Operators overall, whilst the additional Services compared to the Reference Case deliver a small benefit to the Operators in the Future Partnership.

9 Impacts on the Environment

Introduction

9.1 The study of environmental impacts for this Economic Case includes the benefits and disbenefits of transport interventions on the natural and physical environment. Unlike other transport interventions, bus reform does not construct new physical infrastructure, meaning the scope for environmental impacts is limited to those caused by vehicle use. There is an overlap between the impacts on the environment and impacts on society (set out in paragraph 10).

9.2 The impacts considered on the environment set out by TAG are:[142]

(a) Noise;

(b) Air Quality;

(c) Greenhouse Gases;

(d) Landscape;

(e) Townscape;

(f) Historic Environment;

(g) Biodiversity; and

(h) Water Environment.

Noise

9.3 The associated reduction in car journeys resulting from bus reform will reduce car-related noise pollution, which will give health benefits to residents. Whilst there is potential for an adverse effect on noise pollution from the increase in Services, this will be offset by transition to battery and hydrogen buses with quieter engines than diesel buses. The DfT TAG Databook[143] value for the noise impacts of PSV is zero.

9.4 Noise impacts are calculated using the level of modal shift described in paragraph 3 and MEC rates from the latest TAG Databook[144] which use average values of noise benefit; though in reality these impacts could be more pronounced than the MEC average near significant

---

142 TAG unit A3. Environmental Impact Appraisal

143 MEC sheet of the May 2024 TAG Databook

144 MEC sheet of the May 2024 TAG Databook

receptors and in central locations where bus represents a significant proportion of the traffic flow.

9.5 The PV benefits of noise reduction are £0.2 million and £1.5 million for the Future Partnership and Franchising respectively, relative to the Reference Case. This is driven by a higher volume of car journeys being replaced by bus journeys under the Delivery Options than in the Reference Case.

Air Quality

9.6 Air Quality improvements resulting from implementation of the Delivery Options come from two avenues:

(a) the first way is through modal shift away from car use. The level of modal shift between other modes and bus is calculated through the bus diversion factor approach outlined in paragraph 7. Emissions generated per person per trip by bus are significantly lower than the equivalent by cars. Health benefits will be generated by the net reduction in NOx and particulate emissions from travel. The relatively higher number of Services resulting from the Delivery Options will generate a small air quality disbenefit that will be outweighed by the benefit generated by modal shift. The net air quality benefits, estimated using the MEC approach outlined in TAG, are £0.1 million and £0.3 million PV for the Future Partnership and Franchising respectively, relative to the Reference Case; and

(b) the second way is through the introduction of ZEBs into the fleet, given that the tailpipe emissions of ZEBs are significantly lower than those of diesel buses. Under the Delivery Options, the pace of ZEB introduction is more certain than in the Reference Case, enabling maximisation of potential benefits. However, the Reference Case and the Delivery Options transition to a ZEB fleet at the same speed and therefore this has not been quantified.

9.7 The monetised air quality benefits of ZEBs under the Franchising and the Future Partnership are modest, relative to the Reference Case. There are several factors that may change the scale of these benefits as described below.

9.8 These benefits have been calculated using the TAG MEC methodology.[145] The approach assumes that the introduction of ZEBs negates any emissions that affect air quality; however, particulate emissions are also produced by tyres, brakes and degradation of the road surface and therefore will still be produced by ZEBs. However, in the context of the monetised appraisal this impact is assumed to be negligible and has not been quantified.

9.9 Vehicle emissions impact air quality in a very localised manner, and benefits of reduced emissions differ by area. MEC associated with air quality in TAG are based on average air quality across the UK, however urban areas tend to have a significantly lower air quality than the national average. As there is a significant urban coverage in the Authority's Region, the average UK values in MEC may understate the true benefit of the increase in air quality. The CAZ in Birmingham, and AQMA across the Authority's Region, are at risk of not meeting air quality objectives set by the Government.

---

145 TAG Unit A5.4 Marginal External Costs

9.10 This differing distribution of air quality benefits will play a role in deciding where ZEBs should be rolled out. The localised air quality conditions mean that targeting ZEB introduction in areas of low air quality can maximise the benefits associated. In Franchising, as opposed to the Reference Case, and the Future Partnership to some extent, where ZEB rollout is market-led, the Authority has full control over where ZEBs are introduced. This will help to maximise the air quality benefits. The introduction of ZEBs under the Franchising Scheme has not been developed and planned to the level of detail of which Services, routes, or corridors would benefit from ZEBs and precisely when.

9.11 There is a material gross benefit of ZEBs under the Future Partnership and Franchising, however, net of the Reference Case, this is much smaller. The Reference Case takes an arguably optimistic view of the pace of Operator-led introduction of ZEBs. Under the Future Partnership, it is assumed that the Authority would include the ability to negotiate full influence of the pace of transition in the Future Partnership conditions. A slower pace of change in the Reference Case would lead to a somewhat higher net benefit under the Delivery Options. In the Franchising Scheme, the financing of ZEBs by the Authority ensures certainty of the pace of transition and that the vehicles with the lowest emissions are introduced.

9.12 Overall, and on the basis of the MEC results and the potential for further benefits related to the possible faster pace of transition, the net air quality benefits of the Delivery Options can be argued to be moderately beneficial, particularly for Franchising.

9.13 Over the appraisal period, the eventual transition to an entirely ZEB fleet will ensure the air quality benefits are pan-regional. However, as noted earlier, before the entire fleet is converted, Franchising gives greater control to the Authority over where the deployment of ZEBs is prioritised. This means their use can be targeted at areas where vulnerable demographics, for example children, will be impacted most, such as routes adjacent to schools. This will have a positive distributional impact on the air quality benefits towards these groups, though this benefit has not been specifically quantified and monetised in the economic appraisal.

Greenhouse Gases

9.14 Greenhouse gas emissions will be reduced through the same two avenues as air quality – modal shift and reduced emissions of buses.

9.15 The reduction in greenhouse gases resulting from the Delivery Options is estimated at £1.0 million and £2.7 million for the Future Partnership and Franchising respectively. This modal shift is calculated using a bus diversion factor from the DfT TAG databook[146] and the impact is calculated using the MEC methodology.[147]

9.16 In Franchising and the Future Partnership scenarios, the introduction of ZEBs generates a reduction in greenhouse gases, though this is not assumed to be incremental to the Reference Case. There may be greenhouse gas emissions associated with the energy source used in the ZEBs; however, this Economic Case does not take this into account and assumes zero emissions based on the point of use. However, these associated emissions would still be lower than emissions from diesel buses, and so the level of benefit remains similar.

[146] Table A5.4.6 of the January 2023 TAG Databook

[147] TAG - Marginal External Costs

9.17 As mentioned above in paragraphs 7.44 to 7.47, the Future Partnership and, to a greater extent, Franchising, provides more certainty that ZEBs are introduced at a maximised rate of introduction. This could increase the benefit from slight to moderate.

9.18 In the context of a declining West Midlands Bus Network, car trips would increase. Under the Delivery Options, however, there would be a lower decline in bus trips, leading to an incremental greenhouse gas benefit over the Reference Case.

Additional Environmental Indicators

9.19 TAG[148] indicates that this Assessment should also consider the environmental impacts on landscape and townscape, historic environment, biodiversity, and the water environment of the area affected by the Franchising Scheme. Whilst these can be important indicators for predominantly infrastructure projects, the Delivery Options will not have the same physical impacts and therefore these impacts do not need to be considered in any detail, since the programme impact of either Delivery Option will be negligible as both are scored **Neutral**.

Summary

9.20 The Delivery Options have limited impacts on the natural and built environment, centring mainly on modal shift and greater certainty over the introduction of ZEBs. The replacement of the existing, largely diesel fleet, in line with national and local policy and commitments to achieving Net Zero, is anticipated to happen under the Reference Case and the Delivery Options; the advantages of the Delivery Options are therefore marginal benefits from providing greater confidence in the rate of change and of focusing ZEBs deployment in areas where improvements in local air quality and/or traffic noise are most needed.

9.21 Table 2-17 summarises the performance of the Delivery Options, relative to the Reference Case, against the Environment impact categories set out in TAG.

Table 2-17: Summary of the Impacts on the Environment

2010 PV	The Future Partnership (£million)	Franchising (£million)
Noise	£0.2	£1.5
Air Quality	£0.1	£0.3
Greenhouse Gases	£1.0	£2.7
Landscape	Neutral	Neutral
Townscape	Neutral	Neutral
Historic Environment	Neutral	Neutral
Biodiversity	Neutral	Neutral

148 TAG Unit A3, Environmental Impact Appraisal

2010 PV	The Future Partnership (£million)	Franchising (£million)
Water Environment	Neutral	Neutral

Source: Economic Appraisal

9.22 There is little difference between the Franchising and the Future Partnership with regard to environmental benefits. There is a marginally higher benefit for both Delivery Options relative to the Reference Case, with the benefits from Franchising marginally higher than for the Future Partnership. These stem from greater opportunities for the Authority to directly influence ZEB introduction.

10 Impacts on Society

Introduction

10.1 The impacts on society set out by TAG[149] measured in the Economic Appraisal relate to the first-order impacts on transport users who travel for non-business purposes, including commuters, those in education, and other purposes. Societal impacts include those on bus passengers, other highway users as well as active travel users.

Passenger Benefits

Consumer Bus Passenger Benefits

10.2 The largest proportion of benefits under the Delivery Options are made up of welfare impacts on non-business bus passengers. Bus trips for commuting and other purposes make up over 98% of demand,[150] counteracting the lower value of time estimates compared to business passengers.

10.3 The monetised impacts of the Future Partnership and Franchising stand at £337.8 million and £812.5 million respectively. They are primarily driven by door-to-door journey time savings due to the better preservation of existing Services, alongside new Services, and the increased coordination, rationalisation, and frequency of existing Services.

10.4 Passenger charge benefits enabled by fares and ticketing reform make up a small percentage of the passenger benefits and are outlined in paragraphs 10.20 and 10.21.

Transport User Benefits (other Modes)

10.5 Bus diversion factors from TAG[151] indicate that of the additional demand in the Delivery Options, 25% of journeys would otherwise have been made by private car, and 10% made by taxi or other private hire vehicles.[152] This modal shift will ease congestion and enable reduced journey

---

149 TAG Unit A4.1. Social Impact Appraisal

150 Table A1.3.16 of the January 2023 TAG Databook

151 Table A5.4.6 of the January 2023 TAG Databook

152 Table A5.4.6 of the January 2023 TAG Databook. Of the remaining 65%: 11% comes from rail, 18% from light rail, 6% from cycle, 18% from walk, and 12% from people who didn't travel previously.

times for other road users. There is, however, a congestion disbenefit of the increased number of buses operating in the Delivery Options. The monetised benefit of the Future Partnership and Franchising stand at £8.8 million and £25.8 million respectively.

10.6 The distribution of the wider transport user benefits will be similar to the bus passenger benefits as the change in congestion, calculated as a part of the MEC impacts, will occur in the same areas as the new bus journeys take place.

Social Value of Bus

10.7 The Delivery Options will keep existing Services in place. There is a benefit to society of not withdrawing existing Services. Buses provide access to education, employment, and leisure and recreation activities across the Authority's Region. As such, the non-removal of these Services has social value that can be monetised through TAG A4.1. This Economic Case has monetised the benefits of keeping existing Services running.

10.8 This Economic Case applies the value of the social impact per return bus trip to the passenger that do not lose their Services as a result of the Delivery Options as they would have done under the Reference Case. These values are split by concessionary and non-concessionary pass holders. The impacts of these trips are included in, and are not additional to, the passenger benefits reported in at the start of this paragraph 10. They are £27.0 million and £65.7 million for the Future Partnership and Franchising respectively.

Reliability

10.9 As mentioned previously in this Economic Case, the Delivery Options do not include the implementation of bus priority measures or other measures targeted towards improving reliability and journey times. The Delivery Options do, however, give the opportunity to make such reliability improvements.

10.10 In the Future Partnership, this opportunity will fall to the public sector to commit to reliability interventions, and to incentivise and reward the Operators for their commitments. For the Operators, the incentive to provide reliable Services changes from an indirect impact on revenue (from passengers travelling by other modes) to a direct impact (incentive payments from the Authority).

10.11 Under Franchising, the public sector itself would receive additional revenue generated as a result of increased reliability, offering further incentives to introduce reliability and punctuality measures. The Authority would have even more control over reliability, which would be specified in the Franchise Contracts.

10.12 A **Slight Beneficial** impact has been assumed for the Delivery Options as the extent of these opportunities is limited and a large amount of uncertainty around the implementation of bus priority measures.

Physical Activity

10.13 As with the reliability measures above, the Delivery Options are unlikely to involve any significant changes to bus routes and infrastructure. Previous work completed for the Authority has found that additional bus travel can, on net, generate physical activity benefits through increased walking to and from bus stops. Though the magnitude of those benefits is highly uncertain, and the methodology for calculating them is unlikely to be entirely robust, the overall impact is likely to be positive. This has been assessed as **Slight Beneficial** for both Delivery Options.

Journey Quality

10.14 Under the Future Partnership, there remains limited Authority control over customer experience of using Services. Under Franchising, however, the Authority has full control over customer experience, which will benefit bus passengers through improvements to journey quality.

10.15 Additionally, in the Franchising Scheme, the Authority would gain full control over Services, giving the opportunity for better integration between public transport modes. Better modal integration, especially for modes with a high volume of interchange, is likely to enable a positive improvement to journey quality for public transport users, compared to the Reference Case and the Future Partnership.

10.16 Overall, the impact on journey quality under the Delivery Options has been assessed as **Neutral** for the Future Partnership and as **Slight Beneficial** for Franchising.

Accidents

10.17 As with the externality benefit of decongestion, the associated reduction in car use under the Delivery Options will also result in a reduction in the rate of highway accidents, and thus reduce the associated costs. As was the case with noise impacts, TAG[153] values the impact on accidents of additional Services as zero. The benefits associated with a reduction in highway accidents would be £1.8 million for the Future Partnership and £4.8 million for Franchising.

Security

10.18 Whilst the increase in the Authority's control over the West Midlands Bus Network will allow for provision of improved security at stops or on vehicles (through ensuring good lighting and visibility, high quality CCTV provision and recording, and access to emergency help and information etc), a change in bus regulation will not directly impact security on the West Midlands Bus Network. The impact on security has therefore been assessed as **Neutral** for both Delivery Options at this time.

Access to Services

10.19 Improved bus provision as a result of the Delivery Options is aimed at improving quality of life for residents of the West Midlands by improving connectivity to education, healthcare, retail, and leisure destinations. These connectivity improvements may arise from ticket integration, service coordination, and information provision, allowing for improved Services. This has therefore been assessed as having a **Slight Beneficial** impact on access to Services for both Delivery Options.

Affordability

10.20 Changing bus regulation in the Authority's Region has the opportunity to have an effect on the cost of travel across the Authority's Region. The changes to fares and ticketing systems in Franchising (and, although less so, the Future Partnership) will have a positive distributional

---

153 MEC sheet of January 2023 TAG Databook

impact by making Services more affordable, of particular significance in deprived and low-income areas.

10.21 A small proportion of the passenger benefits are passenger charge benefits driven by fares and ticketing reform. This includes the willingness-to-pay benefit from simplified and integrated ticketing as well as the personal affordability impacts of fares reductions. This proportion of the user benefits are £14.7 million and £29.8 million for the Future Partnership and Franchising respectively.

Severance

10.22 Severance in this context is the variable and cumulative negative impact of the West Midlands Bus Network on the behaviour and wellbeing of residents/people who use the local area who need to move across bus-served infrastructure. An example of a severance barrier could be the lack of a footbridge to cross the road which has a high frequency of buses along it, impeding residents' ability to cross the road.

10.23 As mentioned earlier in this Economic Case, neither Delivery Option will be likely to have any significant impact on public transport infrastructure across the West Midlands, as routes are assumed to remain largely unaffected. Any existing severance barriers will therefore remain in place given either Delivery Option. As such, the impact of the Delivery Options on severance are assessed as Neutral.

Option and Non-use Value

10.24 There are few areas in the Authority's Region where residents have very limited access to public transport of some kind, and the kinds of changes which are currently being made to the West Midlands Bus Network are more of the 'trimming' rather than the 'cutting' kind, meaning the magnitude of passengers who will entirely lose their service initially is likely to be small. However, later in the appraisal period when the difference between the Delivery Options and the Reference Case becomes wider, the scope for inclusion of option and non-use values becomes greater.

10.25 TAG A4.1 suggests that option and non-use values should be calculated when the Delivery Options appraised 'substantially change the availability of transport services.[154] Given the uncertainty surrounding the distribution and speed of trimming and cutting to the West Midlands Bus Network in the Reference Case, these benefits have not been calculated directly and a qualitative perspective has been taken. For the Future Partnership, the potential mitigation of Services cuts is not considered to be substantial enough and the impact has been designated as **Neutral**. For the Franchising Scheme, the potential to prevent the elimination of public transport opportunities is considered large enough for a designation of **Slight Beneficial**.

Summary

10.26 The Delivery Options set out in this Assessment will have a significant positive impact on society, proportionate to the extent that the current gradual trend of a decline in service levels in the Reference Case can be mitigated against.

---

[154] TAG Unit A4.1 Social Impact Appraisal

10.27 Table 2-18 summarises how the Delivery Options perform against the TAG[155] Society impact categories, relative to the Reference Case.

Table 2-18: Summary of the Impacts on Society

2010 PV	**The Future Partnership (£million)**	**Franchising (£million)**
Commuting and Other Users	£346.6	£838.3
Reliability (Commuting and Other Users)	Slight beneficial	Slight beneficial
Physical Activity	Slight beneficial	Slight beneficial
Journey Quality	Neutral	Slight beneficial
Accidents	£1.8	£4.8
Security	Neutral	Neutral
Access To Services	Slight beneficial	Slight beneficial
Affordability	£14.7	£29.8
Severance	Neutral	Neutral
Option and Non-Use Values	Neutral	Slight beneficial

Source: Economic Case Appraisal

10.28 All quantified societal impacts are greater in the Franchising Scheme than in the Future Partnership. The commuting and other passenger impact, reduction in accidents, and affordability impacts are all driven by a higher forecast of bus patronage under the Franchising Scheme. Whilst both Delivery Options are assumed to have slight beneficial impacts on access to Services and reliability, only Franchising is assumed to have a slight beneficial impact on journey quality, for the reasons outlined above.

11 Impact on Public Accounts

Introduction

11.1 Adhering to the guidance in TAG Unit A1.2,[156] investment and operating costs for the Delivery Options being appraised should be reported in a Public Accounts table. The revenue, operating cost, and investment impacts on (local and central) Government are included and summed to calculate the impact on the 'Broad Transport Budget', and the indirect taxation impacts are reported as the impact on 'Wider Public Finances'.

155 TAG Unit A4.1 Social Impact Appraisal

156 Chapter 5 of TAG Unit A1.2. Scheme Costs

11.2 The direct costs of the Delivery Options are detailed in Table 2-19. The results refer to the core demand scenario and the funding scenario that assumes a constant Authority budget, in real terms.

Costs to Broad Transport Budget

11.3 Table 2-19 summarises the impact on public accounts of the Delivery Options. In the case of Franchising, all Services are specified and funded, and all revenue from them collected, by the Authority. Revenue collected amounts to £249.8 million and the Authority funding to £281.4 million with a net profit of £31.5 million (incremental to the Reference Case, PV). This includes all previously commercial and Supported Services.

11.4 The Authority will incur additional operating costs under the Delivery Options incremental to the Reference Case. This is from costs including, but not limited to, higher costs of staff, transition, or renegotiation and tendering. These costs stand at £3.4 million and £34.2 million for the Future Partnership and Franchising respectively (2010 PV).

11.5 With regards to the purchase of a fleet, additional vehicles are required under the Delivery Options compared to the Reference Case. For the Future Partnership, part of this additional cost is accounted for in the operating cost line of the appraisal, as the fleet is paid for by the Operators through deprecation, with the remainder included as Government investment costs. Under Franchising, the Government also contributes part of the cost, with the Authority contributing the remainder.

Table 2-19: Full Summary of Impact on Public Accounts

2010 PV	The Future Partnership (£million)	Franchising (£million)
The Authority		
Revenue (Supported Services / Supported Services Contracts)	-£25.9	-£249.8
Operating Costs (Administration costs of each Delivery Option)	£3.4	£34.2
Investment Costs (Depot and Fleet Costs)	£31.9	£291.5
Operator Subsidy/Supported Services Contract Costs	£44.5	£281.4
Sub Total (net impacts)	**£53.9**	**£357.2**
Government (Transport)		
Revenue	£23.4	£59.1
Investment Costs	£0	-£1.9
Total	**£23.4**	**£57.2**

2010 PV	The Future Partnership (£million)	Franchising (£million)
Government (Non-Transport)		
Indirect Tax Revenues	£0.1	£1.4
Totals		
Broad Transport Budget	**£77.3**	**£414.4**
Wider Public Finances	**£0.1**	**£1.4**

Source: Economic Case Appraisal

11.6 There are costs associated with other public transport modes due to modal shift to bus. As set out in paragraph 7, a combination of DfT diversion factors and an assumed rail yield have been used to estimate a reduction in rail revenue as a result of passengers switching to bus travel. This impact is reported in the Government (Transport) row in Table 2-19 above and totals £23.4 million for the Future Partnership and £57.2 million for Franchising.

Wider Public Finances

11.7 The modal shift resulting from the Delivery Options, particularly from car and rail, will have an impact on indirect taxes collected by the Government. Fewer rail and car journeys will impact tax revenues generated: fewer car trips means reduced fuel duty paid due to lower consumption, and less rail travel means lower indirect tax collected on rail fares. Bus diversion factors from TAG [157] are applied to calculate the drop in rail and car journeys associated with increased bus usage. The impact of this on indirect tax revenue is then estimated using the MEC approach in TAG A5.4.[158] Furthermore, an increase in bus patronage will reduce indirect tax, as it is assumed the money spent on bus travel would have been spent elsewhere in the economy causing a drop in indirect tax. The impact of this on Government accounts is £0.1 million and £1.4 million for the Future Partnership and Franchising respectively. See Table 2-20 for a summary of the wider public finances.

Table 2-20: Summary of Wider Public Finances

2010 PV	The Future Partnership (£million)	Franchising (£million)
Government Funding (Non-Transport)		
Road Infrastructure	£0.2	£0.5
Bus and Coach	£3.2	£9.0
Rail	-£3.3	-£8.1

157 Table A5.4.6 of the May 2024 TAG Databook

158 TAG - Marginal external costs

2010 PV	The Future Partnership (£million)	Franchising (£million)
Indirect Tax Revenue Total	£0.1	£1.4

Source: Economic Case Appraisal

Summary

11.8 Table 2-21 provides a summary of the impacts of the Delivery Options against the Public Accounts categories provided in TAG.[159] The material difference between Franchising and the Future Partnership is largely because of the transfer of revenue and operating costs between the public and private sector is a significant part of the Broad Transport Budget impact of the Franchising Scheme but does not occur under the Future Partnership. Other factors include:

(a) The Franchising Scheme includes significantly more public sector investment than occurs under the Future Partnership as this is a transfer of funding to the public sector from the private sector; and

(b) Higher patronage forecasts for Franchising drives higher indirect taxation and rail revenue impacts than the Future Partnership.

Table 2-21: Summary of the Impacts on Public Accounts

2010 PV	The Future Partnership (£million)	Franchising (£million)
Cost to Broad Transport Budget	£77.3	£414.4
Wider Public Finances	£0.1	£1.4

Source: Economic Case Appraisal

12 VfM Appraisal Outputs

Introduction

12.1 The purpose of this paragraph 12 is to present the outputs of the appraisal of the Delivery Options in this Economic Case. The results utilise the standard DfT reporting tables, including the presentation of the TEE and NPV.

12.2 It is important to note that in the context of VfM appraisal, the HM Treasury's Green Book Guidance places a greater emphasis on the NPV rather than the BCR-led approach followed by traditional DfT economic case appraisals. This is because the transfer of costs and revenues between the private and the public sector can make the BCR a less useful comparative metric of the economic performance of each of the Delivery Options.[160]

---

159 TAG Appraisal Summary Table

160 Private sector costs and revenues are reported as part of the PVB and public sector costs and revenues are reported as part of the PVC, in the standard TAG presentation of impacts. Thus, a transfer that provides no net change to social welfare can often arbitrarily move the BCR in unintuitive ways

12.3 As a result of this, an alternative 'social' BCR has been calculated for the purpose of comparing the Delivery Options within this Assessment. All benefits and revenues (public and private) are included in the PVB and all costs (public and private) are included in the PVC, which drives the calculation of the 'social' BCR. This has resulted in the 'social' BCR being less affected by changes in revenue allocation between options and scenarios and is therefore a more useful comparator than the DfT's usual BCR metric.

12.4 The conclusion of this paragraph 12 sets out a statement of the VfM of each Delivery Option, resulting from the analysis and results set out in this Economic Case.

Economic Appraisal of Scenarios

12.5 Table 2-22 summarises the performance of each Delivery Option against the net benefits and costs relative to the Reference Case. Like the previous paragraphs, the results refer to the core scenario where it assumes core demand and the funding scenario that assumes a constant the Authority budget, in real terms.

12.6 The TEE for the Future Partnership and Franchising is shown in Table 2-22. The table follows the structure of DfT's standard reporting template, which presents the distribution of impacts across different groupings of travellers and private sector businesses. The user benefits reported in the TEE table include the congestion impacts calculated using MEC.

Table 2-22: TEE for the Future Partnership and Franchising

2010 PV	**The Future Partnership (£million)**	**Franchising (£million)**
Non-business		
Commuting traveller benefits	£206.1	£490.5
Other traveller benefits	£140.5	£347.8
Business		
Traveller benefits	£10.4	£26.3
Private sector provider impacts	-£0.2	£12.6
Other business impacts	£0	£0
Net business impact	£10.2	£38.9
Total TEE	**£356.8**	**£877.2**

Source: Economic Case Appraisal

12.7 Table 2-23 outlines the elements of the social PVC and PVB for each Delivery Option compared to the Reference Case, and the resulting NPV and BCR. The NPVs presented here are identical to those that would be calculated using the standard TAG approach.

12.8 The calculation of the social BCR in Table 2-23 has been used in the context of other bus policy schemes (for example, for Nexus' Quality Contract Scheme) and is recognised in the DfT publication[161] which adopts the current approach for the BCR ('NATA' BCR) as a sensitivity test which is appropriate to perform.

Table 2-23: Summary of NPV and BCR

2010 PV	The Future Partnership (£million)	Franchising (£million)
User benefits	£357.0	£864.6
Non-user benefits	£3.0	£9.4
Change in bus revenue	£27.2	£76.7
Change in revenue on other modes	-£23.4	-£59.1
PVB	**£363.8**	**£891.5**
Change in bus operating Costs	£46.0	£95.6
Regulation management costs	£3.4	£34.2
Indirect taxation	£0.1	£1.4
Depot investment (net public and private sector)	£31.9	£289.6
PVC	**£81.4**	**£420.8**
NPV	**£282.4**	**£470.8**
BCR	**4.2**	**2.1**
NPV including WEI	**£338.1**	**£682.5**
BCR including WEI	**5.2**	**2.6**

Source: Economic Case Appraisal

Economic Assessment Outputs for Scenarios under Consideration

12.9 Table 2-24, Table 2-25 and Table 2-26 present a summary of the VfM assessment for the monetised benefits for the Delivery Options under the different scenarios assessed through the modelling and appraisal that informs this Economic Case. The purpose of the range of scenarios is to allow consideration of whether the Delivery Options deliver VfM across a range of outcomes and whether the relative performance varies between the Delivery Options.

12.10 Franchising performs better than the Future Partnership across all the scenarios in Table 2-24, delivering a higher NPV relative to the Reference Case. In percentage terms, the scenarios

161 NATA Refresh: Appraisal for a Sustainable Transport System (Department for Transport, 2009)13

each deliver a relative similar percentage change in NPV for the Reference Case and each of the Delivery Options. For example, providing an additional £50 million in funding (scenario 1) delivers 27% additional NPV for Franchising, compared with only 3% increase for Future Partnership.

12.11 As would be expected, combining the downside and upside scenarios tends to generate more extreme results, in both positive and negative directions (Table 2-25). However, the incremental benefit provided varies depending on whether the demand or funding upside is additional. For example, adding the demand upside to the funding upside provides 13pp more NPV to the Future Partnership case and 21pp more NPV to Franchising. The same is true for the downside scenarios, where reducing demand by 15% provides more incremental disbenefit than does reducing the Transport Levy by 10%.

12.12 Lastly, two additional Franchising-only scenarios are shown to have a very detrimental impact on NPV, owing to the implications for Operator margins (Table 2-26). Scenario 9, where Operators own vehicles, is assumed to generate a 2.5pp increase in Operator margin, reducing NPV by 48%. Scenario 10, where Operators own depots, is assumed to generate a 1.5pp increase in margin, reducing NPV by over half.

Table 2-24: Franchising funding and demand scenarios – VfM Assessment

Scenario	**The Future Partnership (£million)**		**Franchising (£million)**	
	2010 NPV	*% difference from central case*	*2010 NPV*	*% difference from central case*
Central Case	£282	-	£471	-
1. Funding Upside: +£50m	£290	3%	£596	27%
2. Funding Downside: Transport Levy -10%	£232	-18%	£397	-16%
3. Demand Upside: +15%	£323	14%	£592	26%
4. Demand Downside: -15%	£199	-29%	£265	-44%

Source: Economic Case appraisal

Table 2-25: Franchising funding and demand combination scenarios – VfM Assessment

Scenario	**The Future Partnership (£million)**		**Franchising (£million)**	
	2010 NPV	*% difference from central case*	*2010 NPV*	*% difference from central case*
Central Case	£282	-	£471	-

5. Funding Upside and Demand Upside	£328	16%	£698	48%
6. Funding Upside and Demand Downside	£236	-16%	£460	-2%
7. Funding Downside and Demand Downside	£155	-45%	£178	-62%
8. Funding Downside and Demand Upside	£333	18%	£558	19%

Source: Economic Case appraisal

Table 2-26: Franchising scenarios – VfM Assessment

Scenario	**Franchising (£million)**	
	2010 NPV	*% difference from central case*
Central Case	£471	-
9. Operators own vehicles: 2.5pp increase in margin, 3% increase on fleet	£242	-48%
10. Operators own depots: 1.5pp increase in margin	£203	-57%

Source: Economic Case appraisal

Sensitivity Tests

12.13 To assess uncertainty around the monetised economic appraisal, several tests were conducted to assess the sensitivity of the modelling and appraisal results to key changes in assumptions and inputs. Results for all the tests modelled apart from three (tests 17, 18 and 23 are for the Financial Case only) are provided in Table 2-27. In general, flexing assumptions in sensitivity tests 11-25 tend to have a much larger impact on NPV in Franchising than in the Future Partnership. Given this, the focus of this paragraph is primarily on the Franchising sensitivity tests.

12.14 Sensitivity tests 11-16 present a range of margin upside and downside scenarios which have sizeable impacts on NPV. The Supported Services margin represents the margin which Operators earn on Supported Services in the Reference Case. Changing this margin changes the volume of Services that can be supported in the Reference Case, as the funding available is fixed. Given this, sensitivities 11 and 13 represent upside scenarios as margins are higher in the Reference Case, reducing the level of Service, and increasing the incremental level of Service in Franchising. Correspondingly, if Operators earn lower margins in the Reference Case (sensitivities 12 and 14), then a greater level of Service is provided in the Reference Case, and the incremental benefit of Franchising falls. Sensitivities 15 and 16 are more intuitive, where the margins that Operators earn directly affects the level of Service available in Franchising.

12.15 Sensitivity tests 20-22 generate smaller changes in NPV in Franchising compared to the previous six but are included as they flex some of the core assumptions embedded in

Franchising. Sensitivity 20 increases the level of variable management costs in the Reference Case, which reduces the incremental cost of Franchising, as Services can be delivered relatively more efficiently. This increases the NPV by 22%. Sensitivities 21 and 22 test the importance of the core assumption that the public sector can borrow at lower interest rates than the private sector. Reducing the wedge between the two rates lowers the net benefit of the Authority owning and financing vehicles and depots in Franchising (by 22%), while the inverse is true when the wedge is increased (16% increase in NPV).

12.16 Sensitivity tests 26-28 test a few core appraisal assumptions that are important for this Economic Case. The most material of these tests is sensitivity 27, which calculates the baseline level of generalised time using a network-wide, rather than Franchising area-wide average. This increases the average length of each trip, in terms of generalised time, which in turn increases the average user benefit per trip. As a result, NPV increases by 25% in the Future Partnership and by 35% in Franchising.

Table 2-27: Sensitivity tests

Sensitivity test	**The Future Partnership (£million)**		**Franchising (£million)**	
	2010 NPV	*% difference from central case*	*2010 NPV*	*% difference from central case*
Central Case	£282	-	£471	-
11. Supported Services Margin: +2.5pp on fixed component	£276	-2%	£663	41%
12. Supported Services Margin: -2.5pp on fixed component	£293	4%	£265	-44%
13. Supported Services Margin: +2pp on variable component	£332	17%	£590	25%
14. Supported Services Margin: -2pp on variable component	£229	-19%	£341	-28%
15. Services under Franchise Contracts Margin: +2.5pp on fixed component	-	-	£203	-57%
16. Services under Franchise Contracts Margin: -2.5pp on fixed component	-	-	£690	47%
19. Fleet Costs: +10%	-	-	£465	-1%
20. Variable Management costs: +1pp	£262	-7%	£574	22%

21. Financing Costs: Bringing public and private sector rates closer by 1%	-	-	£365	-22%
22. Financing Costs: Taking public and private sector rates further away by 1%	-	-	£545	16%
24. Revenue retained from cutting: -10pp	£287	2%	£448	-5%
25. Revenue retained from cutting: +10pp	£278	-2%	£467	-1%
26. User benefits during transition	£256	-9%	£414	-12%
27. Generalised time derivation	£352	25%	£636	35%
28. Car journey distance in MEC	£293	4%	£496	5%
29. £3 Capped Fares	£292	3%	£453	-4%

Source: Economic Case appraisal

VfM Statement

12.17 The VfM assessment of the Delivery Options is considered and summarised in Table 2-28, which includes the monetised and non-monetised aspects and its distribution, and assessment of the certainty of outcomes.

Table 2-28: Summary of Monetised and Non-monetised impacts

2010 PV	The Future Partnership (£million)	Franchising (£million)
NPV	£282.4	£470.8
NPV including WEI	£338.1	£682.5
Overall non-monetised impacts	Slight beneficial	Slight beneficial
Distributional impact	Slight beneficial	Beneficial

Source: Economic Case appraisal

12.18 The Franchising Scheme is forecast to deliver a higher net monetised impact, as demonstrated by the NPV of £470.8 million compared to the £282.4 million delivered by the Future Partnership. As noted in paragraph 12.8, this assessment does not change depending on the treatment of private-public transfers (conventional TAG or 'social' approach).

12.19 Both Delivery Options deliver non-monetised benefits that have been assessed to be slight beneficial, owing to the greater control over operations, management, fares and ticketing that will be afforded to the Authority, which is more pronounced in the Franchising Scheme. Similarly, the Distributional Impacts of both Delivery Options would provide benefits without a disproportionate impact, either positive or negative, on any geographical area or social group.

12.20 An assessment of the relative levels of uncertainty surrounding the Delivery Options is outlined in Table 2-29. During transition there is a 'medium' level of uncertainty in the Future Partnership, given the negotiation and agreement required with the Operators for the Future Partnership to be introduced. There is more uncertainty surrounding the transition to the Franchising Scheme, as the actions of the Operators on certain routes, especially where margins are thin, is unpredictable. The level of uncertainty around Franchising is low during operation, given the large degree of control the Authority is afforded over operations and investment. The commerciality of the West Midlands Bus Network under the Future Partnership and the continuing transfer of Services from commercial to tendered, creates a higher level of uncertainty during the operation of the Future Partnership. There is substantial uncertainty around the future evolution of the Future Partnership given the residual revenue risk that lies with the Operators, and the potential need to renegotiate the contractual relationship with the Operators.

Table 2-29: Assessment of Uncertainty

Phase	The Future Partnership	Franchising
Uncertainty during transition	Medium	High
Uncertainty during operation	Medium	Low
Uncertainty around evolution	High	Low

Source: Economic Case appraisal

12.21 The VfM classifications awarded to the Delivery Options, relative to the Reference Case, is summarised in Table 2-30. The Future Partnership initially achieves a VfM category of 'Very High', owing to the low costs of delivering the benefits to passengers of an enhanced network and fares and ticketing reform. Franchising has the potential to deliver a greater volume of user benefits than the Future Partnership, given the greater control over service provision, fares and ticketing, and the bus fleet. However, this greater volume of benefits comes at the cost of higher investment in fleet, depot and management cost, driving a lower BCR. With the inclusion of non-monetised and distributional impact, both Delivery Options' VfM category remains the same.

Table 2-30: VfM Classification

VfM Classification	The Future Partnership	Franchising
Initial VfM Category	Very High	High
Adjusted VfM category, also considering: • Non-monetised impacts	Very High	High

VfM Classification	The Future Partnership	Franchising
• Distributional impact • Uncertainty		

Source: Economic Case appraisal

13 Conclusions

Introduction

13.1 This paragraph 13 provides a summary of the economic performance of the Future Partnership and Franchising under the baseline (core) scenario. The main impacts are summarised in the Delivery Option Appraisal Summary in Table 2-31, which includes monetised and non-monetised impacts. These impacts are then summarised in the VfM Conclusions for the Delivery Options considered.

Delivery Options Appraisal Summary

Table 2-31: Appraisal Summary Table

Economic Type	2010 PV	The Future Partnership (£million)	Franchising (£million)
Economy	Business Passengers	£10.4	£26.3
	Transport Providers	-£0.2	£12.6
	Reliability (Business Passengers)	Neutral	Neutral
	Regeneration	Neutral	Neutral
	Wider Impacts	£69.3	£255.2
Environment	Noise	£0.2	£1.5
	Air Quality	£0.1	£0.3
	Greenhouse Gases	£1.0	£2.7
	Landscape	Neutral	Neutral
	Townscape	Neutral	Neutral
	Historic Environment	Neutral	Neutral
	Biodiversity	Neutral	Neutral
	Water Environment	Neutral	Neutral

Economic Type	2010 PV	The Future Partnership (£million)	Franchising (£million)
Society	Commuting and Other Passengers	£346.6	£838.3
	Reliability (Commuting and Other Passengers)	Slight beneficial	Slight beneficial
	Physical Activity	Slight beneficial	Slight beneficial
	Journey Quality	Neutral	Slight beneficial
	Accidents	£1.8	£4.8
	Security	Neutral	Neutral
	Access to Services	Slight beneficial	Slight beneficial
	Affordability	£14.7	£29.8
	Severance	Neutral	Neutral
	Option and Non-Use Values	Neutral	Slight beneficial
Public Accounts	Cost to Broad Transport Budget	£77.3	£414.4
	Wider Public Finances	£0.1	£1.4

Source: Economic Case Appraisal

VfM Conclusions

13.2 The Delivery Options have been shown to generate a substantial NPV when compared to the Reference Case, meaning they generate more benefits and revenue than the costs required to implement and operate them. Comparing the NPVs of the Delivery Options suggests that the Franchising Scheme would generate a large total positive impact on broader society, while the Future Partnership would generate a greater volume of benefits for each pound spent, indicated by a higher BCR.

13.3 The advantages of Franchising are primarily through the greater control the Authority would have over specifying the West Midlands Bus Network, in terms of service frequencies, fares and ticketing, and the roll out of the ZEB fleet. Franchising achieves a VfM category of high, whereas Future Partnership achieves a VfM category of Very high when considering WEI and DI. The VfM categories are driven by the BCR assessment however, and in terms of the magnitude of NPV achieved, Franchising would be considered better VfM. The levels of uncertainty are similar between the Delivery Options, given the trade-offs surrounding transition, operation and future evolution of the Delivery Options.

Economic Case Appendix

Estimating Trip Benefits

1.1 The key assumptions to calculate the benefits per trip are set out below in this Appendix.

1.2 A reference GT for each bus trip has been based on two key parameters:

(a) An average in vehicle time was calculated for each Franchising zone by analysing the distance between prism zones which produced an average value, weighted by zone-to-zone public transport demand. This average in vehicle time ranged from 12 to 24 minutes dependent on the Franchising zone;

(b) A similar method was also used to calculated average access, egress and wait time for each Franchising zone. This time ranged between five - six minutes across the Franchising zones. The 'walk' and 'wait' elements have been weighted by a factor of two as specified by TAG, which reflect passengers' perceived preference for time spent on-board compared to walking to or waiting at stops.

1.3 The initial network enhancements, as set out in paragraph 2, include service rationalisation and increase timetable integration. Further infrastructure interventions may also be delivered under the Reference Case and each of the Delivery Options but have not been modelled due to the uncertain nature of these developments. However, Franchising gives LAs a greater incentive to invest in bus priority as the public sector will directly benefit from the improvements due to increased revenue and reduced operating costs. Therefore, it could be concluded that under Franchising more interventions may be delivered (if affordable) than under the Future Partnership or the Reference Case.

1.4 For non-concession passengers, an additional cost element has been added to reflect the perceived cost of the fare. This cost was calculated as 11 additional minutes on average and is added to the reference GT. This value has been calculated using an average yield per journey based on data provided by Operators and converted to minutes using a journey-purposed weighted average Value of Time.[162] There is no additional cost component added to concessionary demand as travel is free for these passengers.

1.5 The percentage changes in bus demand between the Reference Case and the Delivery Options are based on the demand forecasts set out in paragraph 6.

1.6 An elasticity approach has been used to estimate the level of journey time, or bus user, benefits which would give rise to the change in demand described above. An elasticity of passenger demand to GT of -1.1 has been used, based on the values from a 2018 Rand Europe study on behalf of the DfT[163] which is the most current parameter referenced by DfT guidance.

1.7 Table 2-32 presents an example of how the GT benefit of the network enhancement is calculated for an individual Service. Please note, this table is to illustrate the method outlined above and to be used for illustrative purposes only.

---

162 Calculated using bus journey purpose data from Table A1.3.16 and Values of Time from Table A1.3.2 of the May 2024 TAG Databook.

163 Bus fare and journey time elasticities - RAND Europe and SYSTRA prepared for UK Department of Transport (2018)

Table 2-32: Worked example of Generalised Time benefit calculation

Generalised time (GT) (a)	69 minutes
GT elasticity (b)	-1.1
The Reference Case demand (c)	18 million
Incremental service demand (d)	0.39 million
Change in demand (e = d/c)	2.2%
Implied GT change (f = ((1+e)^(1/b)-1)*a	-1.3 minutes
Time saved per passenger (hours) (g =-f/60)	0.02 hours
Value of Time (£ per hour) (h)	£11 per hour[164]
Benefit per passenger (i = h*g)	£0.24
Existing user benefit (j = i*c)	£4.4 million
New user benefit (k = (d*i)/2)	£0.05 million

Source: Economic Case Appraisal

164 The Value of Time in this example is a simplification of the process used in the economic appraisal, where specific values are used for each journey purpose as per the values given in TAG. The user benefits have been shown without discounting applied here, whereas in the appraisal they are discounted to 2010 values.

WEST MIDLANDS COMBINED AUTHORITY BUS ASSESSMENT BUSINESS CASE: COMMERCIAL CASE

Contents

Figures

Tables

1 Introduction

Purpose

1.1 The purpose of this Commercial Case is to assess the commercial implications of the Reference Case and the Delivery Options being considered in this Assessment, with reference to the HM Treasury's Green Book Guidance requirements and the Franchising Guidance. Bus Back Better is clear that in order to access future Government funding specifically for Services, there must be either an enhanced partnership or Franchising Scheme regulatory structure in place.

Requirements of the HM Treasury's Green Book Guidance

1.2 Section 6: "Preparing the Commercial Case" of the HM Treasury's Green Book Guidance requires an assessment of the proposed commercial arrangements for the current bus delivery model and of the proposed Delivery Options. This includes:

(a) a determination of the required procurement arrangements to implement the proposed Delivery Options;

(b) an assessment of how these arrangements can be procured competitively; and

(c) an assessment of the relevant risks and how these will be managed.

Requirements of the Franchising Guidance

1.3 Paragraphs 1.63 - 1.67 of the Franchising Guidance state the following:

Table 3-1: Fulfilment of the requirements of the Franchising Guidance

Para	Content of Franchising Guidance	How the case meets this requirement
1.63	*Section 123B of the Act requires an authority to consider, as part of their assessment, the extent to which the authority is likely to be able to secure that local services are operated under local service contracts.*	This Commercial Case as a whole considers the extent to which the Authority is likely to be able to secure local service contracts. An overall assessment is provided in the conclusion at paragraph 8.
1.64	*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. In particular, an authority should consider how they intend to facilitate the involvement of small and medium sized Operators, bearing in mind*	Paragraphs 7.2 to 7.21 explain the proposed design of the procurement of the Franchise Contracts.

Para	Content of Franchising Guidance	How the case meets this requirement
	the need to ensure competition for the first and subsequent rounds of procurement.	
1.65	*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.*	Paragraphs 6.17 to 6.37 set out how the Authority intends to facilitate cross-boundary Services, including how a Service Permit Regime will be used to enable those Services to operate.
1.66	*In addition, an authority 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.*	Paragraphs 6.103 to 6.107 describe the transitional period arrangements that will be required and how Services will be protected. Paragraphs 6.108 to 6.112 assess the risk of network disruption and how these risks could be managed. Paragraphs 6.113 to 6.116 outline the fare arrangements during transition.
1.67	*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:*	
(a)	*The commercial model they intend to employ.*	The commercial models are described at the beginning of each paragraph: • Paragraphs 4.1 to 4.4 (The Reference Case) • Paragraph 5.3 (The Future Partnership) • Paragraphs 6.1 to 6.4 (Franchising)
(b)	*The size and geographical scope of the areas to which contracts will relate.*	Paragraph 6.7 outlines the size and geographical scope of the areas to which the Lots will relate to.

Para	Content of Franchising Guidance	How the case meets this requirement
(c)	*The length of contracts.*	Paragraph 6.12 analyses the duration of Franchise Contracts.
(d)	*Whether Franchising will be phased-in gradually.*	Paragraphs 6.90 to 6.107 outline the phasing, implementation and transitional activities and procedures in the event of Franchising.
(e)	*Other key contractual arrangements, including those relating to the transfer of staff.*	Paragraphs 7.22 to 7.27 highlight the pension and TUPE implications regarding the transfer of staff.
(f)	*How they intend to facilitate strong competition for contracts.*	Paragraph 7.1 sets out how the involvement of SMOs will be facilitated. Paragraphs 7.2 to 7.32 explains the proposed design of the procurement of the Franchise Contracts.
(g)	*The key commercial risks, their potential impacts and how they would be mitigated and managed*	Paragraphs 4.10, 5.9, 6.38 and 6.39 summarise the risks and responsibilities under the Reference Case, the Future Partnership and the Franchising Scheme between the public and private sector.

Structure of this Commercial Case

1.4 To address the requirements of the HM Treasury's Green Book Guidance and paragraphs 1.63 - 1.67 of the Franchising Guidance, this Commercial Case is structured as follows:

Paragraph(s)	Topic
2	**Commercial Objectives:** this paragraph sets out the Authority's Commercial Objectives, developed for the qualitative assessment of the Reference Case and the Delivery Options.
3	**Market Overview:** this paragraph includes: • **Introduction** • **Regulatory Environment for Buses** • Description of the nature and history of the regulatory environment within the Authority's Region

Paragraph(s)	Topic
	• **Current Market Structure** • The Operator market share • Current fleet provision • Current Depot composition • Approach to ticketing • **Authority interventions** • Tendered and Supported Services • Other financial support • **Conclusion**
4 - 6	**Option Details:** these paragraphs include: • Introduction • Contracting Principles • Risk Allocation of the Reference Case and the Delivery Options • Performance Incentives • Depot Provision • Fleet Provision • Phasing, Implementation and Transition • Provision for SMOs • Procurement Arrangements • Pensions and TUPE implications • Assessment of the Reference Case against the Commercial Objectives • Conclusion
7	**Conclusion:** summarises the conclusions of this Commercial Case.

2 Commercial Objectives

Introduction

2.1 Within the context of the requirements of the HM Treasury's Green Book Guidance and the Franchising Guidance, this Commercial Case must set out the commercial implications of the Reference Case and the Delivery Options.

2.2 In order for the Reference Case and the Delivery Options to be compared on this basis, the Authority has developed a series of Commercial Objectives, linked to its overarching objectives for this Assessment (as set out in paragraph 6 of the Strategic Case).

Commercial Objectives

2.3 The Commercial Objectives are as follows:

(a) **Best Value:** delivery of Services in the Authority's Region should maximise the output generated by the Authority's investment in the West Midlands Bus Network - it is measured by the extent delivery promotes strong competition and innovation in the West Midlands Bus Network, which in turn drives best value;

(b) **Optimise Passenger Outcomes:** delivery of Services in the Authority's Region should maximise passenger outcomes in terms of passenger experience - it is measured by the extent to which delivery drives positive passenger outcomes in relation to fares and ticketing, punctuality and reliability, customer service and vehicle standards;

(c) **Ease of Introducing Changes:** delivery of Services in the Authority's Region should allow the Authority to easily make changes to the West Midlands Bus Network or introduce new initiatives or interventions - it is measured by how easily the Authority could introduce or make a change to the West Midlands Bus Network, infrastructure or customer focused initiatives;

(d) **Ease of Implementation:** delivery of Services in the Authority's Region should allow the Authority to implement it with ease - it is measured by the extent to which it can be implemented with a minimal level of resource input, time and complexity;

(e) **Risk Allocation:** delivery of Services in the Authority's Region should minimise risk during operation to the Authority - it is measured by the extent to which the Authority is exposed to risks relating to financial risk (revenue and cost), operational and reputational risks, and asset risks; and

(f) **Commercial Sustainability:** delivery of Services in the Authority's Region should maximise the commercial sustainability of the West Midlands Bus Network - it is measured by the extent to which delivery offsets the industry trend of a declining the West Midlands Bus Network, and provides alignment between costs and benefits of any investment by the Authority.

2.4 The Commercial Objectives have been used to assess the Reference Case and the Delivery Options in this Commercial Case on a qualitative basis and will be taken together with the Economic Case, the Financial Case and the Management Case to form a view on a preferred Delivery Option.

3 Market Overview

Introduction

3.1 The Authority is the strategic transport authority for the Authority's Region, responsible for setting the vision, policies, and priorities for improving transport and mobility. The Authority also has devolved powers and funding to deliver and commission Services, infrastructure, and information, in partnership with the Operators and LAs.

3.2 This paragraph 3 provides an overview of the bus market and the role the Authority plays in shaping and supporting. It includes the following sub-paragraphs:

(a) **Regulatory Environment for Buses:** describes the nature and history of the regulatory environment for Services within the West Midlands;

(b) **Market Structure:** describes the structure of the bus market in the Authority's Region, including the Operator market share and current fleet and depot provision;

(c) **The Authority Interventions:** describes the historic and current bus market interventions undertaken by the Authority; and

(d) **Summary and Conclusion.**

Regulatory Environment for Bus

Introduction

3.3 The West Midlands Bus Network is one of the largest in the UK, serving a population of over 2.9 million people across seven metropolitan boroughs. The market is characterised by a mix of commercial and Supported Services, with varying levels of competition, integration, and quality.

3.4 As set out in paragraph 2 of the Strategic Case, the current bus market in the West Midlands is deregulated, in line with the majority of areas of England outside of London, with Greater Manchester, Liverpool City and West Yorkshire among the latest other CAs to progress the implementation of Franchising.

3.5 This paragraph provides an overview of the regulatory environment for the bus market in the Authority's Region, its history, evolution, and current challenges.

Bus Service Deregulation in 1986

3.6 The regulatory environment within the West Midlands market has evolved over time, reflecting the changing dynamics and wider challenges of the sector. The Transport Act 1968 required the creation of the WMPTE to co-ordinate public transport (including the ability to operate Services) and was overseen by a group of elected councillors from the Authority's Region, collectively the WMPTA. Existing municipal bus companies were combined into a single dominant operation covering the whole of the Authority's Region. From 1974 until 1986 the West Midlands County Council became the PTA for the West Midlands, though much of the revenue funding came from the seven local Metropolitan District Authorities rather than the West Midlands County Council. In 1986, with the abolition of the West Midlands County Council, a new WMPTA was formed. At the same time, the implementation of bus deregulation in England (outside London), required WMPTE to create an arm's length company for operating Services. This company became NX and was owned by WMPTA. Transport coordination functions stayed with WMPTE, along with powers to financially support the provision of unprofitable but socially necessary Services. In January 1991 WMPTE adopted the brand name Centro, to help differentiate it from West Midland Travel. During the early 1990s, the Government forced all PTAs to sell their arm's length bus operations. Following a competitive process, which included looking at the Reference Case and the Delivery Options to break the Operator into smaller operating units, WMPTA decided to sell the entire bus operations to the management through an employee share ownership scheme. The management were keen to float the company on the stock market and merging with NX, which was already a publicly listed company, saved the costs of independently floating the company on the stock market. The West Midlands Travel Ltd (trading as National Express West Midlands and National Express Coventry) is still by far the largest Operator in the Authority's Region today. Following the Local Transport Act, WMPTA was reconstituted as an Integrated Transport Authority and, along with Centro, continued to exist until 17 June 2016 when their functions were absorbed into the newly created Authority. As the Authority, the former Centro transport functions, responsibilities, assets, and staff all now operate under the Authority's brand.

3.7 The main intentions of deregulation were to increase competition, efficiency and innovation in the bus market, and to reduce the public subsidy and bureaucracy involved in the provision of Services. The proponents of deregulation argued that the previous system of regulation was stifling the responsiveness and flexibility of the Operators to meet the changing needs and preferences of the passengers. Deregulation was also introduced with the intention to stimulate new entrants, lower fares, improve quality and increase patronage in the bus market.

3.8 Bus deregulation in the Authority's Region has played out in a different way to many other urban areas because of the dominance of a single Operator who runs an extensive commercial West Midlands Bus Network covering the whole of the Authority's Region. This was a legacy of the WMPTE operations where a strong network of high frequency bus corridors had been created. Over the years many of the competing Operators have either run predominately contracted Services or run in head-to-head competition with NX because the opportunities to run or create bespoke commercial Services is limited due to the dominance of the main Operator. Being a network Operator, NX has been able to offer an attractively priced travelcard for use solely on their Services. This was partly helped by the WMPTE allowing their arm's length bus company to keep the operation of their network travelcard that WMPTE had created back in the 1970s. This made it difficult for competitors to get any foothold in the market. With the sale of West Midland Travel, the WMPTA required them to assist in the creation of an all-Operator travelcard, but this has always had, until the recent 'Bonfire of Bus Tickets', a price premium over the single dominant Operator products, so proved relatively unattractive to passengers.

VPA

3.9 A VPA is a written agreement that would be entered into between LAs and the Operators. The purpose of such agreements is to enhance the quality, efficiency and sustainability of Services while aligning with public transport policy objectives. VPAs are not legally binding contracts but are based on mutual interests and shared goals between the involved parties.

3.10 In a VPA, the Operators and LAs would need to agree in order to provide infrastructure like priority lanes, stops and interchanges and negotiate arrangements for use of that infrastructure. The Operators would meet this with commitments on vehicle standards, maximum fares, frequencies and timings; however, there is no commitment for any party to remain in a VPA if they chose not to.

3.11 The first West Midlands voluntary partnership was created in 1996 with the Line 33 Showcase partnership in north Birmingham. This became the blueprint for a number of route-based agreements between the Authority (then **Centro**), the Operator and the local highway authority. The Operator provided new low floor buses, the local highway authority provided bus priority and Centro provided new bus stop infrastructure.

3.12 The concept was copied successfully by a number of other transport authorities with the Showcase concept providing the basis for route or corridor based SQPS legislation in the Transport Act.

3.13 To facilitate the extension of Midland Metro through Birmingham City Centre and to manage the resultant Service changes, the country's largest SQPS was created. This scheme mandated for the first-time various bus vehicle standards (most notably vehicle engine emission standards) which required the Operators to make improvements that they would have otherwise not made.

3.14 The Local Transport Act allowed for multi-Operator agreements and ways of working together which Centro were able to utilise with a number of multi-Operator partnership agreements. Between 2008 and 2012 a series of West Midlands Bus Network reviews were undertaken where both improvements and reductions to the Services were implemented in a managed way with full consultation with stakeholders to meet new or changed travel demands. The delivery of these reviews was underpinned by bus partnership agreements between the public sector and the Operators.

3.15 In several instances, 'Qualifying Agreements' were entered into on corridors where the Operators ran competing Services, in order to provide an integrated timetable, joint ticketing and a better customer offer. Invariably however these were short-lived, with one Operator or the other determining they were commercially disadvantaged and reverting to on-the-road competition.

3.16 From 2015 the Authority, the Operators, LAs and other partners worked together through the Bus Alliance, a VPA to "deliver high levels of passenger satisfaction and drive forward investment in Services."

3.17 The Bus Services Act rebadged SQPS as AQPSs and these were implemented in Wolverhampton city and Solihull town centres alongside and in addition to the regionwide Bus Alliance.[165] This was to provide additional commitments to improve various areas such as vehicle emission standards, stand allocation slots to reduce bus congestion and improve passenger safety, improved stops and shelters, bus priority and passenger information improvements. These additional measures were incorporated into the EP under the Reference Case as the AQPS expired, this being completed by May 2023 when the Wolverhampton AQPS was formally revoked.

The EP under the Reference Case

3.18 An enhanced partnership represents a more formal and legally binding agreement between LAs and the Operators than its predecessor, the VPA. The shift towards an enhanced partnership was driven by the need for greater LA influence over Services. The EP under the Reference Case is a statutory partnership between LAs and the Operators that sets out how they will work together to deliver improvements to Services in the defined geographical area set out in the EP under the Reference Case. This type of partnership was introduced by the Bus Services Act, the EP superseded the previous arrangements in the sector, namely the VPA (outlined in paragraph 3.9). Following the publication of the Bus Back Better, all LAs were required to publish a BSIP, and set out how the objectives therein would be delivered either through an enhanced partnership or Franchising.

3.19 The Reference Case consists of the following two parts:

(a) **The EP Plan**: a clear vision of the improvements to Services that the EP is aiming to deliver, mirroring the BSIP; and

(b) **The EP Scheme(s)**: an accompanying document that sets out the requirements that need to be met by local Services that stop in the geographical area defined in the EP scheme, to achieve BSIP outcomes.

---

165 Prior to the Bus Services Act, Advanced Quality Partnership Schemes were known as SQPS. These placed binding requirements on the Operators and LAs in relation to provision of Services entering a specific geographic area, with the first of these implemented in Birmingham city centre in 2012 (SQPS), Solihull 2017 (AQPS) and Wolverhampton 2018 (AQPS).

3.20 An original EP Scheme was made on 28 June 2021 and covered the majority of the A34/A45 Sprint Bus Rapid Transit route between Walsall and Solihull. Since the initial signing of the EP, a number of subsequent variations have been published, as highlighted below:

(a) Variation 001 was made in June 2022 and expanded the scheme to the extent of the Authority, initially excluding the areas covered by AQPS arrangements but this variation committed to bringing in these areas along with the additional requirements as AQPS schemes expired; and

(b) Variation 002 was made in November 2022 and implemented commitments arising from the BSIP.

3.21 The latest iteration (Variation 003) was made in September 2023 and relates to fares initiatives, introduction of a mechanism to address over-supply of buses on certain Service, and removal of requirements to provide WiFi on vehicles under certain circumstances.

3.22 This involved creating 'Route Requirements' and under legislation the Authority had to take on bus registration powers for all routes wholly within the EP Scheme under the Reference Case. This was implemented on 5 March 2023.

3.23 This means that for routes wholly within the Authority's Region, the Authority has registration powers as opposed to the Traffic Commissioner (i.e. the Operators submit Service registrations to the Authority, who determine whether or not a registration should be accepted). However, these powers are only limited in nature as the Authority can only refuse a registered Service if it does not meet the EP requirements or an Operator has not given sufficient notice.

3.24 The Authority has been actively involved in implementing various interventions within the VPA and, more recently, the EP. These interventions are part of a broader strategy to improve public transportation Services, particularly Services, in the Authority's Region.

3.25 Bus Back Better is a significant policy intervention, aimed at revitalising and enhancing Services throughout the country. [166] It provides a framework for this and provides the CAs with the ability to consider the implementation of Franchising, as an alternative regulatory option to the EP. The Authority now stands at a pivotal juncture where it can consider the Franchising model as a means to further its objectives for the West Midlands Bus Network.

Market Structure

3.26 The following paragraph describes the current market structure in the Authority's Region, including:

(a) **The Operator market structure:** the composition of Operators active in the Authority's Region;

(b) **Current fleet provision:** the current fleet employed by Operators to deliver the existing network in the Authority's Region;

(c) **Current depot provision:** the current depot landscape in the Authority's Region; and

---

166 Developed by the Department for Transport (2021)

(d) **Approach to ticketing –** the current ticketing structure and initiatives that exist within the Authority's Region.

The Operator market share

3.27 As of April 2024, there are 14 bus companies operating in the Authority's Region. Market share is shown in Table 3-2:

Table 3-2: 2023 market share for the Operators in the West Midlands

The Operator	Market Share by passenger journey (%)	The Operators market share includes commercially run Services	The Operator only operates cross-boundary Services
Arriva Midlands and Arriva Midlands North Ltd	<1	✓	✓
Rajinder Banga (t/a Banga Buses)	<1	✓	
Chaserider Buses Ltd	<1		✓
Rotala Group (t/a Diamond Bus Ltd)	3.9	✓	
Kev's Cars and Coaches Ltd	<1		
Silverline Landflight Ltd	<1		
West Midlands Travel Ltd (t/a National Express West Midlands)	93.2	✓	
BP Brown Travel Ltd (t/a Select Bus Services)	<1	✓	✓
Carolean Coaches (Solus Coaches)	<1		✓
Midland Red (South) Ltd (t/a Stagecoach Midlands)	1.3	✓	
Travel Express Ltd (t/a Lets Go)	<1	✓	

The Operator	Market Share by passenger journey (%)	The Operators market share includes commercially run Services	The Operator only operates cross-boundary Services
Walsall Community Transport	<1		
A&M Flexi Bus	<1		✓
Coventry Minibuses	<1		

Source: Swift and nBus transactions[167]

3.28 As illustrated in Table 3-2 above, the market share in the Authority's Region is characterised by a single large dominant Operator, NX, which holds 93.2% of market share by passenger journey. The next largest Operator is Diamond which holds 3.9% of market share, and the remaining 2.9% is made up by 12 other Operators, large and SMOs, which run a mix of commercial and Supported Services.

3.29 As well as the fact that NX already had a dominant market share (paragraph 3.6), the current market has been shaped by a reduction in the total number of Operators present in the Authority's Region in recent years. This has been partly through a consolidation of the smaller Operators whereby the parent company of the second largest Operator, Diamond, has purchased operations to consolidate their market position, including Hansons in 2017, Central Buses in 2018 and Johnsons Excelbus, Claribels and Midland Classic in 2022, all of which previously operated both commercial and Supported Services. A number of other Operators have either gone out of business, made a commercial decision to no longer operate, or decided to only operate cross-boundary Services into the Authority's Region.

3.30 In recent years, the Supported Services market, which consists of the Services that are contracted and subsidised by the Authority to meet social or policy objectives, such as accessibility, mobility and integration, has become more important in filling the gaps and complementing the commercial network. The Supported Services are subject to competitive tendering and quality monitoring by the Authority and accounted for c.9.6% of the West Midlands Bus Network in 2023.

3.31 The average number of bids for Supported Services Contracts has fluctuated in recent years depending on the nature and complexity of the contract. For example, contracts that require more vehicles, tend to receive fewer bids than contracts that are less resource-intensive. Therefore, this highlights that smaller Operators may find it more difficult to overcome the logistical challenges associated with fulfilling the requirements of larger Supported Services contracts, this is likely to be due to the difficulties associated with being able to scale their operations effectively, such as acquiring a fleet and recruiting drivers.

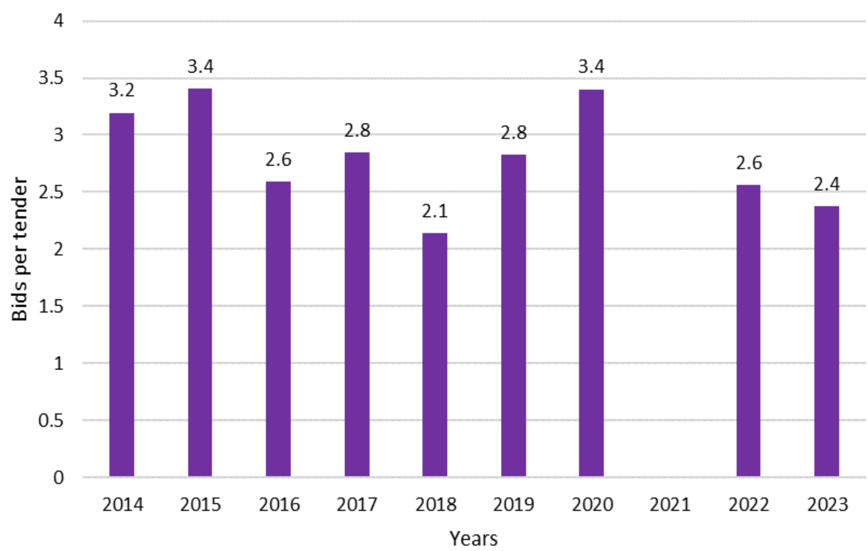
---

167 Swift and nBus transactions, July 2023 to Jan 2024

3.32 The following graph at Figure 3-1 illustrates the low and fluctuating level of bids for Supported Service Contracts in recent years. No data is shown for 2021 because West Midlands Bus Network was being maintained through grant funding in the wake of the Covid-19 pandemic and so was effectively in stasis for much of that time.

3.33 As can be seen from Figure 3-1, the extent of competition for Supported Services is limited. This reflects the consolidation of the market in recent years, with a number of larger Operators acquiring SMOs, as well as the SMO market being susceptible to changes in market dynamics and the impact of enforcement by the Traffic Commissioner. In addition to the significant market share of the largest Operator in commercial Services, the above highlights the lack of competition for Supported Services Contracts.

Figure 3-1: Average bids per tender (Supported Services) 2014 - 2023



Current Fleet Provision

Introduction

3.34 There are c.2,000 vehicles registered for use on local Services operating in the Authority's Region. Around 1,600 of these are understood to be run out of operating centres in the West Midlands, predominantly on Services that would be under Franchise Contract. The remaining 400 are based at operating centres in adjacent areas and form the pool of vehicles that are typically (but not exclusively) used within the Authority's Region. Due to a lack of data around interworking and engineering spares, this figure is expected to be higher than the actual PVR of the relevant Services. The actual number of buses operating across the West Midlands Bus Network regularly changes in response to needs and investments made by the Operators.

3.35 As the West Midlands operates a deregulated bus market, vehicles are almost entirely owned or 'leased' by the Operators who run them on a commercial Service, or on a small number of routes, under contract to the Authority on socially necessary Services where no commercial provision exists. One exception is the hydrogen fuel cell bus fleet owned by Birmingham City Council and leased to NX.

3.36 As control of the fleet currently sits with the Operators, they can broadly decide how it is deployed and the investment that is made in vehicles. Broadly the number of buses in the Authority's Region will be driven by the overall requirements of the West Midlands Bus Network based on the routes, timetables and the wider network conditions in particular highway traffic and congestion.[168]

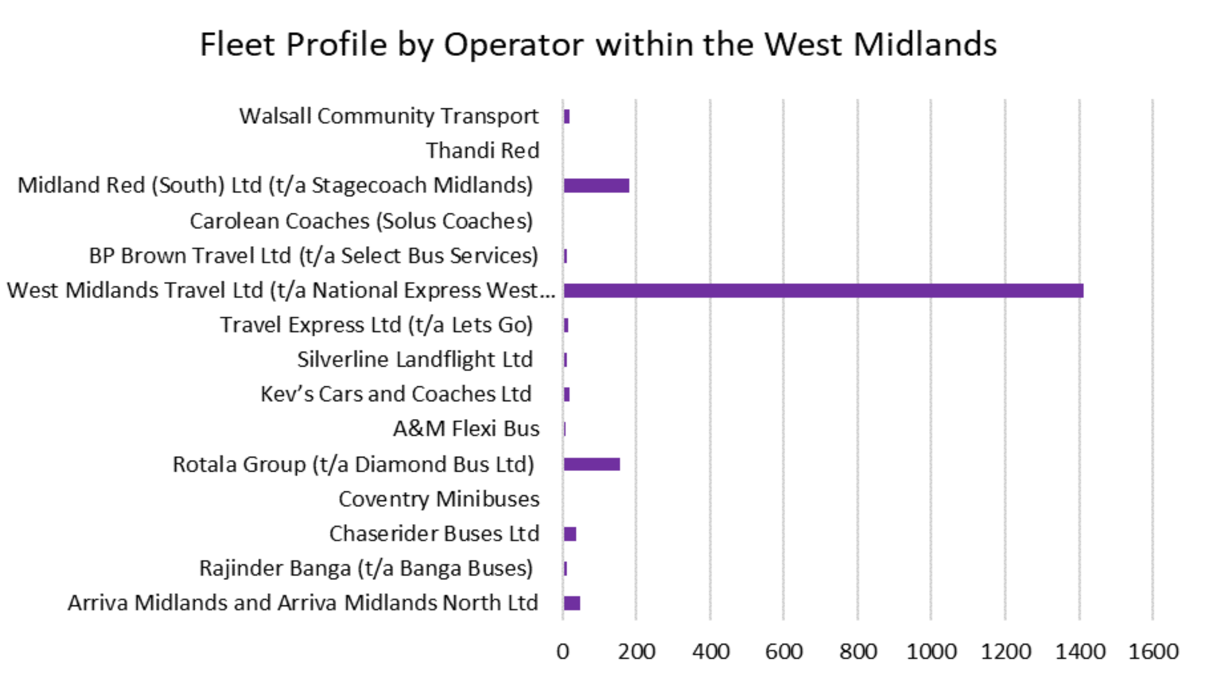
3.37 Where the Authority has directly provided funding to support the acquisition of a fleet, namely in the purchase of ZEBs, BSOG funding obligations have been established that give the Authority some influence over the fleet, including acquisition of fleet contracts in the event of Franchising.

Ownership Profile

3.38 As the dominant Operator, NX owns c.74% of the bus fleet in the Authority's Region; at the time of writing, 1,413 vehicles. The proportion of the fleet is lower than their overall passenger market share as a result of the types of Services and vehicles they operate – a higher proportion of double deck buses running on commercial Services with higher passenger loads per bus.

3.39 Stagecoach has the second largest fleet operating on West Midland's Services, with Rotala (Diamond) having the only other sizable fleet in the Authority's Region. Stagecoach deploy their vehicles mostly on cross-boundary Services running into Coventry, while Diamond operate some of their Services within the Authority's Region from other depots in Worcestershire. Hence the apparent inconsistency with overall market share.

Figure 3-2: Fleet Allocation breakdown – Vehicle Classification (February 2024)



168 Please note provision has been made within the analysis of the contraction of fleet in line with the size of the network.

Source: Multiple[169]

Fleet Investment and Age

3.40 At the time of writing, the average age of the fleet across the West Midlands Bus Network stands at 11 years. Almost 15% of the fleet is aged over 15 years and over a third over 10 years.

Figure 3-3: Fleet Age breakdown (February 2024)

Source: Multiple[170]

3.41 Given that the Operators typically depreciate these assets over a period of 15 years, the age profile of vehicles indicates an underinvestment in fleet. Where consistent investment was taking place in an established bus market, there would be a more even spread of vehicle ages and an average age of around seven - eight years.

3.42 As NX own the large majority of vehicles in the fleet, their investment will drive the overall age profile. Notably, unlike all other large Operators in the UK, NX now only operate in a single region. This means the investment in the fleet across the West Midlands Bus Network is much more fixed as vehicles cannot be cascaded to different regions to unlock new investment and, similarly, older vehicles don't get imported into the area from elsewhere.

3.43 The underinvestment by NX and other Operators is likely driven by several factors:

(a) the generally challenging commercial environment for operating Services;

---

169 Data compiled from multiple sources: "NXUK Fleet List Jun 2022", West Midlands Travel Ltd., July 2022; "DBL Fleet List", Diamond Bus Ltd., July 2022; "Stagecoach Midlands Fleet List", Midland Red (West) Ltd., July 2022; "Bustimes", https://bustimes.org/, accessed February 2024; "Quack77 – Fleet Lists", https://buslists.uk, accessed February 2024; "West Mids Bus Retrofits List for EST 2021-06-24", TfWM, June 2021.

170 Datacompiled from multiple sources: "NXUK Fleet List Jun 2022", West Midlands Travel Ltd., July 2022; "DBL Fleet List", Diamond Bus Ltd., July 2022; "Stagecoach Midlands Fleet List", Midland Red (West) Ltd., July 2022; "Bustimes", https://bustimes.org/, accessed February 2024; "Quack77 – Fleet Lists", https://buslists.uk), accessed February 2024.

(b) the shock of the Covid-19 pandemic and the inflation crisis; and

(c) the transition to ZEBs – the Operators appear to be deferring investment to maximise opportunities for BSOG funding to offset the higher investment costs compared to diesel vehicles.

3.44 For the Operators other than NX, notably Rotala, a factor in the age profile of the vehicles has been the moving of newer vehicles out of the Authority's Region primarily to take advantage of Franchise Contracts in Greater Manchester CA. This will be an ongoing risk, which could widen to NXs' fleet, as more CAs move to the Franchising models.

3.45 Overall, an aging fleet becomes harder to maintain and reduces Service attractiveness, therefore delivering poorer outcomes for passengers alongside increased ongoing operating costs of bus in the Authority's Region.

Fleet Composition and ZEB Transition

3.46 Table 3-3 shows the make up by fuel type of the fleet operating in the Authority's Region, at the time of writing. As can be seen, diesel vehicles make up the large majority of the fleet.

Table 3-3: Fleet by Fuel Type (February 2024)

Fuel Type	Fleet Numbers	Percentage of total fleet
Diesel	1,766	91%
Electric	161	8%
Hydrogen	20	1%
Total	1,947	100%

3.47 Table 3-3 above indicates that the vast majority of diesel buses have engines of Euro VI standard or equivalent: currently the most stringent harmful emissions standard and the requirement for the CAZ in Birmingham. The high number of buses meeting the Euro VI standard is, in a large part, a result of an enhanced partnership commitment and Government grants for exhaust retrofitting technology. Although, as of April 2023, the EP under the Reference Case mandates that all vehicles on local Services should meet Euro VI emission standards, 100% compliance has not been achieved due to a pause on final funding rounds pending a Government review of exhaust retrofit technology.

3.48 In support of the West Midlands climate and air quality aims, the Operators have begun to invest in ZEBs with the support of public sector funding. Of the 161 battery electric buses, NX own or control 156 (c.97%) of these. These are delivered as part of the Government and wider public sector funded ULEB and latterly the Coventry Electric Bus City Project. The remaining 5 battery electric vehicles belong to Diamond and were repowered to electric, enabled by BSOG funding via the Clean Bus Technology Fund. The 20 Hydrogen Fuel Cell buses are owned by Birmingham City Council and delivered through their participation in the European JIVE programme and leveraging other local funding sources. These are leased to NX at a peppercorn rate who operate them on public Services and have made investment in specialist facilities with liability for fuel supply arrangements for the fleet. It should be noted that this fleet has been grounded for large parts of 2023 and 2024 due to issues in production, securing supply and the overall price of hydrogen. These vehicles will transfer into NX ownership in 2028 at nil cost.

3.49 Up to a further 111 vehicles will be delivered in FY 2024/2025 in support of Coventry Electric Bus City primarily operated by Stagecoach on cross-boundary Services with Warwickshire. The Authority has, in principle, up to £43 million available for the roll out of further ZEBs from DfT's ZEBRA funding and Birmingham City Council's CAZ funding.

3.50 The adoption of ZEBs has been significantly influenced by subsidies from the public purse, which offset the higher upfront and overall costs associated with these vehicles. At the time of writing, no ZEBs had been delivered without public sector funding.

3.51 Previous statements by NX had indicated that post Coventry Electric Bus City, they would be in a commercial position to move to procuring battery electric buses without Government subsidy and had procured a further 170 electric vehicles without a direct BSOG. However, this position and procurement was under the auspices of a previous leadership team. At the end of 2023, a new leadership team came in and changed tac – seeking general subsidy from the Authority of £74 million to maintain their network and asking for the use of Government ZEBRA funding, intended to support a large-scale hydrogen bus fleet, to be used instead to support procurement of further battery electric buses. In this context, the aim of the Authority's previous BSIP to have a ZEB fleet by 2030, has now been diluted as the aim had been underpinned by NX's commitments.

3.52 This all highlights the need for the Government to continue to be a market-maker to support vehicle transition to Net Zero. However, in the current deregulated market, the continued investment into ZEBs is challenging due to misalignment between public sectors aims and objectives and commercial needs and required learning across all the Authority ZEB programmes. These challenges are further exacerbated by the constraints of state aid legislation, meaning funding cannot always be deployed efficiently to the Operators. Ultimately, these challenges have slowed the pace of delivery of these projects as well as putting funding and delivery at risk.

Fleet Impacts on Competition

3.53 NX's control over the large majority of the fleet in the Authority's Region is a facet of its market dominance. To establish itself as a material competitor to NX, the number of vehicles needed by another Operator would require significant investment. This level of investment would be a barrier to entry even for larger Operators. This risk is compounded with the other barriers to entry in the Authority's Region and the level of risk in entering a new market or business expansion.

3.54 In a deregulated market, the subsidising of the ZEBs from the public purse could worsen the competitive environment in the Authority's Region. In Coventry, the bus market has in effect been frozen as a result of the Coventry Electric Bus City. The BSOG funding for the project has also been fully allocated to NX and Stagecoach and there is limited scope for future BSOGs, targeted at Coventry, due to the restricted and sporadic nature of ZEB funding for buses. Any Operator looking to compete in the city with new commercial Services or even an Operator looking to expand, will face a major barrier with the unmitigated investment costs for ZEBs and are, as such, unlikely to try and enter the market.

3.55 With public funding the bus market has already made a significant shift towards ZEBs and the Net Zero targets set a clear political mandate for this to continue. As it stands, the situation in Coventry could be repeated in other parts of the Authority's Region. Incumbent Operators are much better placed to take advantage of BSOG funding. With this funding in place, both Operators and LAs are incentivised to promote further regulatory controls to protect against other Operators competing with ZEBs. Without then further interventions in the market, the Authority and the LAs could be faced with a dichotomy between competition and a more sustainable fleet.

Summary

3.56 In the current deregulated market, the provision of fleet is almost entirely the responsibility of the Operators, bar the funding made available to support the transition to ZEBs. As such, the Authority does not have any direct liabilities for fleet and is insulated from the responsibilities and risks of investment in it. However, there are several commercial challenges relating to fleet resulting from the current deregulated market:

(a) There has been inconsistent and, generally, underinvestment in fleet by all Operators, which has led to an aging fleet over time;

(b) NX market dominance is reinforced by the level of investment required to provide fleet to compete on the road;

(c) Significant public sector support and funding will still be required to continue to transition to ZEBs;

(d) The dynamics between the public sector and private Operators can make the effective deployment of ZEB funding challenging; and

(e) The continued transition to ZEBs could worsen already poor levels of competition in the Authority's Region.

Current Depot Provision

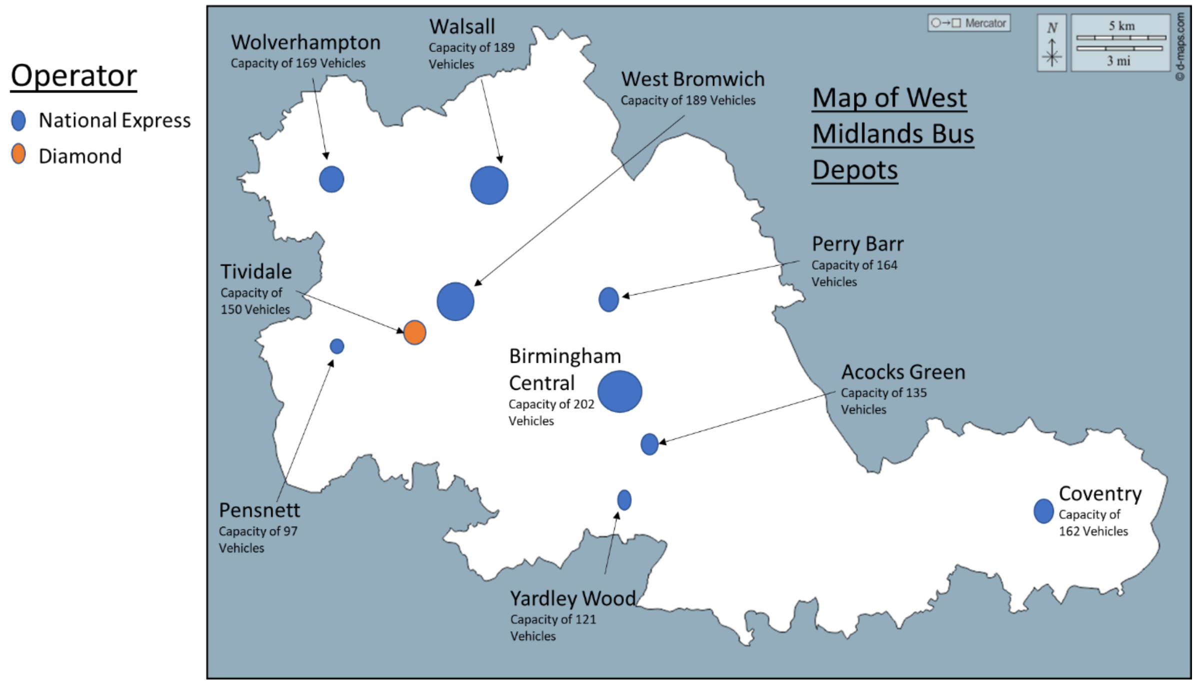
Introduction

3.57 Across the Authority's Region, there are currently 10 large depots (nine operated by NX and one by Diamond).

3.58 The Authority has recently acquired the Walsall Depot from NX, the depot has been leased back to NX and the Authority has a right to break the lease if there is a decision to franchise, but otherwise the Authority does not have a right to access the depot.

3.59 The location of these Depots is spread across the West Midlands, as shown in Figure 3-4.

Figure 3-4: Existing Large Depots in the Authority's Region



3.60 Figure 3-4 further highlights the dominant position which NX has, as they currently have access to nine of the 10 large operational depots, which have a combined capacity of over 1,000 vehicles, more than the total number of vehicles operated by all of its competitors within the Authority's Region.

3.61 Market engagement responses have also identified how lack of access to suitable depots is viewed as being a major barrier to entry or expanding operations within the market. The Operators explain that finding suitable depot sites is challenging, costly and time-consuming, and that it gives an advantage to incumbent Operators who already have established depots in the Authority's Region.

3.62 Access to depots therefore gives NX a competitive advantage, as it reduces its operating costs and gives it more flexibility and security in managing its fleet and Services. It also creates a barrier to entry for potential competitors, as they would face higher costs and risks in acquiring or leasing suitable sites for their operations. The availability of land and planning permission for bus depots is limited in the Authority's Region. There are some sites that were once municipal bus depots that have been sold and converted to other uses, increasing the investment required. This has led to some current Operators of Supported Services running 'dead-mileage' trips to and from route termini as high as 30-miles in each direction, increasing fuel costs and drivers' hours.

Approach to Ticketing

3.63 Single and return fares within the Authority's Region are set by the Operators (as required under bus legislation), supported by interventions from the Authority or Government (such as the recent initiative to deliver a £2 single fare cap). Under the Reference Case there has been a move towards standardisation of fares. This has seen all single Operator season tickets (1 day validity and greater) removed and replaced by the multi-Operator nBus ticket with its previous price premium removed. This has significantly simplified the ticketing offer for passengers and now enables them to use their ticket on any Operator's Service.

3.64 In using the net subsidy arrangement for Supported Services, the Authority can only set maximum fares for its Supported Services giving the Operator the theoretical freedom to charge cheaper fares.

3.65 Historically, NX's approach to ticketing has been characterised by several strategic initiatives that have contributed to its increased market share:

(a) **Innovative Pricing Models**: NX has implemented dynamic pricing strategies that adjust fares based on demand, time of travel, and purchase channels, making it more attractive for price-sensitive passengers;

(b) **Travelcard Integration**: the integration of travel cards has simplified the ticketing process for passengers, offering convenience and flexibility, which in turn encourages repeat usage;

(c) **Technology Adoption**: NX has leveraged technology to enhance passenger experience through mobile ticketing apps and contactless payments, reducing barriers to purchase and use; and

(d) **Customer Loyalty Programs**: by offering rewards and incentives, NX has fostered customer loyalty, which not only retains existing passengers but also attracts new ones through word-of-mouth and positive reviews.

3.66 This has delivered customer benefits in terms of cheaper tickets and greater options for purchase but has also entrenched NX's market monopoly. The CMA performed a regional study of the West Midlands in 2011. The study highlighted how the market was monopolistic and anti-competitive in nature. A particular example outlined within the report was the NX Travel Card, which was a season ticket that allows passengers to travel on any NX bus in the West Midlands. Prior to the Bonfire of Bus Tickets the NX Travel Card was cheaper than the multi-Operator nBus ticket. The study highlighted that the Travel Card is perceived by other Operators as a significant barrier to entry and hindered competition in the West Midlands bus market, as it creates loyalty and reduces the attractiveness of alternative offers.

3.67 The Authority has recognised the anti-competitive landscape that currently exists and has taken steps through the EP under the Reference Case to increase competition and create fairer outputs for all passengers. For example, the Authority supported a fare freezing scheme from 1 April 2022 until 30 June 2023 at a cost of £7.7 million (EP Scheme Variation 3 paragraph 5.73; Table 1 BSIP Funding).

3.68 Paragraph 5.53 of EP Scheme Variation 3 states that the Authority will work with Operators to reform ticketing, whereby the nBus multi-Operator tickets and multi-Operator contactless capping become the main form of multi-journey bus tickets, significantly reducing the overall number of tickets on offer. The nBus multi-Operator ticketing change has already been delivered and work continues on multi-Operator best value capping.

3.69 In conclusion, the fares and ticketing landscape has been heavily influenced by NX's strategic approach, which has been instrumental in expanding its market share and whilst the Bonfire of Bus Tickets is working towards opening the market, it is likely to take significant time before entrenched customer behaviour changes to create a more level playing field for other Operators.

Public Sector Interventions

Regular Interventions

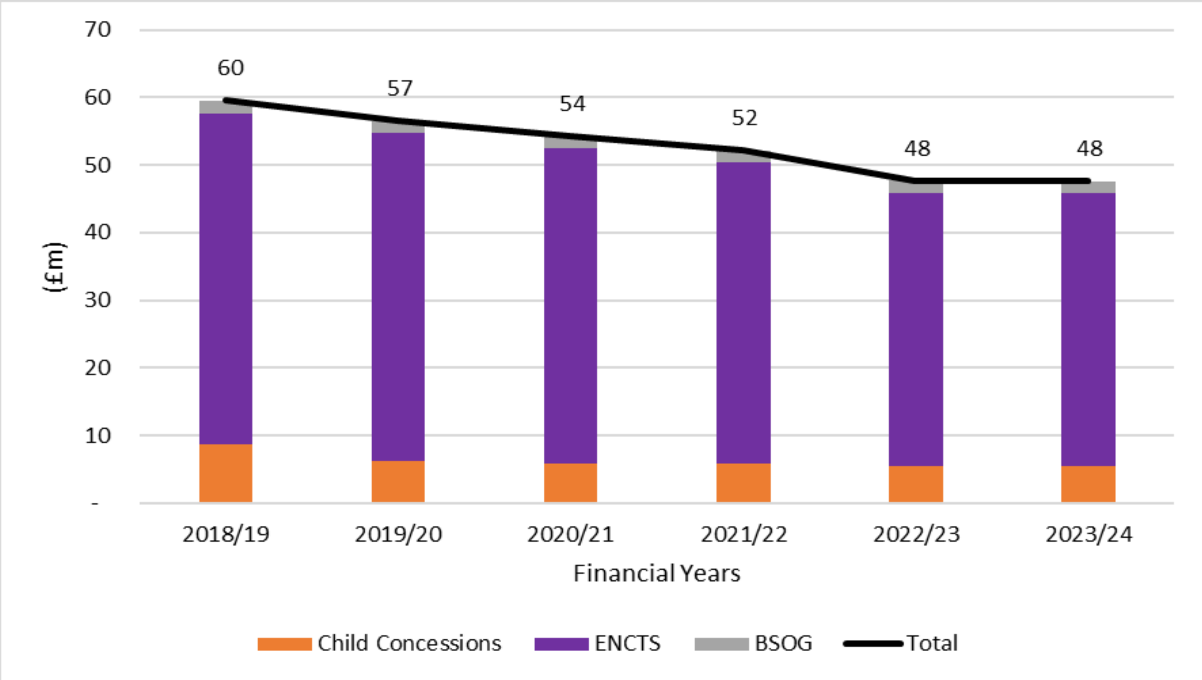
3.70 The Authority administers several key funding interventions to support the West Midlands Bus Network, alongside a range of other technology investments including RTI, infrastructure, stations, safety and resources. As stated above in paragraph 3.63, fares are set by Operators, supported by interventions from the Authority. The following subcategories have been subsidised by the public sector:

(a) **Child concessions:** these are tickets which have a tiered pricing structure, whereby under 5s travel for free and under 18s pay a discounted rate. These concessions are subsidised by the Authority, at a rate negotiated with the Operators;

(b) **ENCTS:** ENCTS is a statutory concession for (i) all passengers who have reached the state pensionable age; and (ii) eligible disabled passengers falling into one of the categories of disabled persons set out in Section 146 of the Transport Act. Reimbursement rate is paid to the Operators on the basis that this should leave them 'no better or worse off', however it remains an important income stream to the Operators, particularly on Services which carry high numbers of concessionary pass holders which may not otherwise operate. The statutory scheme is for journeys made between 09:30 and 23:00; however, the Authority pays for this to extend to end of Service; and

(c) **BSOG:** BSOG is a grant paid to Operators of eligible Services and community transport organisations to help them recover some of their fuel costs. This is funded by the Government.

Figure 3-5: Expenditure on Concessionary Initiatives 2018 - 2024[171]



3.71 Figure 3-5 highlights the annual significant investment in the market, despite which the Authority has little direct control over the broader network under the Reference Case, including fare levels, ticketing, timetables and Service standards.

Post-Covid-19 Interventions

3.72 The Authority recently introduced a bus recovery package to stabilise the West Midlands Bus Network and ensure that essential Services could continue to operate despite reduced passenger numbers and increased operational challenges following the Covid-19 pandemic. This package included financial support to the Operators and measures to adapt Services to changing demand patterns; this was essential in order to avoid the immediate loss of up to a third of the West Midlands Bus Network and the resultant economic and social consequences, which was a point that was recognised by the SAU.

3.73 The bus recovery package entailed providing a subsidy of £74.44 million to local Operators for the period from 1 July 2023 to 31 December 2024. The subsidy is made up of the following components:

(a) £19 million of BSOG Plus from the DfT devolved to the Authority;

(b) £36.44 million of repurposed BSIP funding that has DfT approval to be used for this purpose; and

(c) up to £19 million of local funding from the Authority's earmarked reserves.

3.74 These financial interventions are designed to achieve the specific policy objective of maintaining an efficient and socially acceptable West Midlands Bus Network that will prevent an estimated

---

171 Taken from TfWM Budgetary Data, March 2024

30% reduction in Services on top of a 12% reduction already implemented during the Covid-19 period and reductions that had already being made pre-Covid-19 pandemic and an estimated loss of 67.2 million journeys in the 18-month period up to the end of December 2024.

3.75 Under the Terms and Conditions applicable to the Operators for both the Network Stability Grant and BSOG Plus, a number of conditions need to be met in addition to the commitment for network stability to December 2024. These include:

(a) agreeing a mechanism for future fare changes and not increasing fares until such time this is implemented;

(b) agreeing a ticketing simplification plan with the Authority in-line with the 'Bonfire of Bus Tickets';

(c) agreeing all proactive marketing and promotional campaigns being undertaken by the Operators with the Authority and wider partners;

(d) adhering to the conditions of the EP under the Reference Case and committing to delivery of the BSIP. Failure to do this resulting in financial deductions from the BSOG and future BSOGs and payments including concessionary travel reimbursement;

(e) providing enhanced passenger information to inform passengers and stakeholders of disruption on the West Midlands Bus Network including missing journey information;

(f) agreeing and implementing the process for providing data pertaining to cancelled trips to the Authority for inclusion in the RTI passenger information system;

(g) adhering to all other reasonable requests for accurate operational data to aid the network review and monitor and report on the performance of the West Midlands Bus Network;

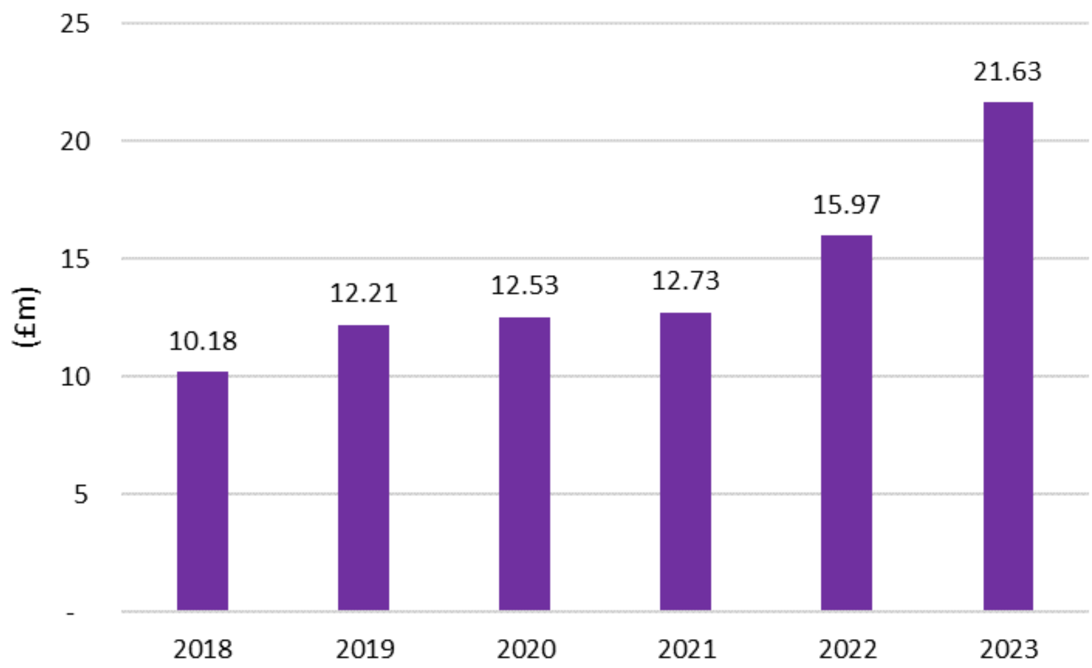
(h) specifying data to enable the Authority to calculate regular payments; and

(i) open book accounting.

Supported Services

3.76 Under the terms of the Transport Act 1985 and the EP Scheme, the Authority will continue to subsidise socially necessary Services as defined within the Authority's Access Standards where they are not provided on a commercial basis. The Authority will provide support either on a de-minimis basis or undertake a competitive procurement process for Supported Services.

Figure 3-6: Expenditure on Supported Services 2018 - 2023

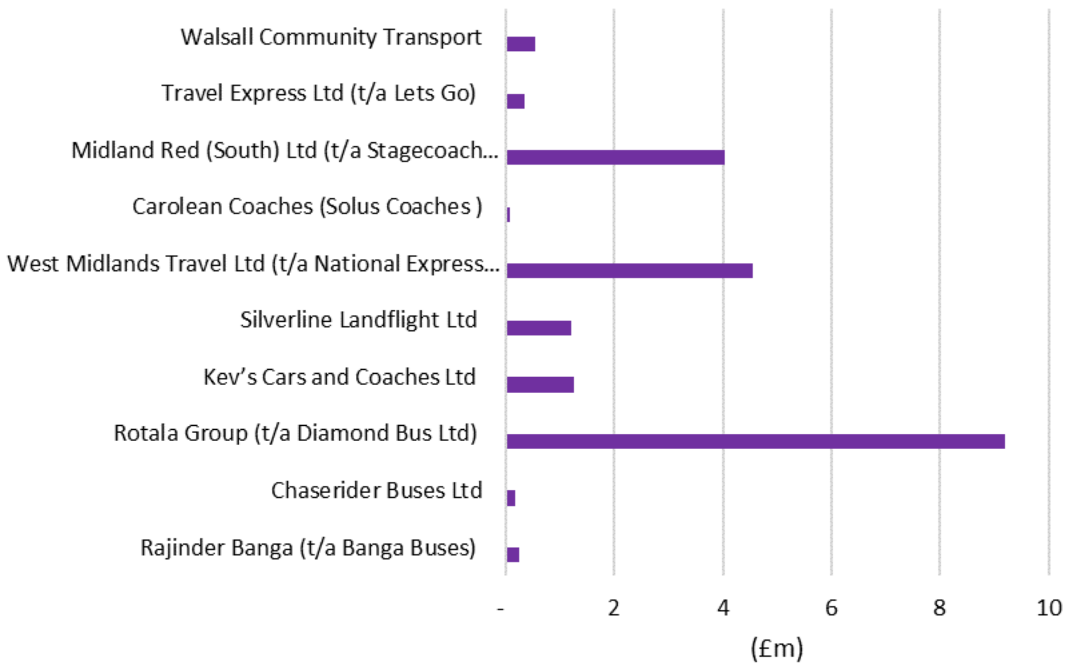


Source: Subsidised Bus Contract List[172]

3.77 The Authority provides financial support for c.10% of West Midlands Bus Network's total kilometres in the form of tendered Supported Services Contracts for providing specific bus departures (predominantly at evenings and weekends) or route extensions on otherwise commercial Services at a cost of £21.63 million to the Authority in 2023, as outlined in Figure 3-6, this is an increase of c.112.5%, from £10.18 million over the five year period to 2023.

172 Subsidised Bus Contract List, November 2023

Figure 3-7: Expenditure on Supported Services by Operator 2023



Source: Subsidised Bus Contract List[173]

3.78 Figure 3-7 highlights that in calendar year 2023, 42.5% of the value of Supported Services Contracts was with Diamond, with 21% being given to NX.

3.79 The lack of a competitive market, with NX operating c.94% of commercial Services may reduce all the Operators' incentive to maximise quality and performance standards. It also means that when the Authority is undertaking a tendering exercise to award contracts for Services that are not commercially viable, there is a very limited market which would otherwise place increased pressure on tender prices.

3.80 The Authority has invested c.£55 million on non-Covid-19 related interventions, as set out in paragraph 3.70, which encompasses routine measures aimed at maintaining both the existing West Midlands Bus Network and Service offerings. In addition to these standard expenditures, the Authority has also provided an additional £74.44 million in the form of a bus recovery package to maintain the West Midlands Bus Network for an 18-month period up to the end of December 2024.

3.81 Despite this considerable injection of approximately £156 million of public funding for the 18-month period up to the end of December 2024 into the system, it is important to recognise that the Authority's influence over the broader market remains limited.

3.82 Furthermore, there is a discernible gap in the integration of the West Midlands Bus Network with other modes of travel, highlighting that further strategic interventions are likely to be required in order to effectively join up various modes of transport, as this is crucial for fostering a more

173 Subsidised Bus Contract List, November 2023

efficient and accessible network that can meet the diverse needs of the public and adapt to future market shifts.

3.83 As part of the commitment to deliver improved connectivity within the BSIP, the Authority procured a number of enhanced Supported Services which began in January 2023. The aim for the enhanced provision is to provide passengers with improved travelling opportunities through the provision of Services with longer hours of operation, improved connectivity with the wider network and better links to key local centres and destinations. During the period of operation of these Services, it is the aim that they should be delivered to a high standard and therefore support patronage growth. At the expiry of the period of funding, the aspiration is that these Services will move towards or achieve commercial sustainability. The Operators were asked in their tender responses to consider how they could work with the Authority to give these Services the best opportunity to become sustainable once the period of funding is completed, and an element of quality scoring was included within the tender assessment which differed from normal tenders which are scored on 100% price. This alternative approach has succeeded in growing patronage but has required concerted effort by both the Authority and the Operators beyond that which has typically been the case for Supported Services.

Conclusion

3.84 The bus market within the Authority's Region was deregulated, with the intention to drive competition, improve efficiency and enhance Service quality by introducing market-driven forces into the public transport sector.

3.85 However, the anticipated competitive landscape did not materialise, and contrary to the objectives of deregulation, NX, since privatisation, has not only maintained its level of market share but has consolidated its position as the market leader with 93.2% of the market share. NX has significant control over the Depot landscape, which further entrenches its market position, as owning / controlling a significant portion of the Depots for bus operations creates a significant barrier to entry for both the existing Operators and potential new entrants.

3.86 The market has shown limited initiative in regularly renewing its fleet, with minimal levels of investment in ZEBs without subsidy. Where such investments occur, they are often subsidised by the Authority, indicating a reliance on external financial support for fleet modernisation.

3.87 Despite the continued support and investment provided by the Authority, it is evident that they have limited influence over critical aspects of the provision of Services, such as ticketing, depot access and the diversity of the Operators.

3.88 Introducing more competition into the market could act as a catalyst for innovation and investment, as a more competitive landscape could compel the Operators, including NX, to invest in their fleet, adopt new technologies and improve Service offerings in order to maintain or grow their market share.

3.89 It is also likely to provide the Authority with a more commercially driven landscape in which to allocate funding, ensuring that the public investments yield the maximum benefit for passengers and also ensures that they are gaining VfM on any investments which are made.

4 **The EP under the Reference Case**

Introduction

4.1 This paragraph 4 sets out the commercial arrangements in place under the Reference Case against which the Delivery Options are compared in this Assessment.

4.2 This paragraph is structured as follows:

Sub-paragraph(s)	Topic
4	• EP under the Reference Case
4.1 – 4.20	• Introduction • Contracting Arrangements • Risk Allocation • Performance Incentives • Fleet and Depot Provision • Procurement Arrangements
4.21 – 4.23	• Assessment of the EP Scheme against the Commercial Objectives
4.24 – 4.25	• Conclusion

4.3 The EP under the Reference Case in the Authority's Region represents a strategic collaboration aimed at improving transport Services across the Authority's Region. This initiative is a product of the Bus Services Act, which allows LAs and the Operators to work together to enhance the provision of Services and builds on previously strong partnership work between the Operators and LAs in the Authority's Region.

4.4 As outlined in paragraph 3.14, the scheme was originally developed in June 2021, with 3 subsequent variations being published to date.

Contracting Arrangements

4.5 In the context of the bus market, there are two distinct operational models that facilitate the provision of public transportation. These models are subject to regulatory frameworks that ensure the delivery of reliable, efficient and accessible transport Services for the public.

4.6 The first of these models relates to commercial Services, these are Services that the Operators are free to run, subject to registration with either the Traffic Commissioner or the Authority (noting that the Authority took on registration powers from the Traffic Commissioner in 2023). These Services are provided by the Operators, ordinarily without direct financial support from Local or National Government, except for BSOG and concessionary travel reimbursements as described in paragraph 3.70, and Services are typically driven by market demand and are controlled by the Operators and designed to be financially self-sustaining. Within the Authority's Region, the vast majority of routes are run on a commercial basis (90.4%).

4.7 The second type of model relates to Supported Services. These are Services which are considered by the Authority to be socially desirable but not provided for by the commercial market. As stated in Table 3-4, 9.6% of the West Midlands Bus Network is operated by Supported Services. Supported Services are contracted on a net cost basis, which means that the Operators collect all fare box revenue, while the Authority pays the Operator a regular fixed contractual payment for providing the Service.

4.8 As of May 2024, there are 128 Supported Services Contracts in existence. These types of contracts arise when parts of the West Midlands Bus Network are considered by the Operators not to be commercially viable but deemed by the Authority to have social benefit in line with Authority's Access Standards, so a contract is tendered to fill the gap in provision. The West Midlands Bus Network and tenders are reviewed periodically, with the typical length of tendered contracts three years long. In some cases, a 'de minimis' contract is given as a direct award to an Operator if this is considered the most economical way of filling a gap (for example, a short extension to an otherwise commercial route).

4.9 The Authority is not able to subsidise a Service that could be considered by the Operators to compete with their commercial Services.

Risk Allocation

4.10 Services within the Authority's Region are run commercially by the Operators except for Supported Services contracted by the Authority. The allocation of risk and responsibilities between the Authority and the Operators is described in Table 3-4.

Table 3-4: Risk allocation under the Reference Case

Risk	Allocation
Revenue Risk	• **Commercial Network**: 90.4% of the West Midlands Bus Network is operated on a commercial basis, on these Services individual Operators take revenue and operating cost risk. • **Supported Network**: 9.6% of the West Midlands Bus Network is financially supported by the Authority for Supported Services. These contracts are let on a net cost basis and therefore the Operator continues to retain fare box revenue on top of a regular fixed subsidy payment to ensure that the total revenue received by an Operator to provide a Service is viable in comparison to the cost to run it, plus any profit. • Therefore, the Operators still take revenue risk on fare box revenue but, depending on the extent to which the Operator accounts for the fixed contractual payment to cover operating costs and overheads, the Operator will take less overall revenue risk in comparison to providing commercial Services. • Whilst the Authority has no duty to act as the Operator of last resort on specific Services, it has a statutory duty in respect of providing Services

Risk	Allocation
	which are considered socially necessary, and in practice is likely to make interventions if there is a sudden withdrawal of commercial Services. • This is evidenced by an increase in the level of network support required, including a bus recovery package of £74.44 million in recent years following the Covid-19 pandemic, as further outlined in paragraphs 3.72 to 3.75. • Therefore, while there is little direct exposure to revenue risk, the Authority is affected by reductions in Operator revenues over the long-term as this will almost certainly lead to the cancellation of marginally commercial Services, and this changes the priorities for the Authority in assessing where to target funds for Supported Services.
Fares and ticketing	• Fares and ticketing are historically set by individual Operators and therefore the risk ultimately sits with the Operators. • As stated in 3.66 above, the Authority has intervened through the EP under the Reference Case and had taken revenue risk to support a fares freeze up to 30 June 2023 using BSIP funding. • The Operators have agreed to both remove the price premium for the multi-Operator nBus season tickets and also remove their own season tickets so that the multi-Operator ticket is the only one available. • The Operators have also agreed to a pricing mechanism that has been shared with the CMA that will see fares changes limited to inflation, taking into account any variation in bus costs from consumer inflation.
Employment of bus staff and station provision	• The responsibility for employment of bus staff sits with the Operators, including drivers, revenue protection staff, maintenance staff, management and network planning. Most staff involved in the delivery of Services are employed by individual Operators. • The Authority is responsible for: • Providing, maintaining and operating bus stations (12) including slot booking management, staffing, cleaning and provision of 24-hour help points. • Provision and maintenance of c.12,200 bus stops and associated infrastructure. • Provision and maintenance of c.1,400 real time information displays. • Provision, operation and maintenance of a customer contact centre, providing help and support to passengers via a range of media (phone, email, social media and live chat) in relation to its areas of responsibility. • Co-ordinating with highway authorities to manage network performance and control: provision and maintenance of the RTCC as a hub for

Risk	Allocation
	effective management of the highway and the West Midlands Bus Network and to provide up-to-date information for passengers. • Undertaking the role of Registration Authority. • Co-ordinating multi-Operator ticketing products and marketing campaigns. • Network planning for Supported Services. • Co-ordinating the EP under the Reference Case. • The Authority currently employs staff to manage their limited interventions in the bus market. Of the Authority's approved budget of approximately £88.8 million to support the Authority's Region's bus passengers for FY 2022/2023, £11 million is allocated to the Authority staff resources looking after bus-related activities, information and marketing.
Service specifications and branding	• The 'West Midlands bus brand' is used widely across the West Midlands Bus Network (on the Authority's bus stop infrastructure (including bus stations) and on the TfWM.org.uk website). However, Service specifications and branding of vehicles currently are the responsibility of the Operators, with limited influence from the Authority. • Under the terms of the EP under the Reference Case, the Authority has some influence as paragraph 8.3 of EP Scheme Variation 3 states that vehicles must be in an appropriate finished livery, which clearly identifies either the Operator or brand route. On some VPA routes the Authority have encouraged the adoption of a single 'West Midlands bus brand' between the Operators (however this has not been tested in practice and legal advice has suggested that this is likely to be challenging).
Timetable and routes	• **Commercial Services**: these are the responsibility of individual Operators, however the EP under the Reference Case sets out the Operators' obligations with regards to timetable changes (EP Scheme Variation 3 paragraphs 8.5 and 8.6) and places frequency limits on some corridors to prevent over-bussing (**Route Requirements**). • **Supported Services**: the Authority designs the route and timetables and are responsible for developing any updates or changes to be implemented by the Operator who holds the Supported Services Contract. Services need to be designed around commercial routes to prevent them competing.
Provision of Infrastructure	• Under the Reference Case, the Authority (and constituent LAs) have the following obligations, and therefore bear any associated cost risk.

Risk	Allocation
	• Provision of infrastructure upgrades, including for example traffic signal upgrades, real time information displays and CCTV. Paragraph 6.1 of EP Scheme Variation 3 also states that the Authority and local highway authorities will seek to progress and deliver 20 named bus priority schemes. • Para 7.2 of the EP Scheme Variation 3 provides protection for extant bus priority infrastructure, where any proposed changes need to be considered by the Authority, LAs and the Operators.
Performance monitoring	• The legal responsibility of monitoring performance for commercial Services sits with the Operators. • The Authority can utilise AVL data feed analysis, backed up by on-street monitoring to monitor the Operators performance, but has no powers to manage poor performance on commercial Services – this power sits with the Traffic Commissioner. The Traffic Commissioner has the power to fine the Operators and place restrictions on or remove their Operators License in the case of poor performance over a sustained period of time. • The Authority is able to manage performance on its contracted Services and requires the Operators to provide regular Service monitoring data to enable this, supplemented by on-street monitoring. Poor performance would normally result in contractual payment deductions for issues on specific trips, a necessity for performance plans for ongoing performance issues with contract termination and retendering in more extreme circumstances.
Operating Costs	• Opex risk sit with the Operators, as any increase in Opex must be borne by the private sector in order to continue to operate Services on a day-to-day basis. If Opex costs increase to the extent that they are not covered by revenue, Services can be withdrawn. • Paragraphs 8.32 and 8.33 of EP Scheme Variation 3 state that the Operators will commit to work with the Authority to agree a process through which, using an open book approach, Opex savings can be identified and agreed for reinvestment in the EP Scheme area on a case-by-case basis, as a result of new public investment to improve Services. Any savings identified will be agreed with each Operator and captured in the EP Scheme. Any changes to the EP Scheme to capture this reinvestment would see the EP Scheme automatically varied, without the need to follow the variation process. In practice, isolating any Opex savings resulting from specific targeted bus priority measures is challenging, with no clear examples of reinvestment in the West Midlands Bus Network having been delivered as a result of this mechanism.

Risk	Allocation
Service Provision standards	• The Operators are subject to a number of Service Provision Standards, and the EP Scheme Variation 3 states that the "Operators commit to provide 99.5% of registered journeys on qualifying local services, excepting reasons outside of their control" (paragraph 8.37 of EP Scheme Variation 3), although the Authority is not able to penalise the Operators if they do not meet these standards. In practice the commitment of 99.5% is not being met by the Operators and the Authority has no mechanism to penalise. • The EP Scheme Variation 3 also sets out Vehicle Standards which the Operators must meet. Whilst these have been negotiated with the Operators, if an Operator is unable or unwilling not to meet these standards, they can choose not to operate.

Performance Incentives

4.11 The bus market in the Authority's Region operates under a model that incentivises the Operators to maximize revenue on commercially viable Services. The underlying principle is that, despite the differences in their operational frameworks, both types of Services are driven by the same fundamental economic incentive, to increase revenue against a backdrop of relatively fixed costs. There is no obligation for the Operators to do this as part of a network approach, indeed, the Transport Act 1985 prohibits cross subsidy that deliberately seeks to supress competition. Measures the Operators take to maximise revenue will not always equate to supporting a wider network, but increasingly focusing on the most heavily used Service to the detriment of those that are less profitable.

4.12 Commercial Services in the Authority's Region are ordinarily operated without direct financial support from the public sector (with the exception of BSOG, Concessionary fare reimbursements and the recent support during and after the Covid-19 pandemic). As the cost structure for commercial Services is characterised by a high proportion of fixed costs, such as vehicle procurement, maintenance, and staffing, the primary incentive for the Operators of these Services is to maximise revenue, which is directly linked to their financial viability and profitability.

4.13 Supported Services, in contrast, are those that receive subsidies from the Authority to operate routes that are not commercially viable but are deemed socially necessary. While these Services receive financial support to cover the net cost of operation, the incentive to maximize revenue remains. The Operators will generally price tenders with the intention of covering all (or the majority of) operational costs, overheads and profit, with fares revenue generated providing additional profit on top of this. As Supported Services are currently let on a net cost basis, the Operators are incentivised by maximising revenue.

Depot Provision

4.14 There are currently 10 large depots in the Authority's Region, nine operated by NX and one by Diamond. Depot availability gives these Operators a competitive advantage over the Operators who do not have depot facilities in the Authority's Region, as it reduces their operating costs and gives them more flexibility and security in managing its fleet and Services. It also creates a barrier to entry for potential competitors, as they would face higher costs and risks in acquiring or leasing suitable sites for their operations or incur significant dead mileage in transporting vehicles to or from the Authority's Region at the start and end of each day. Acquiring or developing a new depot is not a quick or cheap process and would need to be undertaken by an Operator 'at-risk', given they could not be certain they would be able to run profitable commercial Services or be successful in winning the Authority tenders.

Fleet Provision

4.15 Under the current framework, on both commercial and Supported Services, the Operators own or 'lease' their own vehicles, which are based at bus Depots across the Authority's Region, or in some instances just outside of it. Broadly, the Operators retain full control over the fleet, how it is deployed and any investment decisions. The exception being where the Authority and LAs have provided funding for ZEBs, with BSOG funding agreements stipulating usage conditions and rights over the fleet.

4.16 Despite the delivery challenges faced, under the Reference Case, given the strong case for the transition to ZEBs, the Authority would seek to obtain more funding and provide BSOGs to the Operators to offset the higher costs of investment and enable procurement of ZEBs.

4.17 Assuming sufficient funding can be obtained, it would be expected that the profile of transition from a diesel fleet to a ZEB fleet would follow the natural replacement cycle of vehicles, after 15 years of operation. Based on the current age profile of the fleet this would result in a ZEB fleet by 2039.

4.18 Previous ZEB funding has come from targeted DfT funding schemes including All-Electric Bus Town and ZEBs Regional Areas which have allowed the Authority to provide direct BSOGs to the Operators procuring ZEBs. The Authority will seek to participate if similar funding schemes were created by the Government. If there are no further funding rounds or the Authority is not a successful applicant, the Authority can also consider the CRSTS round 2 as an alternative funding source. All funding requests for ZEBs would be subject to a business case separate from this Assessment.

4.19 Should sufficient funding not be available, we would expect to see the Operators further delaying investment until funding became available or prices of ZEB and diesel buses became comparable. As there is currently no further regulatory intervention pertaining to bus emissions planned in the Authority's Region, as a backstop the Operators could continue to purchase diesel fleet.

Procurement

4.20 Supported Services are procured on a net cost basis:

(a) the Operators are invited to join the Authority's procurement system where they can upload company information and details to become one of the Authority's approved Operators to operate Supported Services Contracts;

(b) The Authority will issue invitations to tender to approved Operators. This includes a detailed Service specification on the Authority's procurement system where approved Operators can bid to operate the Service specified; and

(c) The Authority will review Operator submissions through the Authority's procurement system and a Supported Service is awarded based on a pre-determined criterion. In the vast majority of procurement exercises, VfM is used to determine the preferred bidder. Supported Services Contracts are awarded for varying time lengths.

Assessment of the Reference Case against the Commercial Objectives

4.21 Paragraphs 4.21 to 4.23 assesses the performance of the Reference Case against the Commercial Objectives.

4.22 It is important to stress that this is an evaluation of the 'as is' EP under the Reference Case against the Commercial Objectives. Therefore, this Assessment only considers the enhancements described above that have already been agreed and implemented.

4.23 This Assessment R-A-G rates the EP under the Reference Case against the Commercial Objectives in Table 3-5, whereby:

(a) **Green** means there is a high potential that the Reference Case allows for the delivery of the Commercial Objective;

(b) **Amber** means that, while the Commercial Objective could be met under the Reference Case, there are a number of challenges; and

(c) **Red** means that it is unlikely that the Commercial Objective will be met under the Reference Case.

Table 3-5: Assessment of the Reference Case against the Commercial Objectives

Commercial Objective	Assessment	RAG
Best Value	In assessing the Reference Case for best value, the extent to which the Reference Case promotes strong competition and drives innovation has been considered across both commercial and Supported Services. ***Commercial Services*** • Commercial Services are run by the Operators who compete on street and provide Services based on consumer demand without direct Government intervention. Market analysis indicates that the market structure in the Authority's Region is monopolistic in nature, as NX currently holds c.93% market share across the West Midlands Bus Network, which significantly reduces the level of on street competition. • As competition is limited for commercial Services, this has resulted in a bus market which lacks significant innovation without public sector support or subsidy, this is evidenced through: • Public sector funding has enabled the Operators to offer low-cost fares. In the absence of subsidy, it is likely that limited competition would lead to an increased fare price.	

Commercial Objective	Assessment	RAG
	- There has been a lack of innovation from the Operators, which is evidenced by the significant efforts required from the Authority to implement initiatives – including, for example, capping of contactless bank card paid fares across different Operators' Services, or the transition to ZEBs, as both of these examples have only progressed with significant levels of Government support. ***Supported Services*** - The Operators are free to stop running Services when no longer commercially viable, which results in the Authority "stepping in" and tendering as a Supported Service. - The level of competition for Supported Services has been limited and diminishing in recent years, in part driven by the lack of competitive commercial market reducing the number of market Operators competing for Supported Services. - This is highlighted through the declining trend of average number of bids per tender over the last 10 years, the average number of bids has dropped from 3.2 in 2014 to 2.4 in 2023. - Tenders need to be designed in such a way that they do not compete with the Operators' commercial Services, and that leads to inefficiencies in how they are planned and suboptimal customer experience. **Rationale for rating -** In summary, dominance of a single Operator results in lack of competition for commercial Services, resulting in a limited market and thus competition for Supported Services. The market shows limited signs of innovation without Authority intervention.	
Optimise Passenger Outcomes	In assessing the Reference Case for passenger outcomes, the extent to which the Reference Case promotes a positive customer experience in relation to fares and ticketing, reliability, customer service and vehicle standards has been considered. - The Authority cannot set fares through the Reference Case and can only implement a passenger-friendly fares policy (for example, single system fares, promote multi-modal travel and introduce concessionary fares) by agreement. As this has proven difficult in practice, it is likely that the inconsistency regarding fares in the Authority's Region is suboptimal for passengers. - There is limited incentive for the Operators to join up the West Midlands Bus Network / promote multi modal travel integration, as	

Commercial Objective	Assessment	RAG
	they view other forms of public transport as competitors and are not incentivised to agree to align timetables, which results in a suboptimal passenger experience. • As the West Midlands bus market is monopolistic in nature, the Operators may not consistently make pricing decisions which are optimal for passengers (for example, balancing long-term passenger growth with short-term (annual) shareholder returns). • Current fare levels 'subsidised' by Government funding are therefore 'masking' the overall affordability of fares. However, despite its investment, the Authority does not currently have full visibility over underlying costs, revenues and margins, which highlights that there is a clear misalignment of costs and benefits of Authority interventions. • It is possible that this is compounded by the current competitive environment preventing competitive tension or a viable benchmark for cost of Supported Services Contracts. • The lack of competition in the market has the potential to lead to a reduction in reliability, given that the Operators are not incentivised to deliver the very best Service possible as there is limited scope to lose market share to rivals. • There is a lack of clarity from passengers regarding customer service, with both the Operators and the Authority having responsibilities depending on the issue and whether or not a Service is a Supported Service. This lack of clarity diminishes overall trust in the system. • Integration of different Operators and the Authority's technology system is challenging, leading to difficulties in providing a joined-up approach to ticketing and inconsistent standards in real time passenger information. Finally, the current regulatory model has the potential to lead to inconsistency in Service standards and vehicle standards - as individual Operators are driven by different objectives and investment drivers. This is particularly evident in the lack of investment in the fleet in recent years, with an average age of vehicles operating in the West Midlands Bus Network over 10 years old. **Rationale for rating:** In summary, the inconsistency of fares across the Authority's Region and lack of competition results in the Operators being less incentivised to drive reliability. The regulatory model does not lend itself to consistency of customer service across different Operators, and	

Commercial Objective	Assessment	RAG
	an underinvestment in assets such as the fleet has been observed in recent years.	

Ease of Introducing Changes	In assessing the Reference Case for ease of introducing changes, the extent to which the Authority can easily introduce or make a change to the West Midlands Bus Network , infrastructure or customer focused initiatives has been considered.
	
	• Interventions in the commercial bus market are likely to require negotiation and agreement with the Operators, this can be time-consuming and create delays in improving the experience of passengers.
	
	• Some of the Authority's strategic objectives can be reflected within the Reference Case, but the scope of this is limited with little influence over sanctions. If an Operator does not wish to comply with standards they can withdraw Services.
	
	• The extent to which the Authority can influence or make network and infrastructure interventions to the bus market under the Reference Case is also limited. These strategic interventions are difficult to implement. This includes, for example, the Authority's ability to:
	
	  ◦ Influence branding across the West Midlands Bus Network
	
	  ◦ Consolidate customer services and data sharing
	
	  ◦ Introduce multi-door vehicles
	
	  ◦ Introduce MaaS
	
	• Even when funding is available for network and infrastructure initiatives and there is Operator support, it has been challenging to implement new initiatives due to compliance with subsidy control as a result of the deregulated framework.
	
	• Aligning infrastructure investment with wider customer experience improvement has proven difficult to implement in practice (for example, implementation of Sprint). There has been significant infrastructure investment from the Authority to improve journey times and reliability, but a lack of commitment from the Operators to meet expectations around vehicle standards without a necessity for ongoing revenue support. Even if this revenue support was available it would be challenging to provide this within current regulatory constraints.	

Commercial Objective	Assessment	RAG
	Rationale for rating: In summary, it is difficult for the Authority to implement wider initiatives, without having to bear significant costs in order to gain agreement with Operators.	
Ease of Implementation	In assessing the Reference Case for ease of implementation, the extent to which the Reference Case can be implemented with a minimal level of resource input, time and complexity has been considered. Given that the Reference Case is already in place, no action is required to implement the Reference Case. **Rationale for rating:** In summary, there is no action required to implement the Reference Case; however, that is not to say the Reference Case as it stands today has been easy to implement.	
Risk Allocation	In assessing the Reference Case for risk allocation, the extent to which the Authority is exposed to risks it is not best placed to manage, including financial risk (revenue and cost), operational and reputational risks, and asset risks, have been considered. • The Authority already holds a level of "de facto" revenue risk. This is evidenced by the fact that, as stated in Table 3-4, the Authority has a duty in respect of providing Services and is likely to make interventions if there is a sudden withdrawal of commercial Services, albeit with suboptimal Services that need to be designed not to compete with commercial Services. It is also evidenced by the Authority's actions through the Bus Recovery Grant in the wake of the Covid-19 pandemic. • The degree to which the public sector effectively bears revenue risk due to their statutory duty to consider which Services should be operated where not provided commercially, has been highlighted by the need to reallocate Government funding (BSIP money) via the Network Stability Grant in order to maintain the current West Midlands Bus Network. • As Operators are responsible for the day-to-day running of Services, they will have to bear any increase in operating costs due to factors such as inflation, wage pressures or increased fuel prices, unless that risk manifests a necessity to withdraw Services, in which case the Authority must decide whether to step-in with subsidy. If the Operators do bear the risk, it will impact on investment which they are able to make on the West Midlands Bus Network in the future. • Under the Reference Case, the Operators are required to provide both fleet and depots in order to run the West Midlands Bus	

Commercial Objective	Assessment	RAG
	Network, therefore the Authority bears limited asset risk, unless that risk manifests a necessity to withdraw Services, in which case the Authority must decide whether to step-in with subsidy. • Reputational risk refers to the potential loss of stakeholder trust and the negative perception that can arise from the partnership's actions or inactions. In the public transport sector, reputation is critical as it influences passenger choice and can impact long-term ridership levels. Because there is no clear accountability for Service provision, an incident involving one partner can have reputational impact on all partners. • Therefore, under the Reference Case it appears that risks are managed and borne by the private sector, when revenue declines or network/market disruption occurs, the public sector has an effective risk allocation if it considers that a Service should be provided. **Rationale for rating:** in summary, the Authority holds a degree of revenue risk, due to the requirement to maintain a certain level of network and will also bear any reputational risks alongside the Operators. The commercial market has become increasingly risk averse since the Covid-19 Pandemic.	
Commercial Sustainability	In assessing the Reference Case for commercial sustainability, the extent to which the Reference Case offsets the industry trend of a declining West Midlands Bus Network, and provides alignment between costs and benefits of any investment by the Authority has been considered: • The Authority is facing a reduction in Services. The cause of this is the reduction in post-pandemic passenger revenue, increasing costs and the withdrawal of Government support funding. • The Authority has implemented the Network Stability Grant, a subsidy scheme which uses reallocated BSIP funding to support maintaining the West Midlands Bus Network in its current form until December 2024. The amount of additional funding being required to do so is c.£36 million and, without such a support scheme, the West Midlands Bus Network could be reduced by as much as 30% from January 2025. • Under the current regime, the lack of control with regards to implementing change, has led to a situation whereby the Authority has been unable to facilitate commercial sustainability. • Under the Reference Case, it is likely that the Operators (NX or other) will prioritise a short-term shareholder return, rather than a	

Commercial Objective	Assessment	RAG
	longer-term view for the benefit of the broader West Midlands Bus Network. • Despite a prolonged period of strong partnership working, patronage has continued to decline over many years. **Rationale for rating:** in summary, under the Reference Case the Authority is facing both significant cuts to the West Midlands Bus Network and an increase in Supported Services. There is an inherent misalignment between costs and benefits, whereby the Authority is investing heavily in the West Midlands Bus Network, with benefits flowing to private sector Operators.	

Conclusion

4.24 The Reference Case creates a forum for the Authority and participating Operators to discuss and address issues that are of strategic significance to each party. It ensures that the Operators are aware of the Authority's strategic objectives. However, there are a number of challenges for the Authority in realising its objectives for bus provision under the Reference Case, including:

(a) **Resource and time consuming to implement or make changes**: the EP process can be time-consuming to agree commitments and thus delays improving the experience of bus passengers. The Reference Case provides the Authority with only limited options to hold the Operators to account if its objectives are not achieved, and the threat of de-registration of Services for non-compliance, whilst real, does not necessarily help the Authority achieve their objectives. The extent to which the Reference Case allows the Authority to implement its ambitions in relation to, for example, branding, customer services or vehicle specifications is limited, and the Operators cannot be forced into initiatives that do not align with their commercial interests. If an Operator is unable or unwilling to agree to a commitment it can choose to withdraw Services, which limits the Authority's bargaining position. Finally, there have been challenges in negotiating integration through the EP under the Reference Case to bring in other transport modes and requirements due to the inherent complexity, met with lack of Authority control and requirement for agreement with the Operators;

(b) **Misalignment of costs and benefit of Authority interventions:** a number of the significant interventions carried out through the EP under the Reference Case (such as fare incentives) can involve substantial investment by the public sector. However, the Reference Case presents a misalignment between where the benefits arising from these Authority investments accrue, with many benefits flowing directly to Operators as a result of the Authority investment under the Reference Case;

(c) **Limited ability to enhance competition**: the current West Midlands Bus Network is one in which NX accounts for c.94% of bus passenger journeys. This creates barriers to entry (such as Depot provision), which hinder both new Operators entering the market and smaller existing Operators from growing market share; and

(d) **Allocation of risk and best value:** while the deregulated market appears to transfer risk to the private sector, the Operators are free to stop running Services when they are no longer commercially viable (meaning that operational risk may be transferred but not market risk). In circumstances where the Authority "steps in" to provide Supported Services, these are typically let on a piecemeal and reactive basis and need to be designed around the residual commercial network, therefore providing limited ability for the Authority to engage with the market in advance to generate competition for these Supported Services Contracts or package contracts together in a way that secures best value.

4.25 In conclusion, while the Reference Case presents positive steps towards partnership working and has already demonstrated that it can be implemented and has achieved some positive passenger outcomes, it underperforms against a number of the Authority's Commercial Objectives, particularly in relation to implementing new initiatives, long-term sustainability, driving competition and long-term VfM for the customer.

5 The Future Partnership

Introduction

5.1 This paragraph 5 describes the proposed commercial arrangements for the Future Partnership, which seeks to establish a number of potential improvements to the EP under the Reference Case.

5.2 This paragraph 5 is structured as follows:

Sub-paragraph(s)	Topic
5	• The Future Partnership
5.1 – 5.41	• Introduction • Contracting Arrangements • Risk Allocation • Performance Incentives • Fleet and Depot Provision • Phasing, Implementation and Transition • Provision for SMOs • Procurement Arrangements • Pensions and TUPE implications
5.42 – 5.43	• Assessment of the Future Partnership against the Commercial Objectives

5.44 – 5.46	• Conclusion

Introduction to the Future Partnership

5.3 In developing the Future Partnership for the purposes of this Assessment, the Authority has undertaken direct engagement with the Operators to understand the potential changes, improvements and innovations that could form part of any evolution of the EP under the Reference Case. The response from the Operators has been limited, and as a result the Authority has decided upon the following additions on top of the EP under the Reference Case for the purposes of this Assessment:

(a) **Contracting**: a shift in approach for the contracting structure of Supported Services;

(b) **Ticketing**: introducing a joint ticketing sales function; and

(c) **Depot Provision by the Authority**: introducing additional Depots to be let along with Supported Services Contracts.

Contracting

5.4 Under the Future Partnership, commercial Services in the Authority's Region will continue to operate in accordance with the existing provisions. This means that private Operators will maintain the autonomy to determine routes, schedules, and fares for Services that are commercially viable without the need for public subsidy. These Services are driven by market demand and will operate under the competitive pressures of the open market.

5.5 Presently, in the Reference Case, Supported Services Contracts are let on a net cost basis, as described in paragraphs 4.5 to 4.9.

5.6 Under the Future Partnership, these contracts will be procured and let on a gross cost basis, which means that the Authority will pay the Operator a fixed fee for the delivery of the Service, while the Authority retains all fare box revenue.

5.7 This transition to gross cost contracting is aimed at creating a greater level of competition and transparency, relative to net cost, as the bidding process and subsequent breakdown of bids is likely to provide the Authority with greater oversight with regards to the overall cost structures required to run these types of Services. It would provide bidders with certainty over the revenue they would receive, removing an advantage that an incumbent Operator who knows the market better will hold.

5.8 There will be opportunities to incentivize Operators through rewarding strong performance for example the growth of patronage, delivering strong operational performance and demonstrating excellent customer service. Bidders will be encouraged to develop innovative solutions and commitments to enhance Service provision through the life of the contract. However, there will still be constraints in how Supported Services can be designed to avoid competing with commercial operations leading to inefficiencies and poor customer experience.

Risk Allocation

5.9 Table 3-6 summarises the key differences in risks and responsibilities under the Future Partnership, relative to the EP under the Reference Case (**bold** denotes changes, relative to the Future Partnership):

Table 3-6: Summary of risks and responsibilities

Risk	Responsibility under the Reference Case	Responsibility under the Future Partnership
Revenue Risk	Private Sector	**Private Sector (Public Sector for Supported Services)**
Fares	Private Sector	**Private Sector (Public Sector for Supported Services)**
Ticketing	Private Sector	**Shared Ticketing Function**
Service specifications and branding	Private Sector	Private Sector
Operating Cost Risk	Private Sector	Private Sector
Employment of bus and network management staff	Private Sector	Private Sector
Timetabling and routes	Private Sector, (Public Sector for Supported Services)	Private Sector, (Public Sector for Supported Services)
Performance monitoring	Private Sector(Public Sector for Supported Services)	Private Sector (Public Sector for Supported Services)
Fleet Provision	Private Sector	Private Sector
Depot Provision	Private Sector	**Private Sector (Public Sector for some Supported Services)**

5.10 As can be seen from Table 3-6 above, the key changes to the risks and responsibilities reflect the changes to the Future Partnership relative to the Reference Case, including:

(a) Revenue risk on Supported Services, this will transition to public sector for Supported Services under the Future Partnership;

(b) Ticketing responsibility would be shared between the public and private sectors under the joint ticketing approach; and

(c) Depot provision for some depots will be undertaken by the public sector for a number of depots.

Revenue

5.11 Under the Future Partnership, revenue risk will continue to sit with the Operators for commercial Services, and transition to the public sector for Supported Services Contracts.

Fares

5.12 Whilst the Authority would specify fares on Supported Services, the Operators will continue to set fares on commercial Services within the Authority's Region but will have to adhere to agreements in line with the BSIP requirements on fare levels, structures, and integration.

Ticketing

5.13 The Authority would aim to work closely with the Operators to align and streamline the approach to ticketing with a particular focus on a unified offer to passengers across Apps, digital channels and retailing. This would push to deliver a single Transport App, a single retail strategy and a dedicated and independent sales team.

Service Specification and Branding

5.14 The Operators will continue to control the specification and branding of buses and related infrastructure but will have to agree to and comply with agreements in line with the BSIP standards on vehicle quality, emissions, accessibility, and information.

5.15 The 'West Midlands Bus brand' is used widely across the West Midlands Bus Network on the Authority's bus stop infrastructure (including bus stations) and on the TfWM.org.uk website. Service specifications and branding of vehicles currently are the responsibility of the Operators, with limited influence from the Authority.

5.16 Under the terms of the Reference Case, the Authority has some influence as paragraph 8.3 of EP Scheme Variation 3 states that vehicles must be in an appropriate finished livery, which clearly identifies either the Operator or brand route. On some VPA routes the Authority have encouraged the adoption of a single 'West Midlands Bus brand' between the Operators.

Operating Cost

5.17 The Operators will remain responsible for the day-to-day operation of Services, including the employment of bus and network management staff, the timetabling of routes for commercial Services, and the performance monitoring of commercial Services.

5.18 The Operators will have to bear any increase in operating costs due to factors such as inflation, wage pressures, fuel prices, maintenance, or regulatory changes. The Operators will also have to meet the BSIP and Traffic Commissioner targets on reliability, and punctuality, which may require additional resources or investment. There are however powers contained within the EP under the Reference Case that provide frequency limits on certain corridors to prevent over-bussing and encourage the Operators to use this resource elsewhere to benefit the wider West Midlands Bus Network.

Employment of Bus and Network Management Staff

5.19 The responsibility for employment of bus staff sits with the Operators, including drivers, revenue protection staff, maintenance staff, management and network planning.

5.20 However, the aim of a unified approach to ticketing would see the collaboration on a sales and retail function with staff currently employed by the Operators and the Authority moving into TiCo, an arms-length ticketing company similar to those established in other urban areas of the UK.

Timetabling of Routes

5.21 The Operators would continue to be responsible for commercial routes, as per the Reference Case, and the Authority would continue to be responsible for Supported Services.

Performance Monitoring

5.22 Under the Future Partnership, the Operators are required to manage and assess their performance, whereas the Authority monitors the performance of the Operators on all Supported Services.

Fleet Provision

5.23 As per the Reference Case, this remains with the Operators.

Performance Incentives

5.24 Services subsidised by the Authority have typically operated under a net cost contract model, which allows the Operators to retain fare revenues and bear the risk of ridership fluctuations.

5.25 The potential shift to gross cost contracts would alter the fundamental drivers of Operator behaviour, as the Operators would no longer have an incentive to maximise revenue. Instead, the incentivisation structure would pivot towards operational efficiency and cost control, with a strong contractual management regime needed in order to ensure high Service standards and deliver against specified performance targets.

Depot Provision

5.26 Under the Future Partnership, commercial Services will continue to operate under the same depot landscape as under the Reference Case, as set out in paragraphs 3.57 to 3.62.

5.27 However, the operational model for Supported Services under the Future Partnership will evolve, as these contracts will alter to gross cost from net cost, as set out in paragraphs 5.5 and 5.6. Under the Future Partnership:

(a) the Authority will intervene and develop four new depots with a capacity ranging from c.40 to c.200;

(b) this would allow the Authority to analyse the current Supported Services Contracts and efficiently "bundle" some of these Services and allocate to Authority owned depots;

(c) the winning bidder for the contract would occupy one of the relevant depots, creating a synergistic relationship between the depot and Service provision. The depot would be occupied by the Operators who would be responsible for all aspects of staffing and maintenance, as if it were their own site;

(d) this model ensures that the Operator responsible for delivering Supported Services has the necessary infrastructure in the correct vicinity to do so effectively and efficiently, opening up the market to the Operators who may not be in a position to otherwise acquire a depot at-risk, or install infrastructure in a pre-existing depot thus increasing the competition for tendered Service contracts; and

(e) potential depot locations will be sought in areas where there is most scope to bundle contracts to achieve best value, as shown in Table 3-7. Not all contracts will be bundled, to ensure opportunities remain for the Operators who do not have a preference for this approach.

Table 3-7: Depot cost breakdown per Partnership Area

Partnership Area	Option(s)	Assumed Acquisition Cost	Acquisition Year	Build Year	PVR
Wolverhampton	£3m land purchase, £3.5m development	£6.5m	2026/2027	2028/2029	40
Sandwell/Dudley	Peartree - £7m purchase, £14m development	£21m	2025/2026	2027/2028	200
Coventry	£3m land purchase, £3.5m development	£6.5m	2025/2026	2027/2028	40
South Birmingham	£4m land purchase, £5m development	£9m	2026/2027	2028/2029	40
Total		**£43m**			**320**

Commercial arrangements for Depots

5.28 The proposed commercial arrangements for depots under the Future Partnership is that they would be accessed by the Authority (leased or acquired) and provided to the Operators within the terms of the Supported Services Contracts.

5.29 The contract will put in place the required terms for depot provision, which are intended to be on a peppercorn rent, thus reducing the Operators' costs and resulting in a lower Supported Services Contract cost relative to the Operators providing their own depots.

5.30 The detailed design of contracts will be based on the principle of a "dry lease" with appropriate flexibility, and controls in relation to asset maintenance, insurance and handback standards.

Fleet Provision

5.31 Under the Future Partnership, the market is expected to independently provide and manage the fleet in line with the current approach.

5.32 The Authority has considered the potential to intervene in fleet ownership and concluded that this is not viable due to; the complexity of contractual relationships required to manage fleet whilst not having wider control over Service provision; legal and regulatory constraints; and risk exposure to the Authority of owning fleet without wider control of Services.

5.33 While the Authority will not intervene directly in providing a fleet, it will continue to play a supporting role to the Operators in transitioning to ZEBs, through seeking funding in order to provide BSOGs, to offset the higher investment costs. The profile of transition to a fully ZEB fleet would be expected to be the same as under the Reference Case as commercial and regulatory drivers will be the same.

Phasing, Implementation and Transition

5.34 In implementing the Future Partnership, a number of activities are required by the Authority, starting with a more detailed engagement of the Operators.

5.35 A number of subsequent implementation activities would be required, including:

(a) **Depot acquisition**: in acquiring depots, there is the need for the Authority to firstly develop detailed business cases for expenditure approval, which considers the costs and benefits of each intervention and puts in place the necessary procurement, contracting and management arrangements. This is anticipated to take a period of three months. Following the approval, there is the need to undertake the depot acquisition, construction or refurbishment (as required) and readiness for operation which is intended to take two years;

(b) **Supported Services Contracts**: in amending the form of contract, there is the need to firstly undertake a contracting strategy, which includes a mapping exercise to understand the expiry of current contracts and align this into a series of tranches for re-procurement which align on contract dates and potentially group Services to make bidding more attractive for new Operators. This is intended to be carried out over a 3-month period, with the procurement of Services carried out over a three-year period.

Figure 3-8: Implementation Plan – The Future Partnership

Provision for SMOs

5.36 Under the Future Partnership, the Authority aims to intervene with regards to providing depots from which to operate bundles of tendered Service contracts as outlined in paragraphs 5.26 to 5.30.

5.37 This strategic move is designed to enhance competition, particularly among new entrants and SMOs. By owning these assets, the Authority aims to foster a more competitive environment which is essential to create an environment where a deregulated network can continue to operate.

5.38 The leasing of these depots to the Operators through gross-cost tendered Service contracts is expected to lower barriers to entry for new entrants or SMOs and enable them to expand their operations.

5.39 It is acknowledged that some SMOs may not wish to scale-up to operate bundles of contracts. Contracts will only be bundled where it is considered this is the best mechanism to achieve VfM. This approach will not be used for all contracts, with many still left available to bid for independently.

Procurement

5.40 Supported Services are procured on a gross cost basis, as set out below:

(a) The Operators are invited to join the Authority's procurement system where they can upload company information and details to become one of the Authority's approved Operators to operate Services contracts;

(b) The Authority will issue invitations to tender to approved Operators which includes a detailed Service specification on the Authority's procurement system where approved Operators can bid to operate the Service specified. The template for invitations to tender will encourage the Operators to develop innovative solutions and commitments to enhance Service provision through the life of the contract; and

(c) The Authority reviews Operator submissions through the Authority's procurement system and a Service is awarded based on a pre-determined criteria with a greater emphasis on the quality element. Contracts will generally be let for a period of five years with the possibility of a two-year extension where there is good performance where network conditions are stable.

Pensions and TUPE

5.41 Under the Future Partnership, there is not anticipated to be any transfer of staff either between the Operators or between the Operators and the Authority. Accordingly, there will be no change in pensions provisions. Pensions and TUPE are discussed in more detail within the Management Case.

Assessment of the Future Partnership against the Commercial Objectives

5.42 Paragraph 5.43 assesses the performance of the Future Partnership relative to the Authority's Commercial Objectives described in paragraph 2.

5.43 The analysis rates the performance of the Future Partnership against the Commercial Objectives, whereby:

(a) **Green** means there is a high potential that the Future Partnership allows for the delivery of the Commercial Objective;

(b) **Amber** means that, while the Commercial Objective could be met under the Future Partnership, there are a number of challenges; and

(c) **Red** means that it is unlikely that the Commercial Objective will be met under the Future Partnership.

Table 3-8: Assessment of the Future Partnership against the Commercial Objectives

Commercial Objective	Assessment	Rating
Best Value	In assessing the Future Partnership for best value, the extent to which the Future Partnership promotes strong competition and drives innovation has been considered across both commercial and Supported Services. ***Commercial Services*** • Under the Future Partnership, commercial Services will continue to operate under the same depot landscape as under the Reference Case. • However, as the Authority is intervening to provide four new depots for Supported Services Contracts, this is in turn anticipated to intensify the competitive environment as new entrants may aim to expand their operations beyond Supported Services once they have established a foothold in the Authority's Region. ***Supported Services***	

Commercial Objective	Assessment	Rating

	• The Operators will continue to have to stop running Services when no longer commercially viable (as per the Reference Case) in which case the Authority may need to source replacement Operators through the Supported Services market.
	    • Intervention by the Authority under the Future Partnership, through acquisition of four depots, has the potential to enhance competition as SMOs or new entrants will be able to mobilise in the Authority's Region, without having to take on the risks associated with acquiring a depot.
	    • Given that most Services are not tendered, there will inherently be inefficiencies in providing a depot solely for Supported Services.
	Rationale for rating: in summary, the intervention in depots by the Authority has the potential to increase the level of competition for Supported Services Contracts relative to the Reference Case.	

Optimise Passenger Outcomes	In assessing the Future Partnership for passenger outcomes, the extent to which the Future Partnership promotes a positive passenger experience in relation to fares, ticketing, punctuality and reliability, customer service and vehicle standards has been considered.
	• Many of the challenges noted with the Authority achieving its optimising passenger outcomes objective under the Reference Case are driven by the overarching regulatory model and therefore not anticipated to change fundamentally under the Future Partnership.
	• Most of the additional objectives of the Future Partnership are to support increased competition for Supported Services and help future electric vehicle transition.
	• As under the Future Partnership:
	    • The Operators will continue to set the price for fares.
	    • Alterations to customer service and vehicle standards will need to be agreed with the Operators in order to be included.
	    • Without a significant increase in the overall competitive landscape, the Operators may not operate Services as punctually as possible or continue to invest in assets (for example, in the fleet).
	    • Limited incentive to integrate between different Operators' Services and other modes.	

Commercial Objective	Assessment	Rating
	• The transition to gross-cost contracts may also remove an incentive that the Operators have to try and grow patronage on Supported Services through providing high-quality, so this would need to be controlled through a high-quality contract management regime. **Rationale for rating:** in summary, as many of the challenges the Authority face in order to maximise passenger outcomes are inherently associated with the nature of the Future Partnership, the Future Partnership has also been rated Amber.	
Ease of Introducing Changes	In assessing the Future Partnership for ease of introducing changes, the extent to which the Authority can easily introduce or make a change to the West Midlands Bus Network, infrastructure or passenger focused initiatives has been considered. • All new initiatives or interventions in the commercial bus market require negotiation with the Operators to make any changes to the EP under the Reference Case. • As set out in the assessment of the Reference Case, the EP under the Reference Case is limited in the extent to which the Authority can make changes or further network and infrastructure interventions over and above those set out in the Future Partnership. • Therefore, the extent to which the Authority can influence or make changes to bus provision under the Future Partnership is as limited as the Reference Case. **Rationale for rating:** in summary, as many of the challenges the Authority face in order to introduce new network and infrastructure initiatives are inherently associated with the nature of the EP, the Future Partnership has also been rated Red.	
Ease of Implementation	In assessing the Future Partnership for ease of implementation, the extent to which the Future Partnership can be implemented with a minimal level of resource input, time and complexity has been considered. • The network changes that underpin the benefits of the Future Partnership can only be achieved by negotiation due to the nature of the partnership scheme. • Therefore, to implement any potential network improvement, agreement on a consistent basis across the Operator community would be needed, which, similarly to the Reference Case, is time consuming, requires resource input from the Authority and is inherently complex.	

Commercial Objective	Assessment	Rating
	• There remains a material risk that the Operators, and in particular NX, may not agree to processes that allow for more ambitious rationalisation of the West Midlands Bus Network as it may come at a significant cost to NX. **Rationale for rating:** in summary, implementation of the Future Partnership is likely to be more challenging than the EP under the Reference Case in terms of time and resource input from the Authority. The inherent complexity and negotiation required results in an Amber rating.	

Risk Allocation	In assessing the Future Partnership for risk allocation, the extent to which the Authority is exposed to risks it is not best placed to manage, including financial risk (revenue and cost), operational and reputational risks, and asset risks, have been considered.
	• Many of the challenges noted with regard to the risk allocation objective under the Reference Case are driven by the overarching regulatory model and therefore not anticipated to change fundamentally under the Future Partnership.
	• Under the Future Partnership:
	  • The Authority will continue to hold a degree of revenue risk, particularly with the move to gross cost contracts for Supported Services, while operating cost risk remains with the Operators.
	  • Reputational risk will continue to be shared between the Authority and Operators.
	• However, due to the acquisition of four depots for the Supported Services Contracts, the Authority will take on a degree of asset risk which is associated with managing them.
	Rationale for rating: in summary, as the Future Partnership and the Reference Case regulatory structure are inherently similar, it is likely that implementing the Future Partnership will bring about both the same and additional risks that will be associated with setting up and managing four new depots.	

Commercial Sustainability	In assessing the Future Partnership for commercial sustainability, the extent to which the Future Partnership offsets the industry trend of a declining West Midlands Bus Network, and provides alignment between costs and benefits of any investment by the Authority has been considered: • As mentioned in paragraph 4, the lack of control with regards to implementing change, which has led to a situation whereby the Authority has been unable to bring about sustainable policies	

Commercial Objective	Assessment	Rating
	such as fare incentives, alignment to wider policy goals and competition, will remain the same under the Future Partnership due to the requirement to agree initiatives with the Operators before they can be implemented. • Therefore, it is likely that the trend of continuously increasing levels of Supported Services will remain the case. • Under the Future Partnership, the Authority will develop four new depots for Supported Services Contracts. This is likely to provide a degree of competition which, in turn, is likely to lead to more competitive bids for tenders, therefore providing more alignment between costs and benefits relating to Supported Services Contracts. **Rationale for rating:** in summary, as the Future Partnership and the Reference Case regulatory structure are inherently similar, whilst there may be some increase in competition that allows for a greater degree of commercial sustainability under the Future Partnership, it is likely that the same challenges and pressure surrounding potential network cuts will remain without additional funding.	

Conclusion

5.44 The Future Partnership builds on the Reference Case, as a result the benefits and disbenefits of the Reference Case remain in place, namely that the Reference Case creates a forum for the Authority and participating Operators to discuss and address issues that are of strategic significance to each party. It also presents challenges in relation to implementing new initiatives, long-term sustainability, driving competition and long-term VfM for the passenger.

5.45 The Future Partnership presents the opportunity to improve on some of these challenges, most notably driving competition for Supported Services and long-term value for the passenger, including through depot acquisition and amending the form of the Supported Services Contracts.

5.46 However, given the fundamental limitations of the Reference Case, even with the proposed interventions set out within the Future Partnership, the extent to which it generates a material impact on the Authority's Commercial Objectives is assessed as limited.

6 Franchising

Introduction

6.1 This paragraph 6 outlines the Authority's proposed commercial arrangements for Franchising in the Authority's Region, which has been developed to address the requirements of the Franchising Guidance and aligns with the principles of the HM Treasury's Green Book Guidance.

6.2 The model has been informed by existing bus franchise model examples such as the model used by TfL, various international examples, as well as the model being implemented by the GMCA and that proposed by the WYCA in their assessment for Franchising.

6.3 The Authority recognises that some elements of the commercial model for Franchising will benefit from further refinement. The Authority has undertaken an initial market engagement and the results of this are set out in the Operator Engagement Report at Appendix 2 of the Management Case.

6.4 The majority of feedback is broadly consistent with the positions being set out for the commercial model in this Assessment. If the Franchising Scheme is pursued, the Authority will undertake such further refinement, including consultation and further detailed market engagement.

6.5 This paragraph 6 and paragraph 7 are structured as follows:

Sub-paragraph(s)	Topic
6 and 7	• Franchising
6.1 – 7.32	• Introduction • Contracting Arrangements • Risk Allocation • Performance Incentives • Fleet and Depot Provision • Phasing, Implementation and Transition • Provision for SMOs • Procurement Arrangements • Pensions and TUPE implications
7.33	• Assessment of the Franchising Scheme against the Commercial Objectives
7.34 – 7.39	• Conclusion

Contracting

6.6 Paragraphs 6.6 to 6.9 set out the Authority's proposed approach to the scope, size and length of Franchise Contracts. The approach to the scope and size of contracts is detailed in the Authority's lotting strategy and is summarised below, alongside the Authority's proposed length of contracts and arrangements for school and rail replacement Services.

6.7 The lotting strategy is based on the following principles:

(a) **Geography**: minimising overlapping Services in the same geography is key to an efficient lotting strategy and this requires Services to be grouped by the geography they serve. The depot most appropriate for the Service is likely to be closest to the end of the route (for example, the route's outer bound);

(b) **Size**: each large Lot should have a broadly similar number of vehicles, aligned to the capacity of the large depot envisaged for that zone;

(c) **Routes**: Services serving the same corridor or radial route should be grouped into the same depot and therefore the same zone, even if these Services have different destinations. This premise has also been used when considering the proposed 'cross-city' and Sprint services that serve much longer corridors across Birmingham; and

(d) **Service type**: Services should be grouped by the category of Service they provide. This influences whether the Service goes into a 'large' or 'small' Lot within each zone, primarily based on the frequency of the Service and type of vehicle used. Primary routes with 'typical' vehicles are generally allocated to large Lots, and less frequent, secondary Services with smaller vehicles more suited for the small Lots. Specific Services like works Services must be considered, often without designated vehicles and running less frequently, these Services are likely to fall outside of the large Lots. There may be instances where Services could feasibly fit in both a large or small Lot, and the decision of which Lot it should be allocated to is dependent on the available capacity of the large Lot depot.

6.8 Table 3-9 presents the indicative fleet numbers for each of the 9 zones. It is anticipated that the majority of these vehicles would be operated from the large Lot within that zone.

6.9 The Operators have provided current PVR data for their Services, this being the maximum number of vehicles to operate any given Service. These have been used to determine the total PVR and number of allocated Services for each zone, noting that additional Services may operate under Service Permit.

Ordering of Rounds

6.10 The Authority proposes to let Franchise Contracts in three Rounds. In developing this sequence, the Authority undertook an exercise to consider a range of factors in determining the ordering, including:

(a) the financial stability of the West Midlands Bus Network during transition, aimed to minimise overlap between Franchised and non-franchised Services;

(b) expected depot availability; and

(c) the commerciality of Rounds to reduce the impact of removing all the most commercially viable routes first.

6.11 The Authority proposes to let Franchise Contracts in three Rounds:

(a) Round 1: Birmingham North, Coventry, Walsall;

(b) Round 2: Dudley, Sandwell, Wolverhampton; and

(c) Round 3: Birmingham East, Birmingham South, Solihull.

Table 3-9: PVR requirement for each zone

Zone	PVR with Spares[174]
Round 1: Birmingham North	178
Round 1: Coventry	164
Round 1: Walsall	182
Round 2: Dudley	164
Round 2: Sandwell	176
Round 2: Wolverhampton	184
Round 3: Birmingham East	132
Round 3: Birmingham South	232
Round 3: Solihull	144
Total	**1,556**

Contract Length

6.12 The Authority can exercise a degree of flexibility regarding the length of Franchise Contracts. The applicable domestic EU legislation (Article 4(3) of Regulation (EC) Public Service Obligations in Transport No 1370/2007 as transposed into UK law) restricts contracts for Services to a maximum length of 10 years.

6.13 The Authority decided to let contracts on a seven-year basis given a range of factors, including:

(a) feedback from market engagement and the views of Operators;

(b) it would effectively enable an electric vehicle to be used across two contract periods, with a half-life refurb and battery replacement;

[174] Informed by and consistent with the Operator-provided data included within the demand and revenue forecasting.

(c) it is a suitable timeframe to justify the Operators' investment in mobilisation so as to generate as many bidders as possible, which may include new entrants; and

(d) balancing Operator complacency, as the contract length is not so prolonged that it limits opportunity for significant innovation. Contracts will include appropriate clauses which will enable termination for poor performance.

School Services

6.14 The Authority's long-standing policy position is that it does not differentiate access to schools, colleges and other places of education above access to other Services and facilities in the Authority's Region. Therefore, the Authority does not fund additional buses dedicated to travel to school. However, a number of Services which operate directly to school and are available to the general public are operated on a fully commercial basis, from depots that will be utilised for the larger Franchise Contracts. In a small number of cases the district authorities and/or schools are funding closed Services dedicated to the provision of home to school Services.

6.15 In the case of any commercial local Services which operate to schools, these will be included as Services under Franchise Contracts. For school Services which are commissioned directly by the LAs and operate as 'closed door' contracts it is assumed that responsibility and budget for their provision will be retained by the respective LA. Given the proposal to include local Services which operate to schools on a commercial basis within future Franchise Contracts is at odds with the Authority's long-standing position not to provide school Services, Services will be subject to a review to ensure they meet VfM criteria. Requests for future dedicated school Services, without LA funding, will be subject to a VfM review and other change control process alongside requests / changes for other Services.

Services to be excluded from Franchising

6.16 Further consideration will be given to Services which the Authority may wish to exclude from Franchising, drawing on the experience of other CAs. This will include further assessment on a route-by-route basis of the effect that Franchising cross-boundary Services will have on the commercial bus networks on the respective neighbouring LAs to understand which of these Services should form part of the West Midlands Bus Network under a Franchising Scheme.

Service Permits and Approach to Cross-Boundary Services

Background

6.17 Under the Transport Act (as amended by the Bus Services Act) no local Services (as defined by the Transport Act) may be provided in the area covered by a franchising scheme unless they are:

(a) provided under a local service contract (for example, they are a service under franchising contract);

(b) an interim or exempted service (which should be specified in the franchising scheme); or

(c) provided under a Service Permit.

6.18 The local service designation is made under Section 2 of the Transport Act, the main requirement being that there are bus stops for boarding and alighting the service within 15 miles of each other (measured in a straight line). If a route is over a particularly long distance and only parts of the route allow a passenger to be able to make a journey of 15 miles or less, then only those parts of the route with boarding and alighting points within 15 miles of each other should be registered as a local service. The other parts of the route are classified as a long-distance service which does not need to be registered.

6.19 The Transport Act (Section 123P) allows the Authority to establish a scheme to grant Service Permits to a party to operate local services in the area to which the Franchising Scheme relates. The Franchising Guidance provides additional information with respect to the consideration of Service Permits in franchising assessments and how a Service Permit Regime should be established.

6.20 Therefore, on Day 1 of Franchising, all Services in the Franchising zone will need to be either:

(a) Subject to Franchising;

(b) Permitted; or

(c) Exempt.

6.21 Permitting requires consultation, this will need to be carried out when Franchising commences. The regulations do not contain specific timeframes for the consultation.

6.22 Permitting conditions are primarily to ensure that, within the Franchising zone, there are common fares and interoperable tickets for all Services. Conditions which may be included within Service Permits include:

(a) enabling tickets to be purchased or fares to be paid in particular ways;

(b) Operators accepting or issuing tickets of a specified description;

(c) Operators offering discounted travel for specified groups and accepting specified evidence of entitlement to such discounts;

(d) Operators publishing specified information about the local Services provided by them and about other local Services in the Franchising zone;

(e) Operators publishing specified information about their fares, the fares of other Operators of local Services and ticketing arrangements applied in the Franchising zone;

(f) requiring vehicles to comply with specified standards;

(g) setting customer service standards; and

(h) setting operational standards.

6.23 Permitting is therefore likely to cover many aspects of what the EP under the Reference Case would cover – which is crucial as the EP specifies that any requirements specified within the document would end as soon as Franchising is introduced in any part of the Authority's Region.

Should a Service Permit Regime be established?

6.24 The Transport Act and the Franchising Guidance acknowledge that not all Services can be provided under a local Service contract, particularly where a Service originates from a place which is outside of the Franchising zone. The introductory passage on Service Permits in the

Franchising Guidance notes that the Franchising authority should ensure that a Service Permit Regime is introduced to ensure that other Services which do not form part of the network of Services operated under local Service contracts are still able to operate. It goes on to say, "*This should include services which operate cross-boundary i.e. in both the Franchising area and the area outside, and also other services which complement the services operated under local service contracts*" (paragraph 1.118 of the Franchising Guidance).

6.25 While the Transport Act and the Franchising Guidance make it clear that a Franchising authority is permitted to establish a Service Permit Regime for cross-boundary Services entering its Franchising zone, neither the Transport Act nor the Franchising Guidance prevent a Service Permit Regime from also being established for specific Services which operate wholly within the Franchising zone. Equally the Transport Act and Franchising Guidance do not specifically mandate that a Service Permit Regime must exist for all Services which are cross-boundary in nature. It uses the term "should" rather than "shall" or "must". However, the consultation that the Franchising authority is required to carry out with adjoining LAs as part of the Franchising Scheme is likely to highlight whether there is a potential need for a Service Permit Regime relatively quickly.

6.26 Section 123B of the Transport Act requires the Franchising authority's assessment of the Franchising Scheme to include consideration of whether the Franchising Scheme would contribute to the implementation by neighbouring relevant LAs of (i) those neighbouring authority's policies under Section 108(1)(a) of the Transport Act and (ii) other policies affecting local Services that those LAs have adopted and published.

6.27 The requirement in the Transport Act and the Franchising Guidance is for the Franchising authority to consider transport plans and policies of neighbouring LAs and the effects of the Franchising decisions on these. However, there is no pre-determined answer set out in either the Transport Act or the Franchising Guidance. It would be up to the Authority, having considered the relevant issues, to decide whether or not to establish a Service Permit Regime for cross-boundary Services.

Managing Cross-Boundary Services Originating Outside the Franchising Zone

6.28 In some parts of the Authority's Region, there are Services which originate outside of the Authority's Region, pass through the Authority's Region and terminate outside of the Authority's Region. A number of the cross-boundary routes are long, running for over 30 miles, with the majority of the route being outside of the Franchising zone (for example, route X6 between Coventry and Leicester via Hinckley).

6.29 Another consideration is the areas just outside the Authority's Region where the Services are completely reliant on the Authority's Services network, but the area happens to be in a neighbouring Authority's Region (for example, Wythall and Rubery in Worcestershire, Wombourne and Perton in Staffordshire or Burton Green and Keresley in Warwickshire). In many cases, routes start in the Authority's Region, leave the Authority's Region and then end back within the Authority's Region. The Authority's current multi-modal ticketing scheme also extends beyond the boundaries of the Authority's Region to cover these areas, highlighting that travel patterns in these areas are intrinsically linked to the Authority's Region.

6.30 In these cases, it is most likely that the route would be let under a Franchise Contract, but, where the route operates outside the Authority's Region, it would be operating in a deregulated environment and would potentially be subject to competition.

6.31 The Transport Act and the Franchising Guidance allow the Franchising authority to establish different Service Permit Regimes for different types of Service within the Franchising zone.

6.32 The Transport Act requires the Franchising authority to grant Service Permits where the Service in question will benefit local passengers, and where it will not adversely impact on any of the Services under the Franchising Scheme. Accordingly, the Franchising authority can reject an application for a Service Permit where the Franchising authority considers that the cross-boundary Service will adversely impact upon the Franchising network. However, where the application for a Service Permit is rejected, the Franchising authority's decision needs to be well-evidenced (meaning that sufficient detail should be requested as part of the application process for Service Permits).

Conclusion

6.33 The Authority has understood that the Transport Act and the Franchising Guidance are drafted in a way which suggests that it would be challenging for the Authority to establish a Franchising Scheme which did not include Service Permits for cross-boundary Services. There is a clear expectation in both the Transport Act and the Franchising Guidance that Service Permits are likely to be required for various uses, including to support the continued operation of cross-boundary Services by the Operators running Services from outside the Franchising zone.

6.34 There are also strong reasons for permitting from an operational perspective, as outlined above.

6.35 The Authority has considered using 'sub-areas' (for example, phasing in the introduction of a Franchising Scheme across the Authority's Region over time, as opposed to the proposed approach of introducing the entire Franchising Scheme and then letting contracts over a number of tranches). This would allow the Authority to introduce Franchising without having to implement permitting for every Service. For example:

(a) if the Authority chose to pilot Franchising, it could theoretically isolate the impact of Franchising;

(b) if there was to be a longer roll out period, it could be helpful to separate Franchising zones and non-franchised areas; and

(c) if different districts had different views on Franchising, sub areas could alternate between an enhanced partnership and Franchising.

6.36 However, there can also be challenges where Services cross between sub areas and therefore both need to be permitted and subject to an enhanced partnership.

6.37 The Authority's position is therefore that there are few benefits for sub areas. The Authority has therefore decided:

(a) to work on the basis of no sub areas and that Service Permits will be required from day one of Franchising throughout the Authority's Region; and

(b) to prepare a programme that includes consultation for a Service Permit Regime.

Risk Allocation

6.38 Under a Franchising model, the allocation of risks and responsibilities between the public and private sectors will change significantly from current arrangements.

6.39 Table 3-10 presents a high-level summary of the risks and responsibilities between the public and private sectors, with the paragraphs that follow setting out further detail of each (**bold** denotes changes from the EP under the Reference Case).

Table 3-10: Summary of risks and responsibilities

Risk	**Responsibility under the Reference Case**	**Responsibility under the Franchising**
Revenue Risk	Private Sector	**Public Sector**
Revenue Protection Management	Private Sector	**Public Sector**
Service specifications and branding	Private Sector	**Public Sector**
Operating Cost Risk	Private Sector	Private Sector
Employment of bus and network management staff	Private Sector	Private Sector
Timetabling	Private Sector (Public Sector for Supported Services)	**Public Sector**
Customer Service	Private Sector	**Public Sector**
Fleet Provision	Private Sector	**Public Sector**
Depot Provision	Private Sector	**Public Sector**

Revenue Risk

6.40 Under Franchising, the Authority will assume revenue risk.

6.41 The Authority will receive all passenger fare revenue and implement a common fares and ticketing policy across all Services under Franchise Contracts.

6.42 The Operators will still have responsibility to collect revenue from tickets sold on board Services.

6.43 The Authority will be at risk for decreases in revenue (for example, due to falls in patronage) and will therefore face direct financial implications arising from any unbudgeted shortfalls. It will also gain direct financial benefit from any revenue increases.

6.44 The Authority will pay the Operators to run Services to an agreed timetable, specification and quality.

6.45 Revenue risk will continue to be taken by the private sector on all Services which are operated under Service Permits.

Revenue Protection Management

6.46 Under Franchising, the responsibility for revenue protection management will move from the private sector to the Authority. However, a first line of defence will remain with the private sector, who will be incentivised as part of their Franchise Contracts to carry out responsibilities to support a high level of revenue protection, such as compliance checking, which will be monitored and enforced through the KPIs and associated performance mechanisms.

Service Specification and Branding

6.47 Under Franchising, the Authority will control the specification and branding of buses and related infrastructure and ticketing systems. Franchising will enable the Authority to standardise vehicle quality requirements, external branding, and identity for Services, to support a consistent user experience across all local public transport modes. The Authority has undertaken recent research (Project Fuse) which clearly demonstrates how inconsistent branding across Services, infrastructure, information and ticketing is a significant barrier in building the passenger confidence and trust required by many to encourage them to use Services much more.

Operating Cost Risk

6.48 Services will be run by the Operators to specifications set by the Authority under the Franchise Contracts.

6.49 The amounts paid to the Operators to run a Franchise Contract will be set through competition. The price bid should cover the bidder's underlying costs, together with their profit requirement. For the purposes of this Assessment, the Authority has assumed a fixed percentage profit margin to the forecast costs of Franchise Contracts (which has been based on market intelligence for other gross-cost Franchise Contracts), as set out in paragraph 4 and Table 4-8 of the Financial Case.

6.50 Payments under the Franchise Contracts will be subject to indexation. Other than this, and taking into account usual risk share mechanisms under Service contracts on matters such as change in law, the assumption is that the Operators will generally be at risk for other increases in operating costs.

6.51 Since the Operators will be contractually bound to provide Services once they have entered into the Franchise Contract, they will not have the necessity to drop Services which are no longer commercially viable. It will be for the Authority to decide what to do with a Service where revenues are not covering costs, and robust change management processes will be included within contracts to facilitate this.

6.52 Franchise Contracts will be re-let with full competition at the end of each Franchising period. Therefore, the Authority will be exposed to potential increases in the costs of Franchise Contracts where underlying costs or the market's perception of risks or requirement for profits have increased. However, re-tenders will also provide the Authority with the ability to make any necessary changes to its contractual requirements beyond those facilitated with the in-contract change mechanisms.

Employment of Bus Staff

6.53 All bus drivers, maintenance and associated administrative staff associated with delivering Services under Franchise Contracts will be employed by or on behalf of individual Operators. Many of these staff may wish to TUPE transfer from existing Operators where eligible, and a further transfer will occur every time a Franchise Contract changes hands.

6.54 Unlike the current bus arrangements, the Authority will be required to undertake new functions under Franchising, including revenue management, management of ticketing/fare policies, determining optimum Service levels across the West Midlands Bus Network, and central support functions (for example, consolidated customer services). The provision of these activities is described more fully in the Management Case.

6.55 In addition to the employment of bus staff detailed consideration will be required on any implications on Union's as a result of a decision to franchise. This will be considered as part of transition planning following any decision to implement Franchising.

Timetabling of Routes

6.56 Whereas currently the Operators manage the timetabling of routes on their commercial Services, under Franchising the Authority would be able to specify the frequency, timing, number of buses for each Service and any wider multi-modal timetable integration requirements, determining the appropriate level of detail in each tender to ensure appropriate timetable provision, but also to be able to ask bidders to apply their expertise in timetabling and resource managing Services in their bids. The Authority would also be able to include change provisions within the agreements to manage variations to timetables and associated resource required to deliver timetables during the term of each agreement.

Customer Services

6.57 Under a Franchising model, the Authority would operate all central customer service and support functions, as set out in detail in the Management Case. Passengers' day-to-day interaction with the West Midlands Bus Network would primarily be with the Operators' bus staff (for example, drivers) who would be responsible for maintaining the quality of Service and passenger interaction. The Operators' performance would be incentivised and measured through a contractual performance regime.

Change Mechanisms

6.58 The Authority expects the Franchise Contracts will include change mechanisms to enable the Operators and the Authority to make changes to Service patterns and Service levels as may be required. This will include changes related to area wide 'Network Reviews' to ensure that different Franchise Contracts continue to work cohesively together as one West Midlands Bus Network as different tranches of Franchise Contracts are introduced. It will also include mechanisms through which levels of resource required to operate timetables can be amended, for example due to changes in traffic conditions.

Performance Incentives

6.59 Within each Franchise Contract, the Authority would incorporate a performance regime which would give the Operators a commercial incentive for providing consistently high standards of performance.

6.60 The performance regime would be calibrated to reflect the specific performance requirements of different contracts, or specific Services within those contracts – noting that some routes may present more operational challenges than others. The Authority envisages that the regime would cover areas of performance relevant to each contract. These may include (among other areas) the following:

(a) **Core KPIs**: for example, early/late running Services;

(b) **Specification measures**: for example, availability of CCTV on vehicles, destinations clearly displayed;

(c) **Bus Standards**: for example, cleanliness, availability of Services;

(d) **Passenger satisfaction**: for example, number and nature of complaints received;

(e) **Driver performance**: for example, behaviour; and

(f) **Fares, revenue, and monitoring**: for example, accuracy of returns or data, ETM issues.

6.61 The performance regime for each Service will be set out within each tender and will generally be non-negotiable, so that the Operators are bidding on a level playing field during procurement and expectations around performance are not compromised. If it was clear that the performance regime was not incentivising good performance or leading to unintended consequences, it may be possible to change it during the contract, by agreement.

Depot Provision

Overview of Approach

6.62 Market engagement has identified depot provision as a key barrier to entry. However, finding new and suitable depots is not straightforward, and the significant lead time to develop new sites would potentially delay Franchising.

6.63 As a result, the Authority has considered the potential to intervene in depot provision, under Franchising, and established a depot strategy which:

(a) identifies a range of options for depot intervention;

(b) undertakes an assessment of identified options relative to the Commercial Objectives;

(c) identifies an emerging preferred option; and

(d) establishes the potential cost implications of the emerging preferred option.

It should be noted that this approach is an assumption for the purposes of comparing the Reference Case and the Delivery Options and a detailed business case would be required to assess the Delivery Options and feasibility following any decision to pursue Franchising.

6.64 The Authority's preferred approach can be summarised as follows:

The Authority intervenes in depot provision by accessing depots at strategic locations across the Authority's Region by:

(a) aligning its intervention to take control of a large depot for each of the proposed Lots;

(b) providing equal access to all bidders for the large Lots at equal cost;

(c) requiring control, most likely through ownership;

(d) purchasing existing depots (which will often be the best solution); and

(e) developing new sites, where some of the depots purchased as above are not suitable for conversion to ZEBs.

6.65 While the above approach aligns to the lotting strategy and approach to single large contracts, the lotting strategy also includes smaller Lots to provide opportunities for smaller Operators.

6.66 The approach to depot provision for smaller Operators is that:

(a) The Operators of small Lots will provide their own sites (on the basis that it is easier to source small yards);

(b) Depot sharing will be explored further at detailed business case stage in the event that Franchising emerges as the preferred Delivery Option; and

(c) Further work will be carried out on what is required to stimulate the small operator market.

Commercial arrangements for Depots

6.67 The proposed commercial arrangements for depots is that they would be accessed by the Authority (leased or acquired) and provided to the Operators within the terms of the Franchise Contract.

6.68 The Franchise Contract will put in place the required terms for depot provision, which are intended to be on a peppercorn rent, thus reducing the Operators' costs and resulting in a lower Franchise Contract cost relative to the Operators providing their own depots (however depot costs will be borne directly by the Authority).

6.69 The detailed design of contracts will be based on the principle of a "dry lease" with appropriate flexibility, and controls in relation to asset maintenance, insurance and handback standards.

Potential Costs

6.70 The Authority cannot accurately predict the potential ease with which it will be able to acquire depots and the resulting cost. However, it has commissioned an external property consultant to identify a range of existing depots and potential sites and provide desktop valuations in order to inform this Assessment.

6.71 As well as the cost of acquisition, there is also the requirement (in some instances, depending on the quality and specification of the underlying asset) to fit each depot with ZEB enabled infrastructure, in line with fleet strategy.

6.72 Table 3-11 presents the high-level cost assumptions.

Table 3-11: Depot cost breakdown per zone

Zone	Potential existing Depot to acquire	Assumed Acquisition Cost (£million, Real, 2024)	Acquisition Year	Build Year
Walsall	Current Walsall Depot in control of the Authority	N/A	N/A	N/A
Wolverhampton	NX Wolverhampton Park Lane Depot	£4.4	2026/2027	N/A
Perry Barr	Existing NX Depot at Perry Barr	£15	2025/2026	N/A
Coventry	Leasehold – Transfer lease on existing site with CCC to the Authority from NX		2025/2026	N/A
Sandwell / Dudley	Acquire Tividale (full site) from Rotala	£4.5	2026/2027	N/A
Sandwell / Dudley	New depot – Total park, Oldbury.	£11		
Sandwell / Dudley	Leasehold – Pensnett owned by third party. Either acquire lease / agree to transfer lease.			
Solihull	Existing NX Depot at Acocks Green	£4.4	2027/2028	N/A
Birmingham East	A site to be identified to replace Birmingham Central	£5.5	2027/2028	N/A

Zone	Potential existing Depot to acquire	Assumed Acquisition Cost (£million, Real, 2024)	Acquisition Year	Build Year
Birmingham South	Leasehold – Acquire Yardley wood lease		2027/2028	N/A
Total		**£44.8**		

Fleet Provision

Key Considerations in Fleet Provision

6.73 The Authority's approach to fleet needs to balance the desire for a high-quality Service with ensuring that the costs associated with the fleet are at a level consistent with maintaining a comprehensive network and affordable fares.

6.74 The market engagement exercise has also highlighted that, like depots, the provision of fleet by the public sector would assist in supporting a competitive market and remove significant barriers to entry within the bus market in the Authority's Region.

6.75 The Authority has undertaken a strategic evaluation of its approach to the fleet under Franchising which:

(a) identifies a range of potential options available, these range from no direct provision of fleet, to a full the Authority owned fleet, which would be provided in line with lotting strategy requirements and would be included within the terms of the Franchise Contract;

(b) undertakes an assessment of identified options relative to the Commercial Objectives;

(c) identifies an emerging preferred option;

(d) establishes the potential cost; and

(e) highlights practical considerations.

6.76 It is important to recognise that, regardless of approach, Franchising is an intervention in the provision of fleet for several reasons:

(a) Within a Franchising Scheme, the Authority will want to standardise and homogenise the fleet across the Authority's Region to provide a consistent passenger offering and as such will control vehicles specification through contracts;

(b) The Authority will set the overall fleet requirement through defining the West Midlands Bus Network and Services provision;

(c) Franchising will remove any independent fleet investment decisions from the Operators who will only procure fleet in response to securing contracts. Given the scale of the

West Midlands Bus Network, the Operators cannot be expected to speculatively invest in fleet, and the ability to transfer fleet from other operating areas will be limited;

(d) Regardless of approach, under gross cost contracts, the Authority will be directly liable for the costs of fleet, including depreciation over the contract period; and

(e) The asset life of new vehicles (15+ years) will extend beyond any Franchise Contract period. As driver of the investment, the Authority will be partially or wholly exposed to the whole life costs and liabilities of the fleet.

Approach to ZEBs

6.77 In line with the Authority's 2041 Net Zero target, the Authority will continue to support the transition to ZEBs and seek funding to offset the higher costs, regardless of regulatory scenario. Whilst Franchising could allow a quicker transition to a fully ZEB fleet, this would require the Authority to obtain and use funding more quickly and, in the short-term, increase the operating cost base of the West Midlands Bus Network as it would require the disposal of assets that are not fully depreciated.

6.78 However, to be consistent with the broader Commercial Objectives of this Assessment, namely "commercial sustainability", a faster transition has not been considered. Transition to a ZEB fleet will follow the natural replacement cycle of vehicles, where a diesel bus is replaced with a ZEB when it reaches the end of its economic life after 15-years - mirroring the Reference Case and the Future Partnership scenarios. Similarly, this assumes the Authority can obtain sufficient further funding to offset the additional costs of a ZEB fleet. This will see the fleet become zero emission by 2039.

6.79 As with the other regulatory scenarios, in the event of insufficient funding, under Franchising the Authority would delay investment in new fleet until prices of ZEBs and diesel buses narrowed or more funding was available. As a back stop, the Authority could also procure a new or partially deprecated diesel fleet, but this would create a risk that the 2041 Net Zero targets would be missed.

Approach to Provision of Fleet under Franchising

6.80 Four broad options were considered for provision of fleet under Franchising:

(a) **Option 1 - No direct ownership, specify the Operator vehicle requirements via Franchise Contracts:** under Option 1, the Authority take no role in acquiring or leasing vehicles (save for supporting the Operators to transition to ZEBs through funding in the absence of ZEBRA, at the Authority's discretion), vehicles are provided by the Operators and the Franchise Contracts specify vehicle requirements;

(b) **Option 2 - Influence vehicles through a RV pool of vehicles**: under Option 2, before contracts are let, the Authority establishes an RV mechanism where the Operators can opt to place vehicles (which meet a defined specification) into a "pool". The mechanism establishes an agreed "value" for each vehicle. At the beginning of each Franchising competition, the Authority would provide a subset of the "RV pool" vehicles on equal terms, with ownership transferring to the successful bidder at the operational commencement date of that Franchise Contract. At the end of the Franchise Contract, the Authority would guarantee the value of the vehicle (should its economic-life span two Franchise Contract terms) and make the vehicles available to all bidders, on equal terms, for the following Franchise Contract (after which the ownership would revert to the winning bidder);

(c) **Option 3 - Direct Authority acquisition of vehicles:** under Option 3, the Authority would reach agreement with NX for (in Service or planned) ZEBs to transfer lease to the Authority, who would then "on-lease" to winning bidders of contracts (on same terms and conditions). In addition, the Authority would acquire vehicles (buying outright, funded by borrowing and borrowing costs paid from equal reduction in Franchise Contract costs). Any "interim" shortfall in fleet during early years (prior to the Authority controlling a full fleet of vehicles) would be met by requiring bidders to bring an element of their own vehicles for the years until a full fleet is in place to provide to the Operators (with sufficient flexibility in contracts to move newly acquired Authority ZEBs in during life of the contract); and

(d) **Option 4 - Direct Authority leasing of vehicles:** under Option 4, the Authority would reach agreement with NX for (in Service or planned) ZEBs to transfer lease to the Authority, who would then "on-lease" to winning bidders of contracts (on same terms and conditions). In addition, the Authority would lease vehicles (availability payment leases, with the terms passed onto winning bidders) on an even basis between 2028-2035. Any "interim" shortfall in fleet during early years (prior to the Authority controlling a full fleet of vehicles) would be met by requiring bidders to bring an element of their own vehicles for the years until a full fleet is in place to provide to the Operators (with sufficient flexibility in contracts to move newly leased Authority ZEBs in during life of the contract).

6.81 The primary option to be taken forward for development was Option 3, where the Authority would access the fleet to provide to the Operators under the terms of Franchise Contracts.

6.82 The contract terms would pass the risk of the asset onto the Operators and be leased to the Operators on a peppercorn rent, thus reducing the overall cost of contract payments to the Operators (however the cost of vehicles will be incurred directly by the Authority).

6.83 The preferred option will draw on each of the below in providing a fleet solution for the launch of Franchising:

(a) **NX (NX) ZEBs**: there are a number of existing or planned NX ZEBs which are either in operation in the Authority's Region or have been committed by the Operator. Some of these vehicles are supported by subsidies (for example, ZEBRA funding). There is the opportunity to access these vehicles either through the terms of a Grant Funding Agreement (which provide the Authority with the ability to access vehicles in the event of a Franchising decision), or for those non-grant funded vehicles, NX have expressed a willingness to novate lease arrangements to the Authority to mitigate its risk of stranded assets under Franchising;

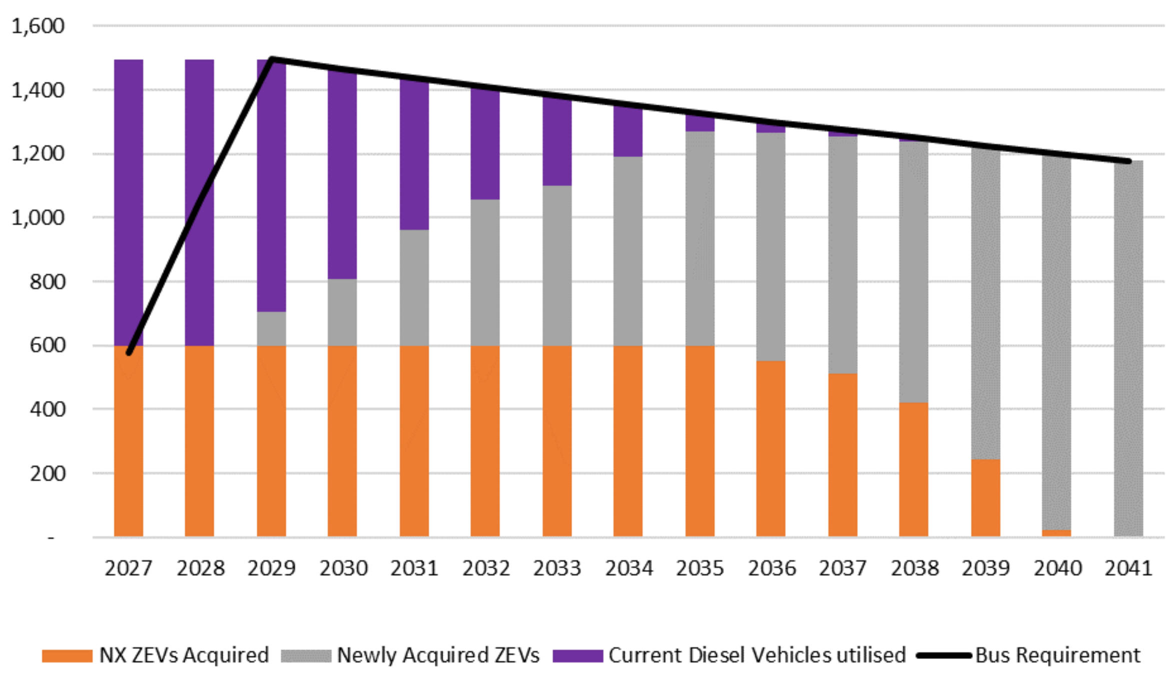
(b) **Interim Diesel fleet**: there is the opportunity to access existing Operator vehicles (either operating in or outside of the Authority's Region). This option could either involve the direct acquisition of existing fleet by the Authority, or structuring contracts so that the Operators provide interim vehicles until such time that the Authority is able to provide a fully owned ZEB fleet; and

(c) **New ZEBs ordered from manufacturer or leasing company**: the Authority has the ability to access ZEBs independently, either in the form of a direct acquisition of vehicles or under a leasing arrangement with a vehicle leasing company.

Table 3-12: Vehicle allocation and Cost

Vehicle Category	No. of Vehicles	Additional Capital Investment Required (£million, Real, 2024)
NX (NX) ZEBs	600	Nil - assumed existing leases novated to the Authority and back-to-back to the Operators (who continue to meet lease obligations)
Interim Diesel fleet	895	£77.0
New Authority ZEBs	1,177	£417.2
Total	**2,672**	**£494.2**

Figure 3-9: Fleet requirement and composition, 2028 – 2041



6.84 Figure 3-9 above outlines the number of vehicles required to operate the West Midlands Bus Network, the significant increase in vehicle requirements between 2027 and 2029 is due to the fact that the West Midlands Bus Network will be subject to a Franchising Scheme in three separate procurement stages over the three-year period. The Franchising Scheme within the

West Midlands Bus Network will be fully implemented by 2029, by which time there will be a vehicle requirement of 1,177 vehicles to operate the West Midlands Bus Network.

6.85 Following the release of the third round of Franchise Contracts, it is assumed that the West Midlands Bus Network will contract by c.2% per annum, resulting in a vehicle requirement of 1,177 vehicles in 2041. This is assuming no additional funding is made available to maintain the West Midlands Bus Network beyond that which is currently budgeted.

6.86 In order to operate the West Midlands Bus Network and meet the wider ZEB transition commitment date of 2041, the Authority will utilise a range of sources in order to provide a fleet (paragraph 6.83). It is assumed from Figure 3-9 that by 2041, all vehicles in the Authority's Region will be zero emission, this transition will be driven by the Authority accessing and novating 600 NX ZEBs and replacing existing diesel vehicles and novated ZEBs as they reach the of their 15-year useful economic life.

6.87 There are a number of practical considerations for fleet, including:

(a) **Contracting Principles:** following the acquisition of the vehicles by the Authority (in whatever form that takes), there will be the need to set the terms of the onward leasing of vehicles within the terms of the Franchise Contract; and

(b) It is anticipated that detailed contract design would take place following any decision to implement Franchising; however, the current assumptions (based on the most efficient form of financing) relating to the lease of vehicles to the Operators include:

(i) leasing would be carried out in a "dry lease" basis - whereby the Authority would retain minimal management activities relating to the vehicles.

(ii) the risk and liability for passenger incidents, damage or RTA would be passed to the Operator.

(iii) the maintenance, insurance and major component replacement responsibilities would be passed to the Operator under the Franchise Contract. The Operators would be contractually obligated to meet minimum maintenance and care standards for the fleet.

(iv) the Authority would need to establish a monitoring and inspection regime in line with the Operator contractual obligations for vehicle maintenance and care. The Operators would be required to keep and regularly report evidence of vehicle maintenance as well as submit to period inspection of the fleet by the Authority or a third party. Failures of compliance or standards would need to be rectified and ultimately be subject to penalties.

(v) at the end of a contract period a "handback" inspection process would also be required, involving both the Authority and the new Operator. Final contact payments would be reserved until completion of the process.

(vi) the contract would also include requirements around vehicle charging and battery management which would also be subject to a monitoring and inspection regime.

6.88 The specific acquisition model to be employed will be subject to a detailed business case following any decision to implement Franchising. The choice of acquisition model will be selected on the basis of whichever option is the most efficient, taking into account the Authority's

VfM decision making at that point in time, as well as market dynamics (for example, pricing, finance costs and availability). The Authority has conducted a preliminary market engagement exercise with bus manufacturers to understand current market dynamics and constraints in more detail.

6.89 The acquisition model assumed in this Assessment has therefore been assumed to be driven by that which is most financially efficient, as illustrated in paragraphs 6.90 to 6.96. This does not represent a decision to spend, and as set out above, the specific options would require detailed consideration through a business case process, following any decision to implement Franchising, in order to ensure the most favourable outcome.

Phasing, Implementation and Transition

6.90 If the Authority was to choose to implement Franchising, there would be benefits in minimising the transition period, when Services under Franchise Contracts and deregulated Services would run concurrently in different areas of the Authority's Region. Apart from enabling earlier achievement of the full impact of Franchising, a short transition period would also limit the period when passengers are offered an inconsistent Service across different parts of the Authority's Region.

6.91 Balanced against this are the challenges of implementation, both in terms of ensuring that the proposed approach works effectively and managing the large number of procurements required.

6.92 The Authority has therefore considered a range of different timetables for implementation on the basis of balancing speed of implementation with sufficient time to deal with procurements. To balance these issues, the Authority's proposed approach would be to look to implement Franchising across all routes over a target three-year period. The Authority proposes to structure the large Lots on a zonal basis. In developing this structure, the Authority undertook an exercise to consider a range of factors, including:

(a) feedback from market engagement and the views of Operators;

(b) prior experience of West Midlands Bus Network reviews (carried out in partnership with Operators);

(c) utilisation of existing depot infrastructure; and

(d) feasibility of delivery and ensuring the West Midlands Bus Network is commercially sustainable during transition.

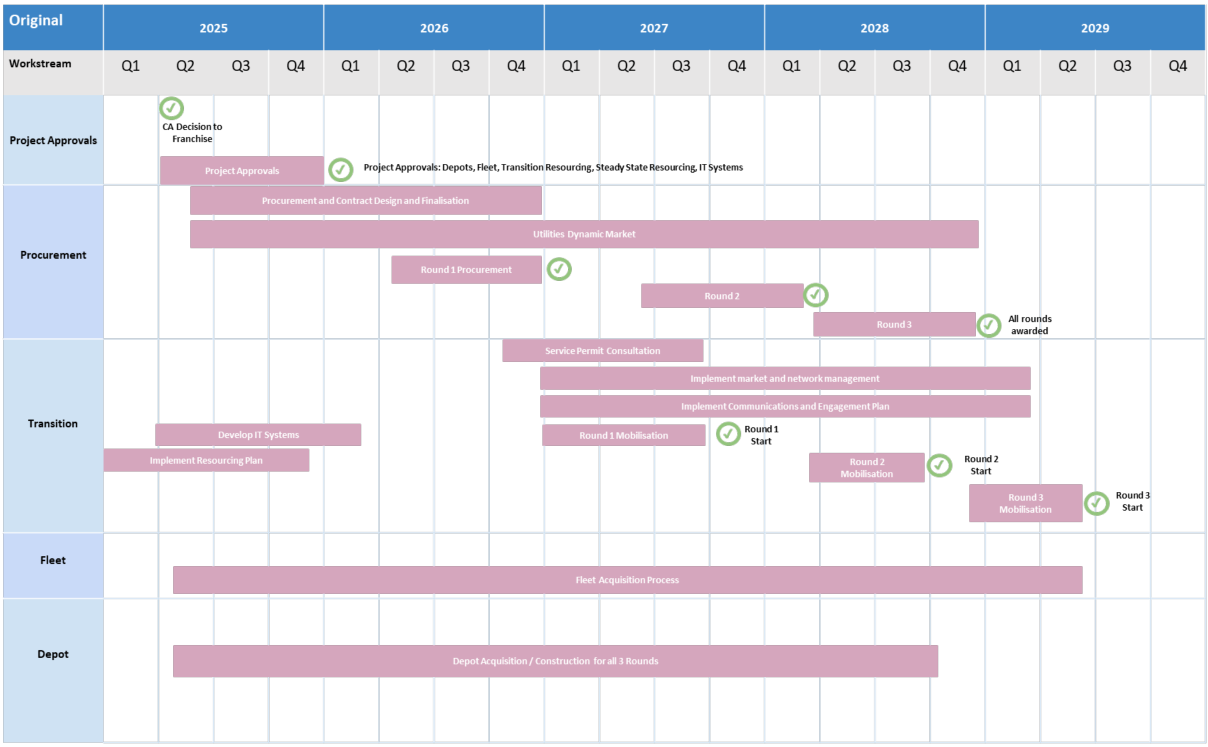
6.93 This approach and timetable would enable the Authority to achieve the benefits of Franchising relatively quickly, whilst ensuring that the procurement process is manageable.

6.94 It would also allow the Authority to refine its contract and procurement processes based on experience gained in letting the earlier Rounds.

6.95 Further detail of the proposed procurement strategy is provided in paragraphs 7.2 to 7.21.

6.96 The Authority has considered in detail the steps required to implement the plan for Franchising. This paragraph 6.96 sets out the plan for the period from any announcement of Franchising up to the letting of the first franchise. The programme diagram at Figure 3-10 sets out the Authority's current proposed implementation plan for a Franchising model. It should be noted that this programme includes the notice period for the termination of the EP, and much of this period is utilised in preparation for Franchising.

Figure 3-10: Implementation Plan for Franchising



Initial implementation actions

6.97 If Franchising is taken forward, this will necessitate the ending of the EP under the Reference Case.

6.98 As the Franchising Scheme will relate to the Authority's Region, the same area that the Authority's EP Plan and EP Scheme under the Reference Case apply to, the Franchising Scheme will need to provide for the revocation or variation of the EP Plan and the EP Scheme so that they cease to relate to any part of the Franchising Scheme area, as required by Section 123H(6) of the Transport Act.

6.99 The Franchising Scheme would therefore need to provide for the Authority's EP Plan and EP Scheme under the Reference Case to be varied so that they remain in operation only until the point that Franchising is introduced, when they would then terminate.

6.100 The Authority will engage with the Operators to ensure that the transition is efficient, and details of the transition period arrangements required and how Services are protected has been detailed in paragraphs 6.103 to 6.120.

6.101 The Authority will also need to:

(a) Initiate depot development. This will include site identification and acquisition, obtaining planning consent and ensuring appropriate specification to support Franchising during implementation;

(b) Procure and appoint contractors for depot construction, and construction of depots in advance of Franchise Contract mobilisation. It is recognised that it may be challenging to have all depots in place for the start of each contract, particularly where new sites are required. This risk will be kept under review and mitigations considered where necessary;

(c) Ensure that fleet procurement and delivery arrangements are in place to acquire the fleet the Authority wishes to have in place for the first phases of Franchising. This will need to include lead times so that the fleet is acquired in advance of the first Franchise Contracts being mobilised;

(d) Ensure that the IT systems are prepared to support the fares, ticketing, permitting and compliance monitoring proposed for the Franchising system;

(e) Implement all internal governance, controls and change management set out in the Management Case;

(f) Ensure all recruitment needs are met in advance of Franchising mobilisation, in line with the resource requirements as set out within the Management Case. This will include dealing with relevant pensions and TUPE implications; and

(g) Set in motion the processes outlined within paragraph 7 for procuring the Operators for the first Round.

6.102 Once the first Franchising Contract is let, the Franchising process will enter the transition phase. The first stage of this will be a notice/mobilisation period which is scheduled to be nine months (and must be at least six months).

Transition Period Arrangements and Protecting Services

Transition

6.103 The Authority intends that once the first tranche of Franchise Contracts is let, the remaining Franchise Contracts will be let in two subsequent tranches, as described above in paragraphs 6.73 to 6.89.

6.104 This means that there will be a substantial period between any announcement of the intention to pursue Franchising and all Services being under Franchise Contracts.

6.105 The Authority has developed arrangements to support the transition from the existing deregulated market to a fully operational Franchising model.

6.106 Key elements of this transition plan (which are also discussed in the Management Case) include:

(a) the implementation process, and the provision of Services during the transition process;

(b) ensuring continuity of Services in the transition phase when there is a mixture of Services under Franchise Contracts and unregulated Services, particularly in the context of the removal of network support which has the potential to require careful consideration for the continuity of Services;

(c) ensuring the Operators can mobilise their drivers, fleet, and maintenance arrangements in time to deliver an effective Service, and how to ensure that the Authority's approach to transition does not disadvantage certain Operators (in particular, new market entrants, who may take longer to mobilise); and

(d) ensuring that the Authority has all the required staff and processes in place to manage the contracts, and undertake other activities required under Franchising (for example, network planning, timetabling).

6.107 The Management Case sets out how the Authority will put the required staff and processes in place and manage potential disruption of Services during the transition period in more detail.

Assessing the Risk of Network Disruption

6.108 Following a mayoral decision to implement Franchising, the Franchising Scheme would include provisions that revoke the EP Plan and EP Scheme under the Reference Case in relation to the areas that the Franchising Scheme relates to. During the implementation period of Franchising, the Authority would need to manage the risk that Services (both commercial and tendered Supported Services) do not continue at their forecast level. This could arise through a number of circumstances:

(a) the Operators could make marginal Service reductions (for example, by targeting loss-making commercial Services);

(b) the Operators could make prolonged and systematic reductions in commercial Services, which might include the reduction of both loss-making and marginally profitable Services;

(c) the Operators could cease Services entirely for a given geographical area; and

(d) the Authority could manage the risk of the Operator de-registering Services before Franchising comes into operation through:

(i) choosing to publish a 'transitional notice' at the same time as making and publishing the Franchising Scheme, to extend the cancellation and variation notice period that Operators need to comply with in respect of Services, from the current 56 days to a maximum of 112 days;

(ii) registering certain services at short notice. Where the Authority enters into an agreement with an Operator for the provision of a Service during the transitional period the 56 day notice period will not apply, and such Service can instead be provided from the point that the Traffic Commissioner or the Authority accepts the registration application; and

(iii) carrying out detailed consideration into the above points, particularly in the context of the removal of network support funding. This will be undertaken during implementation following any decision to implement Franchising. The Authority may continue with BSOG support for commercial Services as part of the transition with terms and conditions in place to support a stable network. Funding to support network stability is being considered within transition costs.

6.109 Once the Franchising Scheme starts to apply, the Authority intends to utilise a Service Permit Regime to help maintain consistency of any non-franchised Services during the period of transition.

6.110 The overall level of risk has been considered as part of the risk assessment for Franchising as set out at the end of this paragraph 6, with appropriate mitigation actions to be managed by the Authority in the event of a decision to pursue Franchising. If the Operators reduce or withdraw entirely from Services prior to them being subject to a Franchise Contract, the Authority could manage this in several ways:

(a) The Authority could facilitate other Operators stepping in to commercially take on Services which have been reduced or withdrawn;

(b) The Authority could use short-term tendered contracts to either partially or fully replace the Services leading up to the point at which these Services are transitioned to a Franchise Contract. While there would be a cost involved in this, the subsidy from the public sector is likely to be relatively low, as the Services are currently run as commercial Services; and

(c) If the Service is deemed to be no longer required as part of a Franchising Scheme, the Authority could take no further action in relation to the withdrawn Services.

6.111 It should be noted that this risk does not apply to existing Supported Services Contracts, since the Operators are contracted to provide those Services for a specified period.

6.112 The Authority has set out further details of how the contracting process and continuity of Services will be managed within the Management Case.

Fare Arrangements During Transition

6.113 From the commencement of the first Services under Franchise Contracts, all Services operating in the Authority's Region will be operating either as Services under Franchise Contracts, under the Service Permit Regime or under exclusions or exemptions from the Franchising Scheme.

6.114 The Authority's position on Service Permit Regimes is described in paragraph 6.17. In principle the regime would establish specific conditions relating to fares and ticketing that would maintain the benefits of the Reference Case with regards to fares and ticketing.

6.115 This will help minimise the impact on passengers where Services under Franchise Contracts have not yet been introduced.

6.116 For those Services included within the Franchising Scheme, all revenue will be received by the Authority. In the case of those Services operated under the Service Permit Regime, the revenue will be received directly by the Operator. Over time, more Services will become Services under Franchise Contracts and fewer Services will operate under the Service Permit Regime, although some Services, such as cross-boundary Services, will remain as operating under the Service Permit Regime.

How Cross-Boundary Services will be Facilitated During Transition

6.117 Facilitating cross-boundary Services under the Franchising Scheme is a key requirement of the Franchising Guidance.

6.118 Cross-boundary Services which originate from outside the Authority's Region will require a Service Permit to operate within a Franchising Scheme area. Therefore, the Authority will need to establish a Service Permit Regime to apply from the commencement of local Service contracts under the Franchising Scheme. This is described in paragraphs 6.6 to 6.37.

6.119 The Operators of cross-boundary Services would be entitled to apply for a Service Permit (with published conditions) and the Service can only operate under these conditions within the area of the Franchising Scheme.

6.120 The Authority will therefore establish the Service Permit Regime before the commencement of transition.

7 Provision for SMOs

How the Involvement of SMOs will be Facilitated

7.1 Under Franchising, the Authority plans to make a number of interventions to support the involvement of SMOs, including:

(a) Packaging routes via the lotting strategy in a manner that provides smaller Lots for SMOs;

(b) The lotting strategy aims to create a balanced and competitive bus market in the Authority's Region, where both large national Operators and SMOs can participate and grow. The strategy proposes to split the West Midlands Bus Network into nine geographic zones, each based around one large depot, and further divide each zone into one 'large Lot' and one to three 'small Lots';

(c) The small Lots, are designed to be competitive for SMOs, as they have a lower PVR requirement of 5 - 20 vehicles and cover specific groups of Services, such as works Services, Services with special fleet requirements, or secondary routes operating at lower frequencies; and

(d) By creating small Lots within each zone, the strategy provides scope for involvement and growth of SMOs in several ways. First, it allows SMOs to bid for and operate contracts, which may be more suited to their size, expertise, and local knowledge, without having to compete with the large national Operators on the entire zone. Secondly, it enables SMOs to expand their market share and presence across different zones, by bidding for multiple small Lots in different areas. Third, it creates opportunities for SMOs to gain a foothold or foundation within the market and potentially compete against other Operators for large Lots in the longer term.

Procurement Strategy

7.2 Paragraphs 7.2 to 7.21 explain the proposed design of the procurement of the Franchise Contracts.

Aims and Benefits

7.3 This procurement process will be designed to meet the following broad requirements:

(a) competition is maximised;

(b) prospective Operators are treated the same and given an equal opportunity to participate;

(c) high quality Services are delivered across the Authority's Region; and

(d) legal obligations are complied with.

7.4 By meeting those requirements, the procurement process will enable the participation of new market entrants, including SMOs, by levelling the playing field and addressing any incumbency advantage or other barriers to entry. The Procurement Act requires the Authority to:

(a) have regard to the fact that SMOs may face barriers to participation; and

(b) consider whether such barriers can be removed or reduced.

7.5 The procurement process will also draw on best market procurement practice, to deliver a VfM solution.

The Legal Regime under the Procurement Act

7.6 The procurement of Franchise Contracts will be governed by the Procurement Act. The Procurement Act imposes a number of structural constraints on the procurement design but also offers a degree of flexibility that will enable the Authority to adopt a design that best fits its requirements. the Authority will also be required to comply with certain provisions in the version of EU Regulation (EC) No 1370/2007 as transposed into domestic law.

Establishment of a UDM

7.7 The Authority proposes to establish a UDM under the Procurement Act to pre-qualify prospective Operators. This will enable a prospective Operator to submit a single pre-qualification response and, if successful, to remain pre-qualified for the remainder of the Franchising programme, entitling it to bid in all of the Rounds.

7.8 To be admitted to the UDM, a prospective Operator will need to satisfy the Authority's stated conditions for membership of the UDM, which will vary according to the category of Lots that the prospective Operator wishes to bid for. These conditions will cover good standing, capability, capacity, and track record to ensure that prospective Operators have the legal and financial capacity, as well as technical ability, to perform the operating contracts.

7.9 All prospective Operators that satisfy the conditions will be admitted to the UDM. There can be no limit on the number of pre-qualified Operators, and applications for admission to the UDM can be made at any time, allowing for applications from new entrants or re-application from those whose position has improved since a previous (unsuccessful) application. Each pre-qualified Operator will be required to keep its information refreshed and up to date. Any Operator admitted to the UDM will be removed if it no longer meets the conditions.

7.10 The Authority is considering whether a further targeted pre-qualification exercise will be carried out for certain Lots, for example to apply a Lot-specific (higher) financial standing requirement.

Use of the Competitive Flexible Procedure

7.11 For each round, the Authority will commence the process by issuing an invitation to negotiate to all of the prospective Operators that have been admitted to the UDM (and, as applicable, that have passed any further, targeted pre-qualification exercise).

7.12 For the bidding phase, the competitive flexible procedure allows the Authority flexibility to design its procedure so long as it is proportionate to the nature, complexity and cost of the contract. A process akin to the negotiated procedure used under the UCR could be adopted as it is most suited to the early Rounds, where the Authority anticipates that substantial negotiation on the terms of the Franchise Contracts may be required. Some development of the terms might occur through market engagement, but this is not expected to deliver full clarity on the terms that are (or are not) acceptable to the Operator market, as the market engagement exercise will be relatively wide-ranging and responses are unlikely to be commercially driven (and, therefore, are likely to be a less accurate representation of the market's true position) compared to negotiations during a live competition.

7.13 While it is possible that negotiations will be less valuable in future Rounds, as the contract terms and general bidding approaches become more settled and better understood by both the Authority and the prospective Operators, it is not anticipated that negotiations will lose their value entirely to a point where this step can or should be omitted from the process. For example, later Rounds might attract new (or different) prospective Operators, including new market entrants, with different perspectives on the contract terms. In any event, there are likely to be terms that are best understood and negotiated on a Round-by-Round (or even Lot-by-Lot) basis.

7.14 The Authority therefore propose to adopt a negotiated procedure for the whole Franchising programme. However, safeguards will be built in to ensure that each procedure is as effective and efficient as possible. This will include the right for the Authority to accept an initial bid for any given Lot, without triggering negotiations, where that bid delivers sufficiently strongly against the evaluation criteria.

Commercial Engagement

7.15 The Authority has undertaken an initial market engagement exercise and incorporated much of the market feedback within the Franchising Scheme set out within this Assessment. A detailed report of the findings of the market engagement has been set out at Appendix 2 of the Management Case.

7.16 The Authority proposes to engage in further detailed commercial engagement with prospective Operators following any decision to pursue Franchising, prior both to initial establishment of the UDM (before the Franchising programme kicks off with the first Round) and to each subsequent Round.

7.17 It is currently anticipated that:

(a) prior to the initial establishment of the UDM, the market engagement will focus on the overall structure of the Franchising programme, including the approach to Rounds; the content of Lots; the use of a UDM and the appropriate conditions to apply to it; the use of negotiations for each Round; the approach to fleet and Depots; and other fundamental concepts underpinning the terms of the Franchise Contracts; and

(b) prior to each Round, the market engagement will focus on lessons learned from the previous Round and then pick up on the Round-specific requirements ahead of the next competition.

7.18 Having established a UDM, the Authority will have a continuous (and continually refreshed and updated) list of pre-qualified prospective Operators, offering a ready-made group of market participants with whom an ongoing engagement dialogue can be maintained, to ensure that the procurement strategy continues to represent best practice while delivering the Authority's broad requirements (maximising competition; fairness and equal treatment; consistent high quality of Services; and compliance).

Optional Limit on Lots

7.19 The Authority proposes to retain the option to limit the number of Lots within a Round that a single Operator can bid for or win.[175] Any limit would apply on a Round-by-Round basis. The Authority proposes to confirm any limit applicable to any Round prior to inviting bids for the first Round, so that prospective Operators have as clear a view as possible across the whole Franchising programme.

7.20 Any limit might apply to the number of Lots within a Round that:

(a) a prospective Operator can bid for; or

(b) (more likely) a prospective Operator can win, meaning that rules would be required to determine the allocation of Lots where a particular Operator was the highest scoring for a number of Lots in excess of the limit.

7.21 The reason for imposing a limit would be to deliver outcomes such as enhancing the diversity and resilience of the Service Operator market, facilitating strong competition for the Lots (by enhancing the opportunities for prospective Operators to win) and facilitating the involvement of SMOs. The Authority considers that a procurement design that would permit one Operator (or a small number of Operators) to win all of the Lots would risk not delivering these outcomes.

Pensions and TUPE

7.22 Paragraphs 7.22 to 7.27 set out a number of other commercial considerations that would apply under Franchising, in particular focusing on Pensions and TUPE issues.

Pensions

7.23 The Bus Services Act protects the pension rights of staff who transfer under a Franchising arrangement by requiring the Operators to provide such staff with pension accrual post transfer which is the same or "broadly comparable" to the pensions accrual they are entitled to pre-transfer. The Operators under a Franchising Scheme do not however take on responsibility for benefits accrued pre-transfer. Liability for such benefits remains with the incumbent Operator.

7.24 The legislation provides that pension benefits are "broadly comparable" if the employee will suffer no material detriment overall in their future accrual of pension benefits as a result of their employment transferring under the Franchising Scheme. The Operators are required under the Bus Services Act to obtain a statement from an actuary confirming that the pension arrangements offered are compliant with these requirements. It is the responsibility of the Franchising authority (for example, the Authority) to ensure that contracts require the Operators to provide broadly comparable pension benefits and that such obligations can be enforced directly by the transferring staff.

---

[175] Note that if the Authority intends to limit the number of contracts a particular supplier is able to win, it must set this out in the qualifying UDM notice which it publishes to launch the UDM. The Authority should carefully consider whether to impose such a limit as it could have the inadvertent effect of limiting the ability to make awards to good suppliers during the term of the UDM (if the suppliers have reached the maximum number of awards).

Pensions Implications for Incumbent Operators

7.25 The pension implications of Franchising for each of the current Authority's Operators will very much depend on the nature and structure of their current pension arrangements.

7.26 When staff transfer under the Franchising Scheme, they will cease to accrue pension benefits in their current pension arrangement and will become a deferred member of such pension scheme.

7.27 If the Operator provides:

(a) **defined contribution accrual**: the Authority understands that all but one of the current Operators, West Midlands Travel Limited (a NX company), provide defined contribution pensions accrual only and therefore Franchising will have little impact on their pension arrangements; or

(b) **defined benefit accrual**: whether via its own defined benefit arrangement or as an admitted body in the LGPS, then there is a potential risk that Franchising could:

(i) trigger an exit debt if the limited circumstances in Section 75 of the Pensions Act 1995 or Regulation 64 of the Local Government Pension Regulations 2013 apply; or

(ii) result in an Operator's pension contributions increasing as a consequence of there being fewer active members in the fund or through the fund's Trustees adopting a more prudent valuation of the fund.

TUPE Considerations

7.28 TUPE may apply in respect of any change of Operator(s).

7.29 Where TUPE applies to employees or workers, their employment or engagement (and liabilities regarding their employment or engagement) will transfer automatically by operation of law from an outgoing Operator to an incoming Operator. Transferring personnel transfer to the incoming Operator on their existing terms and conditions of employment or engagement, which are protected to a certain extent. Detrimental changes made to transferring personnel's terms and conditions as a result of the TUPE transfer are likely to be void.

7.30 If personnel transfer under TUPE from various incumbent Operators to one incoming Operator, this means the incoming Operator will have different groups of personnel engaged on different terms and conditions. If new terms and conditions are to be put in place with transferred personnel after the transfer, it is important to note that any less favourable terms in those new contracts (when compared to a person's pre-transfer terms) are likely to be void. Other considerations include the possibility that incumbent Operators could relocate or otherwise seek to retain existing personnel across their wider national/international businesses before any expected transfer, which could mean that not all personnel who would otherwise have transferred to an incoming Operator do, in fact, transfer. This could result in resourcing concerns for any bidders or incoming Operators who will require personnel to transfer from incumbent Operators.

7.31 If TUPE may apply, there is a practical consideration of assessing the extent to which personnel working in Services provided by incumbent Operators are "connected" to Services or routes which transfer to incoming Operators, and then identifying the Operator to which each employee or workers should transfer. This will involve assessing how to "match" personnel to the relevant routes under Franchising. As part of that process, after publishing any Franchising scheme, the Authority must consult with Operators and employee representatives (including trade unions) on the criteria to be used for determining which personnel are principally connected to the relevant Services and on the "allocation" arrangements for personnel (i.e. the arrangements which set out which personnel transfer with which Service contract). Statutory guidance states that authorities should engage with Operators and employee representatives as early as possible in the process to ensure sufficient time for consultation, given the complexity of the process.

7.32 Depending on how Franchise Contracts are initially created (for example, the routes and maintenance included), the operation of TUPE could result in Operators (incumbent and/or incoming Operators) engaging more personnel after the transfer than is required. If that is the case, personnel may be at risk of redundancy, or their contracts could be otherwise terminated. The parties will need to decide who will be responsible for any resulting redundancy and termination costs. If bidders are informed that they are responsible for any redundancy and termination costs they incur as an incoming Operator, it is likely that they will include those costs in their pricing.

Assessment of the Franchising Scheme against the Commercial Objectives

7.33 Table 3-13 sets out a summary assessment of the Franchising Scheme against the Authority's Commercial Objectives as described in paragraph 2. The following assessment includes a rating of the Franchising Scheme against the Commercial Objectives, whereby:

(a) **Green** means there is a high potential that the Franchising Scheme allows for the delivery of the Commercial Objective;

(b) **Amber** means that, while the Commercial Objective could be met under the Franchising Scheme, there are a number of challenges;

(c) **Red** means that it is unlikely that the Commercial Objective will be met under the Franchising Scheme.

Table 3-13: Summary Assessment of the Franchising Scheme

Commercial Objective	Assessment	RAG
Best Value	In assessing the Franchising Scheme for best value, the extent to which the Franchising Scheme promotes strong competition and drives innovation has been considered across both commercial and Supported Services. • Franchising allows West Midlands to engage with, test with the Operators and structure a procurement for Franchise Contracts which is of sufficient scale to attract new entrants, particularly when key barriers to entry are reduced by the Authority (for example, the fleet and depots). • This is anticipated to drive competition for Franchise Contracts and support the best value objective. • Procurement process and contract management on an open book basis, with full visibility of costs (alongside direct Authority receipt of revenue), is likely to promote best value for the Authority. • Franchising is likely to allow the Authority to leverage its position to drive innovation, ensuring that the West Midlands Bus Network evolves and aligns with broader regional goals. **Rationale for rating:** in summary, Franchising provides the Authority with an opportunity to level the playing field through asset provision, drive a procurement strategy which promotes competition across the whole network and drive strategic innovative interventions across the entirety of the West Midlands Bus Network.	
Optimise Passenger Outcomes	In assessing the Franchising Scheme for passenger outcomes, the extent to which the Franchising Scheme promotes a positive customer experience in relation to fares, ticketing, punctuality and reliability, customer service and vehicle standards has been considered. • The Authority will have the power to set fares and ticketing, ensuring standardisation of products and pricing for passengers across all of the Operators. • Allied to control, Franchising provides the ability to control and therefore better integrate with other modes of transport, by specifying requirements through a competitive procurement process, therefore aiding visibility of the underlying costs to run the West Midlands Bus Network.	

Commercial Objective	Assessment	RAG
	• Franchising would enable the Authority to set and amend Service and vehicle standards as part of the design of the West Midlands Bus Network, which, allied with strong contract management procedures, is likely to lead to an increase in punctuality and reliability of Services provided. • Franchising allows the Authority to efficiently gain access to all information and therefore gain visibility to a single source of the truth, as they will be in receipt of itemised bids for each contract. • In the absence of public funding, the Franchising Scheme is likely to provide a better long-term Delivery Option, as the Authority has the potential to take longer term views on returns (for example, if desired, the Authority could cut fares in early years, or invest in assets, to increase patronage and revenue). • There will be a single accountable body which will enable clarity of approach around customer service and help develop trust in what is currently a fragmented system. **Rationale for rating:** in summary, Franchising would enable the Authority to create strategic fares policies and set both vehicle and Service standards uniformly across the entirety of the West Midlands Bus Network.	
Ease of Introducing Changes	In assessing the Franchising Scheme for ease of introducing changes, the extent to which the Authority can easily introduce or make a change to the West Midlands Bus Network, infrastructure or passenger focused initiatives has been considered. • Under Franchising, the Authority can control the design of the Franchising Scheme to help deliver its intended passenger focused initiatives and maximise the Operator performance. • The Authority can achieve greater influence over the outcomes of public money spent on Services, delivering improved quality of Services. • The Authority has the potential to shape the West Midlands Bus Network and the associated infrastructure. Even with strong change management processes there is likely to be a degree of difficulty in changing the West Midlands Bus Network mid contract; however, regular reviews of the West Midlands Bus Network and contracts with an element of flexibility could be procured in order to mitigate any potential issues.	

Commercial Objective	Assessment	RAG
	• The Authority will be able to target the delivery of key strategic priorities through contractual requirements included within Franchise Contracts - including: • fares and ticketing • fleet specification and standards • use of depot sites and infrastructure; • route timetabling and information • A 'single-system' approach can be taken to on-bus and back-office technology systems to ensure fully integrated ticketing and accurate real time passenger information, which is challenging in the current system which involves integrating different suppliers' systems. **Rationale for rating:** in summary, Franchising allows the Authority to design and control the West Midlands Bus Network and pay particular focus on customer focused initiatives for the benefit of passengers.	
Ease of Implementation	In assessing the Franchising Scheme for ease of implementation, the extent to which the Franchising Scheme can be implemented with a minimal level of resource input, time and complexity has been considered. • Franchising represents a significant step change from the Reference Case than that of the Future Partnership. The Authority will be required to: • Assess and develop various strategies in order to manage the transition from the current deregulated environment to a fully public sector-controlled Franchising Scheme • Implement an effective resourcing strategy, which will highlight the skills required to create and manage the organisation in its entirety across various divisions such as contract procurement to asset management. • Acquire, develop and prepare assets for operational deployment, specifically fleet and Depots, each of which are complex and large scale, and therefore carry significant risk. **Rationale for rating:** in summary, Franchising is likely to be the most difficult to implement as it will require strategic investments from the	

Commercial Objective	Assessment	RAG
	Authority to acquire or develop assets and to develop an effective resourcing strategy in order to fully manage the West Midlands Bus Network in order to implement this regulatory approach, it will be time consuming, resource intensive and complex.	
Risk Allocation	In assessing the Franchising Scheme for risk allocation, the extent to which the Authority is exposed to risks it is not best placed to manage, including financial risk (revenue and cost), operational and reputational risks, and asset risks, have been considered. • The introduction of Franchising will create risks for the Authority, with the step change presenting implementation, operational and financial risks. • It is recognised that, to deliver Franchising, it will require a significant financial commitment from the Authority. As the Authority will implement a common ticketing scheme and collect all passenger fare revenue, they will assume revenue risk and be at risk for a decrease in revenue or patronage and will therefore subsequently be required to fund any resultant shortfalls, either through additional funding, increasing fares or reducing the West Midlands Bus Network or quality standards. Whilst this risk is currently borne by the private sector, it will often turn to the public sector for support in the event of shortfalls (for example, to provided Supported Services). • To be successfully delivered, Franchising will require the Authority to manage the commercial risks associated with Franchising and owning assets and ensure that a resourcing plan and appropriate mobilisation are provided to support the delivery of the scheme in a way which minimises disruption to the West Midlands Bus Network. • The Authority is likely to face increased risk with regards to reputation due to the additional responsibilities that arise from managing assets and designing the West Midlands Bus Network, although this is balanced against the fact that the Authority currently bears a level of reputational risk relating to matters outside of its control. **Rationale for rating:** in summary, implementing the Franchising Scheme is likely to present the Authority with a series of risks which previously would have been borne by the private sector, but also a suite of tools to ensure these risks can be mitigated beyond the means it has available at present.	

Commercial Objective	Assessment	RAG

Commercial Sustainability	In assessing the Franchising Scheme for commercial sustainability, the extent to which the Franchising Scheme offsets the industry trend of a declining bus network, and provides alignment between costs and benefits of any investment by the Authority has been considered:
	
	• The Franchising Scheme has the potential to increase sustainability and reduce level of patronage decline through:
	    • Cross subsidising the commercial and Supported Services market.
	    • Investing in assets at a public sector (rather than private sector) cost of capital.
	    • Reducing margin applied to asset provision.
	• These Authority led interventions provide a basis by which the cost of implementing initiatives are more closely aligned to the wider tangible benefits for the Authority and will provide a suitable foundation by which the Authority can minimise the declining level of patronage.
	
	Rationale for rating: in summary, Franchising allows the Authority to proactively design and control the West Midlands Bus Network, with an accurate view on both revenue and cost data. Therefore, the Authority has the ability to devise long-term sustainable policies and strategies to offset the declining patronage levels throughout the West Midlands Bus Network. It should be noted that in all scenarios, without additional long-term funding or pro-bus policies there is anticipated to be patronage decline, but there is a greater likelihood of these being secured under a Franchising system.	

Conclusion

7.34 The Authority has set out the Franchising Scheme which complies with Franchising Guidance and maximises the potential to meet its commercial success factors.

7.35 The Authority's Franchising Scheme as set out above meets the requirements of the Franchising Guidance.

7.36 In particular, the Authority has set out a number of interventions and measures to ensure that the participation of small and medium sized enterprises can be facilitated, and a competitive market can be achieved. This includes different options for dealing with key commercial challenges around fleets and depots, as well as a gradual implementation of Services under Franchised Contract across different sized Lots.

Control in the Delivery of Services

7.37 The Franchising Scheme has the potential to offer the Authority greater control over the delivery and outcomes of the West Midlands Bus Network, which is a significant improvement over the current arrangements and the proposed Future Partnership. This control is particularly pertinent in the context of the Covid-19 pandemic, which has altered the demand dynamics for Services. The Franchising model provides the public sector with the tools to effectively manage the West Midlands Bus Network as a whole, especially for non-commercial Services, and to ensure the delivery of best value. However, Franchising presents significant implementation, operational and financial risks that the Authority is required to manage.

7.38 While the Franchising Scheme presents numerous benefits, it also introduces substantial implementation, operational, and financial risks. The Authority must be prepared to undertake an appropriate degree of financial commitment and develop robust strategies to mitigate the associated risks. The Financial Case delves into the financial implications.

7.39 To ensure the successful delivery of the Franchising Scheme, the Authority must effectively manage the commercial risks inherent in Franchising. This entails the development of a comprehensive resourcing plan and a mobilisation strategy that supports the delivery of the scheme while minimising disruption to the existing West Midlands Bus Network. The Management Case provides a detailed discussion on the operational expertise and resources required to navigate the complexities of implementing the Franchising Scheme.

8 Conclusion

8.1 This Commercial Case sets out the Authority's Commercial Objectives, including the existing market composition, features and challenges. It has then detailed the commercial characteristics of the Reference Case and the Delivery Options, performing an assessment of the Reference Case and the Delivery Options relative to the Authority's commercial success factors.

8.2 It can be concluded that:

(a) while the Reference Case provides a forum for collaboration between the Authority and the Operators, implementing changes is not within the Authority's sole control and there is little contractualisation of the Operator performance. Interventions carried out under the Reference Case lack alignment between investment costs and benefits, with costs incurred by the Authority and benefits shared with Operators. Therefore, while it has some benefit, other than ease of implementation it does not provide the Authority with a high level of control, or address issues that arise from the lack of competition in the market;

(b) similarly, the Future Partnership, in theory, provides the ability to introduce additional interventions that could support the Authority's commercial success factors. As the Future Partnership provides the opportunity to build upon and improve on some of the challenges faced under the Reference Case. This includes providing scope for existing SMOs and new market entrants to potentially challenge and disrupt the current monopolistic market landscape, with the aim to ultimately drive long-term sustainable outcomes for passengers;

(c) however, in practice, given that implementation of these interventions, and any changes, are subject to further agreement with the Operators, and that there may not be significant commercial incentive for the Operators to engage, it may not have a materially different commercial impact on outcomes than under the Reference Case;

(d) the Franchising Scheme sets out a scheme in line with the Franchising Guidance from a commercial perspective which details how Franchising could be implemented by the Authority. The Franchising Scheme represents a strategic initiative to enhance the regulation and delivery of Services in the Authority's Region. It sets the stage for achieving the Authority's Commercial Objectives, notably providing a platform for which the Authority has an enhanced level of control over the West Midlands Bus Network, and its expenditure on Supported Services and allows the Authority to ultimately drive competition, in what is currently a monopolistic market; and

(e) the success of the Franchising Scheme is contingent upon the Authority's ability to manage the implementation, operational and financial risks involved and to execute a well-planned mobilisation strategy. The Financial Case and Management Case provide further insights into the mechanisms for managing these challenges and ensuring the Franchising Scheme's successful implementation.

WEST MIDLANDS COMBINED AUTHORITY BUS ASSESSMENT BUSINESS CASE: FINANCIAL CASE

Contents

Figures

Tables

1 Introduction

1.1 This Financial Case considers the Reference Case and the Delivery Options, as previously described in the Commercial Case.

Purpose

1.2 The purpose of this Financial Case is to assess the financial implications for the Authority of the Reference Case and the Delivery Options. This Financial Case has been prepared with reference to the HM Treasury's Green Book Guidance requirements and the Franchising Guidance.[176]

Requirements of the HM Treasury's Green Book Guidance

1.3 The HM Treasury's Green Book Guidance identifies this Financial Case as one of the five required cases of a full business case. For this Financial Case, the HM Treasury's Green Book Guidance requires that this Financial Case answers the questions of, *"what is the impact of the proposal on the public sector budget in terms of the total cost of both capital and revenue?".* This Financial Case is assessed over an assumed appraisal period.

1.4 Furthermore, the HM Treasury's Green Book Guidance requires an assessment of the financial impact to determine the affordability and ability of funding the Reference Case and the Delivery Options, including areas such as:

(a) the net cost to the public sector, taking into account all financial costs and benefits arising;

(b) affordability analysis, including a year-by-year assessment of costs, income and budget;

(c) capital and revenue requirements for the Reference Case and the Delivery Options for the assessment appraisal period;

(d) the impact of the Reference Case and the Delivery Options on the income and expenditure statement and balance sheet of the Authority;

(e) implementation costs associated with the Reference Case and the Delivery Options;

(f) funding sources, including any CA borrowing requirements and arrangements; and

(g) overview of financial risks and sensitivity of key assumptions or forecasts.

1.5 To ensure alignment with the Economic Case, this Financial Case includes an assessment of the Reference Case for the purposes of public sector comparator, in line with the HM Treasury's Green Book Guidance.

1.6 Under the HM Treasury's Green Book Guidance, the figures which are shown between the Economic Case analysis and this Financial Case analysis are presented differently on the surface of this Assessment. For the Economic Case analysis, costs and revenues are recorded in real terms (not taking inflation into account) whereas, in this Financial Case, they are recorded

176 The Bus Services Act: Franchising Guidance

in current, nominal terms (where inflation is factored in). In addition, discounting is applied in the Economic Case whereas figures in this Financial Case are presented in nominal terms.

Requirements of the Franchising Guidance

1.7 The Franchising Guidance covers the financial implications of both the initial introduction of the arrangements, and the ongoing management and operation of a Franchising arrangement. Within this Financial Case, the 2024 Franchising Guidance has been reviewed to ensure this Assessment continues to align with the HM Treasury's Green Book Guidance.

1.8 An Authority should consider the financial implications of Franchising against the Reference Case, not only with respect to the initial introduction of the arrangements, but also factoring in the ongoing management and operation of the Franchising structure.

1.9 It is important to confirm that the preferred Delivery Option is affordable. Therefore, authorities should set out the capital and revenue requirements for the Reference Case and the Delivery Options over the appraisal period, together with an assessment of how they would impact upon the balance sheet, income and expenditure account of the Authority. This falls under Section 123B of the Act.

1.10 In developing this Financial Case for this Assessment in delivering BSIP outcomes, an Authority should ensure they have considered the impact of the Reference Case and the Delivery Options on:

(a) **Capital spending:** such as for the purchase of depots, ZEBs, introduction of new ticketing systems or other infrastructure; and

(b) **Revenue spending**: including any revenue received (for example, fare box income, contractual payments and devolved BSOG), any additional costs incurred (for example, implementation of the Delivery Option, enhancement to Services and fares reductions) and, where relevant, the impacts on tender or contract prices of:

(i) staff costs, in particular considering the costs associated with the TUPE transfer of staff and their pension protection;

(ii) other operating costs - such as savings from reduced journey times achieved through bus priority, fuel costs, costs for leasing or purchasing assets, marketing and branding;

(iii) bidding and administration costs – to bid for, award and manage contracts and operate Franchising arrangements.

1.11 Consideration should be given to the longer-term financial sustainability of the Reference Case and the Delivery Options, with a move to a system of Franchising in particular being a long-term change that will need to be affordable and sustainable for the Authority.

1.12 Specifically, this Financial Case element of this Assessment should set out:

(a) a year-by-year cost analysis, broken down by capital and resource expenditure, for the Authority with an explanation of how these totals have been built up;

(b) assumptions on funding which will need to be identified from within the Authority in each of the relevant years and what funding will come from the Government, for example, any assumptions about ongoing funding to support BSIP delivery, devolved BSOG and other existing and future Government funding schemes. Consideration should also be given to how on-bus revenue can be increased by encouraging greater bus use by fare-paying passengers;

(c) a year-by-year income forecast for the Authority;

(d) whether the Reference Case and the Delivery Options require additional borrowing by the Authority and if so, what interest assumptions and repayment arrangements have been used;

(e) 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.

1.13 The Franchising Guidance states that any external financing or additional funding requirements must be set out, together with an explanation of how this will be secured.

1.14 Also, this Financial Case should align with the Economic Case on a number of issues including[177]:

(a) BSOG payments: the impact on funding to the Operators;

(b) Financial impact on bus passengers: the speed at which they will receive benefits from the measures set out in the BSIP;

(c) Impact on Operator operating costs: impact on leasing of assets, staff, training and marketing;

(d) Impact on Operator capital costs: investment in depot or buses;

(e) Impact on bidding and administration costs: the cost to Operators to bid for contracts;

(f) Impact on the Operator margins: impact on the margins the Operators receive.

1.15 Table 4-1 highlights how this Financial Case meets the Franchising Guidance for preparing an assessment under the Bus Services Act.

Table 4-1: Fulfilment of the requirements of the Franchising Guidance

Para	Content of Franchising Guidance	How this Financial Case meets this requirement
1.57	*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.*	This Financial Case describes how all options within this Assessment are ultimately affordable (paragraph 5.5). Furthermore, the budget set to ensure affordable options is set out in paragraphs 2.2 to 2.24. Conclusions of the affordability of the Reference Case and each Delivery

177 Economic Case of this Assessment

Para	Content of Franchising Guidance	How this Financial Case meets this requirement
		Option is set out in paragraphs 6.31 to 6.33, 7.35 to 7.7.36 and 8.56 to 8.57 for the Reference Case, the Future Partnership and Franchising respectively.
1.58	*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.*	The costs of transition, management and operation have been considered for the Reference Case and the Delivery Options. References to these considerations can be observed in paragraphs 6.7 and 6.14 for the Reference Case, paragraph 7.7 for the Future Partnership and paragraphs 8.10 to 8.26 for the Franchising Scheme.
1.59	*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.*	The capital, revenue and funding requirements for the Reference Case and the Delivery Options can be seen in the Financial Case Appendix. The Financial Case Appendix shows the income and expenditure and extracts of the balance sheet for the Reference Case and the Delivery Options where applicable. Revenue and expenditure impacts can be seen in Tables 4-14, 4-18 and 4-24 for the Reference Case, the Future Partnership and the Franchising Scheme respectively.

Para	Content of Franchising Guidance	How this Financial Case meets this requirement
		For the Future Partnership and the Franchising Scheme, capital requirements can be observed in paragraphs 7.13 to 7.17 and paragraphs 8.27 to 8.40 respectively.
1.60	*In developing the financial case for the assessment, an authority or authorities should ensure they have considered:* *whether the options would require capital spending, such as for the purchase of depots, buses or other infrastructure;*	Capital requirements for depots under the Future Partnership are set out in paragraphs 7.14 to 7.17. The capital requirements for depots and fleet under the Franchising Scheme are set out in paragraphs 8.27 to 8.40.
	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 under Franchising are set out in paragraphs 8.21 to 8.26. Additional staffing requirements for the Reference Case and the Future Partnership can be seen in paragraphs 6.7 and 7.7 respectively.
	how devolved BSOG funding will be used; and	Paragraph 3.9 provides an overview of how devolved BSOG funding has been factored into this Financial Case.

Para	Content of Franchising Guidance	How this Financial Case meets this requirement
	all of the other issues raised at paragraph 1.51 and 1.52 above.	Paragraphs 2.1 to 3.37 and paragraphs 5.12 to 5.73 cover Franchising Guidance that considers the impact of the Franchising Scheme as well as the Reference Case and the Future Partnership.
1.61	*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.*	The longer-term affordability and financial sustainability implications of the Reference Case, the Future Partnership and the Franchising Scheme are set out in paragraphs 6, 7 and 8 respectively. The Delivery Options have been developed on an appraisal period of 15 years, showing the long-term affordability of the Delivery Options. The Authority has ensured that expenditure under the Franchising Scheme is within the forecast future funding envelope and therefore is expected to remain affordable in the long-term.

Para	Content of Franchising Guidance	How this Financial Case meets this requirement
1.62	*Specifically, the financial case element of the assessment should set out:* • *A year by year cost analysis, broken down by capital and resource expenditure, for the authority or authorities;* • *the budget available to the authority in each of the relevant years;* • *a year by year income forecast for the authority if relevant (for example if a gross cost franchise is proposed);* • *whether the option requires additional borrowing by the authority and if so what interest assumptions and repayment*	This Assessment sets out how the specific elements of this Financial Case are covered. A detailed year-by-year cost and income analysis across the appraisal period for the Reference Case and the Delivery Options is available in paragraphs 6, 7 and 8. The Reference Case, the Future Partnership and the Franchising Scheme set out an individual income and cost table plus an overall summary table. The budget available for Services is set out in paragraphs 5.20 to 5.34. The financing and borrowing assumptions are set out in paragraphs 3.15 to 3.37. Paragraph 4 of this Financial Case details the approach to risk in this Assessment.

Para	Content of Franchising Guidance	How this Financial Case meets this requirement
	arrangements have been used; • *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; and* • *a sensitivity analysis, reflecting the range of financial risks.*	Paragraphs 5.57 and 5.58 outline risk in relation to Capital Expenditure and Asset Ownership. The approach taken to the Authority Revenue Risk is detailed in paragraphs 5.64 to 5.68. This Financial Case details key risks within paragraph 4 and shows the results of key sensitivities in paragraph 10.

Structure of this Financial Case

1.16 Table 4-2 sets out the structure which will be followed to assess the approach to this Financial Case.

Table 4-2: Financial Case Structure

Paragraph No.	Title	Description
Paragraph 2	**Summary of the Authority's Financial Position**	An overview of the Authority's current financial position for transport in general, and an overview of the Authority's current financial position for Services in the Authority's Region, including current revenue expenditure.
Paragraph 3	**Sources of Funding and Financing**	An overview of existing sources of funding available to the Authority, additional sources of funding that the Authority could consider, and sources of financing for costs which

		will be incurred in the Reference Case and the Delivery Options.
Paragraph 4	**Approach to risk in this Assessment**	An overview of the Authority's approach to risk in this Assessment.
Paragraph 5	**Modelling Principles and Approach**	An overview of the modelling approach employed for this Financial Case, a description of the operating costs and revenues for Services and how these are treated in the Financial Model (including Operator margin), and a description of other modelling assumptions employed, such as the approach to inflation and comparison of the Reference Case and the Delivery Options.
Paragraphs 6 - 8	**Financial Case Analysis**	The analysis and results for the Reference Case, the Future Partnership and the Franchising Scheme in line with the requirements of the Franchising Guidance. This includes: net cost of the Reference Case and the Delivery Options to the public sector including an affordability analysis (including a year-by-year assessment of costs, income, and budget); requirements for capital investment for depots and infrastructure (or for revenue, such as for additional staff or associated TUPE / Pensions); implementation costs for the Reference Case and the Delivery Options; further financial considerations including VAT, working capital, accounting considerations, minimum revenue provision; and long-term liabilities and assessment of risk and resulting sensitivity analysis to quantify the risks.
Paragraph 9	**Scenario Analysis**	Testing the impact of changes to the external operating environment on the relativity of the Reference Case and the Delivery Options.
Paragraph 10	**Sensitivity Analysis**	Testing the impact of the Authority's key identified risks occurring on the relativity of the Reference Case and the Delivery Options.
Paragraph 11	**Financial Case Conclusion**	A conclusion of the analysis.
Appendix	**Financial Case Appendix**	Provides the income and expenditure and balance sheet extracts for the Reference Case and the Delivery Options.

2 Summary of the Authority's Financial Position

Introduction

2.1 This paragraph 2 sets out the details of the current financial position of the Authority. The information provided covers bus and other modes of transportation within the Authority's Region.

2.2 This paragraph 2 includes:

(a) Total Authority income and expenditure;

(b) The Authority's Transport Levy;

(c) The Authority's bus revenue and expenditure - revenue and expenditure directly relating to Services in the Authority's Region.

The Authority - Expenditure and Funding

2.3 Within the base FY of this Assessment, 2022/2023, total actual funding was £375.3 million[178] which was £22.4 million higher than was budgeted and expenditure £16.7 million higher than budget, resulting in a £5.7 million net income for the Authority. This largely reflects the recent environment which the Authority and industry have been operating under whereby significant grant income has been made available by the Government to support the West Midlands Bus Network whilst it has been impacted by Covid-19. In addition, the budget was based upon assumptions on ENCTS patronage recovering from the impact of the pandemic, but this was not the case and Services continued to be lower than pre-Covid-19 levels, resulting in lower than expected payments. The savings have subsequently been reinvested into the network to protect Services from withdrawal during 2023/2024.

Transport Levy

2.4 The Authority set a Transport Levy of £117.0 million in FY 2022/2023, based on the latest published budget. From FY 2020/2021, the budgeted Transport Levy funding has increased c.£2.3 million from FY 2020/2021 to FY 2022/2023.

Current Services - Bus Budget

2.5 Whilst paragraph 2.3 above sets out the Authority's expenditure on all Services, paragraphs 2.6 to 2.10 focus on the bus budget.

2.6 The bus budget is the foundation for this Assessment to understand what level of service can be provided under the Reference Case and the Delivery Options.

2.7 The FY 2022/2023 budget and a forecast for FY 2023/2023 and FY 2024/2025 has been set out in the Table 4-3. The Authority's bus budget takes the income and expenditure elements of the Transport budget which relate to supporting the West Midlands Bus Network, including Operator reimbursement for Concessions and Supported Services, the provision of bus stations, infrastructure, information and ticketing services. It excludes the budget for Ring and Ride

178 West Midlands Combined Authority - Annual Statement of Accounts, April 2022 to March 2023 p12

which, though bus, is assumed to continue on the same basis under the Reference Case and the Delivery Options as funding is able to be reallocated.

2.8 It is assumed that FY 2024/2025 is the base year for the bus budget with indexation applied at this point in line with TAG RPI (paragraph 5 below) for the 15 year appraisal period (FY 2027/2028 to FY 20241/2042).

2.9 Table 4-3 presents the base bus budget available for Services as £102.0 million in FY 2024/2025 in the Authority with the expected expenditure allocation shown at Table 4-3.

Table 4-3: The Authority - Bus Budget (£million)

Expenditure	**2022/23 Bus Budget (actual) (£million)**	**2023/24 Bus Budget (f'cast) (£million)**	**2024/25 Bus Budget (f'cast) (£million)**
Payments to the Operators	15.7	16.3	26.2
Overheads	8.9	10.4	10.3
Concessionary Travel - ENCTS	47.8	46.3	46.7
Concessionary Travel - Child	5.5	6.9	6.4
Staff Costs	10.8	12.3	11.9
Consultancy and Professional Services	0.2	0.3	0.5
Total	**88.9**	**92.5**	**102.0**

Source: West Midlands Combined Authority Bus Budget[179]

2.10 The following paragraphs provide a short description of each of the expenditure items listed in Table 4-3.

Payments to the Operators

2.11 LTAs make payments to the Operators for Supported Services, which equated to £15.7 million in FY 2022/2023. These Services, which can be vital for local people in that area, are not commercially viable or attractive for the Operators to run and rely on support from the LTA. These Services can often include additional departures (for example, early morning Services,

179 Source: WMCA Bus Budget 20.2.24 v6 Excl R&R Final

Sunday Services or those extending into the night) on otherwise commercial routes, or, in many cases, entire routes which would otherwise not be run commercially by the Operators.

2.12 An element which has been excluded within the figures presented in Table 4-3 is the c.£6 million of expenditure relating to Ring and Ride. This is due to the amount being required for the specific purpose of Ring and Ride and unable to be reallocated to the running of other Services.

Overheads

2.13 In order to run the West Midlands Bus Network, the Authority incurs a number of internal costs and associated support activities that are undertaken in-house which amounted to £8.9 million in FY 2022/2023. These costs include, but are not limited to:

(a) IT hardware and software licence requirements;

(b) General administrative costs (for example route management and route registrations);

(c) Non-pay bus station and infrastructure costs resulting from Authority ownership and provision of bus stations;

(d) Commercial ticketing costs;

(e) Passenger information costs;

(f) Publicity and marketing costs (net of Operator contributions).

Concessionary Travel costs - ENCTS

2.14 The Transport Act requires TCAs to implement mandatory travel concessions which guarantee free off-peak local bus travel to eligible older and disabled persons in England as part of the ENCTS. Total concessionary travel costs for ENCTS in FY 2022/2023 were £47.8 million.

2.15 The Authority's current policy extends the statutory entitlement to support Services beyond 11pm until the end of such Service within the Authority's Region.

Concessionary Travel - Child

2.16 The Child Travel Concession Scheme is a discretionary entitlement compared to the statutory requirement of ENCTS. In the Authority's Region, anyone under the age of 18 can get discounted travel on buses within the West Midlands Bus Network. This is administered by a child paying 50% of an adult fare with the Authority then making up the rest.

Staff Costs

2.17 In order to run the West Midlands Bus Network, the Authority employs staff across a wide number of teams including, but not limited to, contract management, ticketing, customer relations, customer intelligence teams, etc. In total, the Authority incurred a cost of £10.8 million to run West Midlands Bus Network in the Authority's Region in FY 2022/2023.

Consultancy and Professional Services

2.18 The Authority utilises external consultancy and professional advice to assist with the delivery of specific projects and services, or to fill positions, which are required for a short period. This incurred a cost of £0.2 million in FY 2022/2023.

Income

2.19 To calculate the net expenditure figures, the income the Authority receives from the following areas needs to be considered and can be seen in Table 4-4:

(a) Transport income;

(b) Funding - Grants;

(c) Operational Income; and

(d) Sales and Advertising Income.

Table 4-4: The Authority - Income (£million)

Income	**2022/23 Actuals (£million)**	**2023/24 F'cast (£million)**	**2024/25 F'cast (£million)**
Transport Income	76.6	81.1	91.5
Grants - (BSOG)	1.8	1.8	1.8
Other Grants	0.3	0.2	-
Operational Income	4.1	3.2	3.2
Sales and Advertising Income	6.1	6.1	5.6
Total 2022/23 Income	**88.9**	**92.4**	**102.2**

Source: West Midlands Combined Authority Bus Budget, 2023

Transport Income

2.20 The Authority received income in relation to transport in FY 2022/2023 totalling £76.6 million. This income is based on the Transport Levy received by the Authority.

Grants - BSOG

2.21 In FY 2022/2023, the Authority received £1.8 million of BSOG an amount which has been fixed since 2016 for Supported Services. The Government grant is paid out to help the Operators and community transport organisations recover a proportion of their fuel costs.

Other Grants

2.22 The Authority received grant income in FY 2022/2023 totalling £0.3 million. The grants received included c.£0.2 million which related to the '*Tackling Loneliness with Transport: Let's Chat*' scheme where the Authority sends minibuses into communities to provide residents with a safe space to open dialogues between people and to get advice about services and support groups in their area. Further grant income (Bus Capacity Grant) totalling c.£0.1 million was also received in FY 2022/2023.

Operational Income

2.23 The Authority received operational income totalling £4.1 million in FY 2022/2023. Operational income is made up of rental income, bus station departure charge income where the Operators pay for using the station's facilities and parking bay at bus stations income. Furthermore, also included within Operational income is Information at Bus Stops Systems Income. This is where the Authority provides information and cleans bus shelters and recharges this cost with a margin to the Operators.

Sales and Advertising Income

2.24 In FY 2022/2023, the Authority received Sales and Advertising income totalling £6.1 million. This income relates in part from a contract with Clear Channel for digital advertising space in the West Midlands Bus Network, selling advertising space at bus shelters alongside some commission receivable from tickets.

3 Sources of Funding and Financing

Introduction

3.1 This paragraph 3 considers:

(a) Existing sources of funding available to the Authority; and

(b) Additional sources of funding that the Authority could consider.

Funding and Financing

3.2 An important distinction needs to be made between the definitions of funding and financing as these are occasionally used interchangeably by third parties, but have very different meanings. In this Assessment, the Authority uses the definitions for funding and financing as per the below:

(a) **Funding** is the source of income that pays, in this case, for Services. At present the sources of funding for the Authority's Service interventions are the Transport Levy, some limited income from Supported Services, such as BSOG and special grants from the Government (such as BSIP and ZEBRA funding); and

(b) **Financing** is used to deal with a mismatch between the profile of funding available and spending requirements for ongoing costs or capital expenditure.

3.3 Under the Delivery Options, the Authority will have greater ongoing obligations (for example, the costs of contracting for all Services under Franchise Contract and additional management costs).

3.4 The Authority will also have additional upfront costs which will need to be funded and potentially financed. These costs include:

(a) Transitional costs (including early management costs); and

(b) Asset costs (the fleet and depots).

3.5 A substantial amount of these upfront costs will be incurred before the Authority receives any farebox revenues, meaning that upfront costs will either have to be financed, where relevant, or an alternative funding source identified.

Sources of Funding

3.6 This paragraph 3 considers the sources of funding which are available to the Authority in two parts:

(a) **Existing sources**: those that are currently used by the Authority, and would continue to be used under the Franchising Scheme; and

(b) **Alternative sources**: those that could be used to fund improved Services, some which are currently adopted and some which may want to be considered as additional by the Authority are detailed within the three following categories of funding:

(i) Transport Levy;

(ii) Government funding; and

(iii) Other mechanisms.

Transport Levy

3.7 The Authority uses the Transport Levy to fund its various transport related activities within the Authority's Region and is the primary source of funding available to support Services and concessionary travel.

Government Sources of Funding

3.8 At present, the Authority receives specific funding from the Government which includes the following:

(a) **BSIP**: funding is being received under the BSIP, which is being utilised by the Authority (the BSIP scheme is set out in paragraph 3.54 in the Strategic Case). However, this initiative is time limited with more than £1 billion nationally to deliver Services as set out in the BSIPs in 2022 to 2025. Of the national BSIP funding, the Authority received £87.8 million in Phase 1, nothing in Phase 2 and an additional £16.6 million in Phase 3; and

(b) **ZEBRA:** the Authority is eligible to receive funding from the DfT under their ZEBRA initiative to support the acquisition of 1,177 ZEBs (paragraph 8 below). The funding covers 75% of incremental costs of these vehicles and associated equipment, compared with an equivalent diesel vehicle. There is current uncertainty under this DfT initiative.

Therefore, the Authority is looking at the option to fund 75% of the incremental cost, similar to a ZEBRA type approach, from their grant funding. For further explanation of the Fleet strategy, see paragraph 7.

Other Sources of Current Funding

3.9 The Authority's other sources of funding include the following:

(a) **BSOG**: for Supported Services, the Authority receives BSOG funding. For commercial Services, the Operators currently receive BSOG directly, which helps make more Services more commercially viable. Under the Franchising Scheme, the allocation of this funding could be devolved to the Authority, but for the purposes of this Assessment the Authority has assumed that BSOG will continue to be paid to the Operators, and this would be reflected in their charges under gross cost Franchising. It is important to note that it is understood that reforms of BSOG funding will occur over the coming years although it is assumed there will continue to be some level of support available, particularly before there is a material change in the composition of fleet to ZEBs).

Single Settlement Fund

3.10 The Authority has paid consideration in having the option to provide funding for specific activities through an SSF.

3.11 This consolidation of funds is intended to support economic growth and the development of local infrastructure, including transport systems.

3.12 The concept behind the SSF is to provide a more streamlined and flexible approach to funding. By combining various grants and funding sources into one pot, CAs can allocate resources more effectively to meet the specific needs and priorities of their region.

3.13 Transport being a critical component of local infrastructure is potentially an effective area of focus for CAs when utilising their SSF. The fund can be used to support a wide range of transport-related projects, including the development and improvement of Services. Key benefits of a SSF include:

(a) Strategic Planning: CAs can use the fund to develop comprehensive transport strategies that include Service enhancements. This could involve increasing the frequency of Services, improving the quality and accessibility of buses, and expanding routes to better serve local communities;

(b) Infrastructure Investment: the fund can be allocated to improve transport infrastructure, such as bus stations, shelters, and dedicated bus lanes;

(c) Integration of Services: by having control over a single pot of money, CAs can work towards integrating Services with other modes of transport, such as trains and trams, to create a seamless public transport network;

(d) Innovation and Technology: the fund can be invested in new bus technologies to enhance Services, such as real-time information systems, contactless payment options, and ZEBs that reduce environmental impact; and

(e) Subsidies and Incentives: the fund can be used to provide subsidies for Services that may not be commercially viable but are essential for social inclusion and accessibility.

3.14 There are potential benefits of an SSF between the Authority and the Government, in relation to the increased flexibility around decision making and ultimately delivery. Single Settlement will allow the Authority to better prioritise and co-ordinate funding from what was previously a number of transport funding streams. Whilst the SSF does not necessarily mean increased levels of funding overall, it provides the Authority with the option of allocating more funding (within the transport pillar or through moving funding between the other four pillars) to support particular policies to achieve more targeted outcomes (for example, in supporting improved Services).

Financing and Use of Reserves

3.15 When determining whether expenditure associated with the Reference Case and the Delivery Options can be financed, the Authority has to consider affordability as part of its overall LA debt cap which has been set by HM Treasury and The Chief Secretary to HM Treasury. The Authority has evaluated the impact on the debt cap as a whole rather than costs in isolation and whether additional borrowing will breach those limits. The current limit for the Authority's debt cap for FY 2024/2025 is £1,277 million[180] which is subject to regular renegotiation with HM Treasury.

3.16 The Authority currently has a number of long-term and short-term loans as set out in Table 4-5:

Table 4-5: The Authority - Borrowing

Loan Type	Amount (£million) as of 31 March 2024[181]
Loans Longer Term	
Public Works Loans Board ("PWLB")	472.3
Banks in the UK	19.1
Other Financial Intermediaries	100.0
LAs	3.7

3.17 It is the view of the Authority that grant funding is the preferred option for any capital expenditure within the Reference Case and the Delivery Options. In the absence of grant funding certainty, the Authority will use Prudential Borrowing for these costs which can be repaid over time at a public sector interest rate. For the Authority such costs include:

(a) Transitional costs (for example, IT systems); and

(b) Asset costs - including fleet and depot.

3.18 Within this Assessment, all transitional costs have been assumed to be able to be capitalised and therefore financed under Prudential Borrowing due to uncertainty regarding grant funding.

180 West Midlands 2022/23 Accounts

181 https://www.gov.uk/government/statistical-data-sets/live-tables-on-local-government-finance

3.19 The Authority assumes that asset and transitional costs will qualify for Prudential Borrowing and is in principle supportive of financing fleet and depot costs, however, additional on-balance sheet borrowing will need to be assessed against the Authority's debt cap limit and other prudential indicators.

Sources of Financing

3.20 The financing options available to the Authority include:

(a) Prudential Borrowing;

(b) PWLB;

(c) UKIB; and

(d) Private Finance.

Prudential Borrowing

3.21 LA Prudential Borrowing has a set of rules for borrowing. Under the Prudential Borrowing framework[182] CAs must follow the Prudential Code which requires them to make sure the borrowing undertaken is both affordable and prudential. Sources for Prudential Borrowing are described below.

PWLB

3.22 PWLB is a form of loan made to CAs from the National Loans Fund. The PWLB has been carried out by the DMO since 2002 and works within a framework set by HM Treasury.

3.23 PWLB interest rates are determined by HM Treasury in accordance with Section 5 of the National Loans Act 1968. PWLB is a low-cost source of finance which can be used by the Authority which may help the affordability of transitional and asset costs.

3.24 PWLB is less flexible than other sources of Prudential Borrowing, especially in terms of grace period when farebox income may not have built up to steady state levels. Under current terms, PWLB gives a two-year maximum grace period.

UKIB

3.25 UKIB is a similar public sector financing mechanism to PWLB; however, UKIB offers a lower rate than PWLB. Therefore, in paragraphs 3.26 to 3.30, we list out the objectives and the UKIB offering.

3.26 The Authority understands that there is an option to finance capital costs through the UKIB. Unlike PWLB, the UKIB has different requirements for borrowing and therefore, for this Assessment, it is assumed PWLB is the main source of financing. It is worth noting that through conversations with UKIB on ZEB acquisition, the Authority would meet the borrowing requirements for this financing route. However, the UKIB would undertake due diligence at the time of the finance request.

---

182 Local Authority Prudential Borrowing

3.27 For LA lending, the UKIB have a couple of specific strategic objectives that the project needs cover:

(a) The project must be supportive of the objective to reduce carbon and/or achieve Net Zero; and

(b) The project must be involved in the economic growth of the regions.

3.28 Under the Franchising Scheme, the Authority would adopt these objectives and, therefore, be eligible for a discussion with UKIB about potential financing. It should be noted that a UKIB loan can be used by a LA in relation to bus in the following circumstances:

(a) Electric bus;

(b) Hydrogen bus;

(c) Charging infrastructure or fit out costs of a ZEB (Electric and Hydrogen); and

(d) Depots that facilitate ZEBs.

3.29 The UKIB offers a flexible approach to financing offering various options against the following lending parameters:

(a) Tenure: the bank prefers to offer a loan with a tenure fixed against an assets UEL. They are open to a mixture of tenures in the same loan (for example, charging infrastructure for 10 years and a depot for 40 years). In this scenario, they are flexible to contract on a weighted average asset life;

(b) Rolled up interest: they act more like project finance where interest can be rolled up during the construction period;

(c) Drawdowns: flexibility on the drawdown of the agreed loan size. The capital can be drawdown as required for different assets (for example depot or fleet profiling);

(d) Repayments: as well as the standard PWLB repayment types (Maturity, Annuity, etc), the UKIB can offer:

(i) Interest only during the establishment phase, then capital repayments can start; and

(ii) Lower interest and capital payments in the establishment phase with a ratchet up at an agreed date;

(e) Grace period - open to discussions on a grace period for repayments,

3.30 Within this Assessment, the Authority has considered a prudent approach, due to higher interest rates, in relation to PWLB financing. The Authority will consider its options if this financing is required and adopt the best financing route for its requirements.

Private Sector Financing

3.31 Under Prudential Borrowing, CA's can borrow from private institutions. These loans could offer more flexible borrowing terms but would likely attract higher margins than public sources and therefore have a negative impact on the VfM assessment.

3.32 No consideration has been given to the Authority following a private financing route in this Assessment.

CRSTS

3.33 CRSTS are funding packages provided by the Government to city regions for the purpose of improving transport infrastructure and Services. The initiative is part of a broader strategy to support sustainable transport across the country, aiming to reduce carbon emissions, improve air quality, and provide better connectivity for residents and businesses. The second round of this funding, often referred to as CRSTS '2', continues the effort to invest in local transport networks, with a focus on public transport, walking, and cycling infrastructure.

3.34 In the initial funding round, referred to as CRSTS '1' where allocations run from FY 2022/2023 to FY 2026/2027, the West Midlands was granted £1.05 billion. In the CRSTS '2' funding round, which runs between FY 2027/2028 to FY 2031/2032, the West Midlands has been indicatively allocated a baseline level of £1.57 billion and an additional uplift of £1.08 billion, totalling £2.65 billion.[183]

Reserves and Other Revenue Funding Sources

3.35 Reserves are another way that authorities can fund capital expenditure if free cash is readily available. However, based on discussions within the Authority, it is assumed for the purposes of this Assessment that reserves cannot be used to fund assets or Services in the Reference Case and the Delivery Options.

3.36 The Authority currently has an earmarked reserve in its financial statements. As per the Authority's financial statements, the earmarked reserve contains contributions in the year to primarily provide funding to back transport capital programme commitments. As part of the decision to create an additional earmarked reserve for the savings which is achieved through the public financing of assets compared to the private financing of assets, the Authority is unable to set money aside and will use all additional savings to fund additional Services where required to improve the West Midlands Bus Network. In order to ensure reasonable risk mitigation of asset ownership, the Authority's own internal treasury management function will continue to ensure risks are appropriately managed and provisioned for.

3.37 The details of how much funding from these sources will be required, and how they will be repaid are shown in the paragraphs describing the Delivery Options below.

4 Approach to Risk in this Assessment

4.1 In order to meet the requirements for risk under the Franchising Guidance, this Assessment must be robust and consider the risks surrounding Franchising. The Franchising Guidance states:

(a) Section 1.28: *The assessment should include a detailed assessment of the options together with full economic and financial appraisals, including appropriate sensitivity tests*;

183 Network North CRSTS2 indicative allocations, 4 October 2023

(b) Section 1.56: *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*; and

(c) Section 1.62: *A sensitivity analysis, reflecting the range of financial risks.*

4.2 The Authority has an ARAC which looks to review the risks faced by the Authority and determine the likelihood and impact of specific risks which are then ranked on a threat level to the Authority. In a review conducted by the ARAC in January 2024, 11 strategic risks rated high were identified and deemed appropriate to cover in this Financial Case. These are issues currently being faced by the Authority, but also risks which are expected to continue into the future. These can be seen in Table 4-6.

Table 4-6: ARAC Key Strategic Risks

#	Key Strategic Risk
1	Failure to Deliver the Opportunities and Benefits of the Investment Programme
2	Inflation and Global Supply Chain Pressures
3	The Authority's Programme Cost Management
4	Financial Resilience of the Authority to Absorb Fiscal Shocks
5	Information and IT Systems Assurance and Security
6	Stakeholder and Political Relations
7	Capacity and Capability
8	Post pandemic sustainability of public transport network
9	Commerciality
10	Investment Programme Delivery
11	Cost of Living Crisis

Source: ARAC Report

4.3 The potential implications of each strategic risk have been set out between paragraphs 4.3(a) to 4.3(k):

(a) **Failure to Deliver the Opportunities and Benefits of the Investment Programme**: the inability to realise the opportunities and benefits of the Investment Programme could significantly undermine the strategic objectives of the Reference Case and the Delivery Options in the Authority's Region. This failure could result in a lack of improvement in bus infrastructure, which is essential for economic growth and connectivity. It could also lead to missed opportunities for job creation and reduced attractiveness of the Authority's Region for investment;

(b) **Inflation and Global Supply Chain Pressures**: inflation and global supply chain pressures can have a cascading effect on the bus and transport sector as a whole. Rising costs of assets and labour can inflate project budgets, leading to delays or the need for additional funding. The Authority would need to manage these challenges if they were to arise;

(c) **The Authority's Programme Cost Management**: effective cost management within the Authority is crucial to ensure that transport projects are delivered within budget and provide VfM. Poor cost management could lead to overspending, which would strain the financial resources of the Authority;

(d) **Financial Resilience of the Authority to Absorb Fiscal Shocks**: the financial resilience of the Authority is vital in its ability to withstand and recover from fiscal shocks. Such shocks could arise from economic downturns, unexpected expenses, or funding cuts;

(e) **Information and IT Systems Assurance and Security**: assurance and security are critical in protecting the sensitive data and operational systems that underpin the transport network. A breach in security could lead to Service disruptions, loss of public trust, and financial losses. It is essential for the Authority to have robust cybersecurity measures under the Reference Case and the Delivery Options and data protection policies in place to safeguard against threats and ensure the continuity and reliability of Services. The Authority may need to implement new technologies to ensure IT is up to date;

(f) **Stakeholder and Political Relations**: maintaining positive stakeholder and political relations is essential for the Authority to secure support and funding for transport initiatives. Poor relations can lead to resistance or opposition to projects, which can cause delays, increase costs, or even result in the cancellation of critical Services. Effective engagement and communication with stakeholders and political entities are necessary to align interests and ensure the smooth implementation of transport strategies. The Authority will undertake appropriate consultation processes in line with the requirements of a business case;

(g) **Capacity and Capability**: the capacity and capability of the Authority to manage and deliver Services are fundamental to its success. If the Authority lacks the necessary skills, expertise, or resources, it may struggle to meet the Authority's Region transport needs. The Authority may require the hiring of increased capacity to meet the additional tasks needed under specific regulatory options;

(h) **Post Pandemic Sustainability of Public Transport Network**: the sustainability of the public transport network post-pandemic is a significant concern. The pandemic has altered travel patterns and reduced passenger numbers, which could have lasting effects on revenue and Service viability. The Authority must adapt to these changes by reassessing demand, reevaluating Service offerings, and exploring new funding models to ensure the transport network remains sustainable and meets the needs of the public;

(i) **Commerciality**: commerciality refers to the Authority's ability to operate its Services in a financially sustainable manner or achieve the respected margins needed to achieve financial sustainability. A lack of commerciality could result in inefficient use of resources, missed revenue-generating opportunities, and an over-reliance on public subsidies. The Authority must balance the need to provide affordable Services with the imperative to manage its operations effectively and explore commercial opportunities to enhance its financial stability;

(j) **Investment Programme Delivery**: the delivery of the Investment Programme is a complex endeavour that requires careful planning, management, and execution. Any shortcomings in these areas could lead to project delays, cost overruns, and failure to meet the expected outcomes. The Authority must ensure that it has robust project management processes in place and that it can effectively coordinate with contractors, suppliers, and other stakeholders to deliver the transport improvements promised to the Authority's Region; and

(k) **Cost of Living Crisis**: the cost of living crisis poses a significant risk to the Authority's ability to provide affordable Services. As residents face increasing financial pressures, the demand for public transport could decline, or there could be calls for fare reductions, which would impact the Authority's revenue. Additionally, the cost of living crisis could affect the Authority's own operational costs, such as energy prices and wages, further challenging its financial position and ability to invest in transport infrastructure.

4.4 The risks identified above have been mapped to key sensitivities which will be undertaken in paragraph 10.

Risk Testing

4.5 The Authority has considered an approach to risk which identifies key challenges specific to their own environment, but considers risks and lessons learnt identified through review of previous bus Franchising assessments by GMCA, LCRCA and WYCA. Benchmarks from other CAs are useful context; however, the Authority is a unique and distinctive region of England with its own opportunities and challenges for the Authority to manage.

4.6 The Authority has conducted both scenario and sensitivity analysis within this Financial Case and throughout this Assessment. It is important to make the distinction between a scenario and a sensitivity.

4.7 Scenario analysis is a process used to evaluate the potential outcomes of different future events or paths that a situation could take. It is a method for predicting the impact of various hypothetical situations on the Reference Case and the Delivery Options. The scenarios encompass a range of variables that can change simultaneously (for example, combined funding and demand). Therefore, scenario analysis is not limited to changes in one parameter but can include a variety of factors that might change due to a particular future event or decision.

4.8 Sensitivity analysis, on the other hand, is used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions.

4.9 Below, the Authority has identified a list of scenarios and sensitivities which are believed to be relevant to this Assessment and those which have also been included in other assessments. The extent to which the sensitivity and the +/- % values are relevant to the Authority will depend on internal risks identified. A number of scenarios are specific to the Economic Case with outputs being shown within this Financial Case.

4.10 The scenarios which have been considered by the Authority can be seen in Table 4-7.

Table 4-7: Alternative Scenarios

#	Scenario	Description
1	Upside Funding with Central Demand	This scenario assumes that the Authority receives an additional £50 million per annum (index linked) for the bus budget to support Services in the Reference Case and the Delivery Options. Further details can be found in the Economic Case.
2	Downside Funding with Central Demand	This scenario assumes a decline to 90% of the bus budget from year five of the appraisal period (FY 2031/2032) which then remains in place over the appraisal period. Further details can be found in the Economic Case.
3	Base Funding with Demand Upside	This scenario assumes that there is an increase in demand of 15% from year five of the appraisal period (FY 2031/2032) which then remains over the appraisal period. Further details can be found in the Economic Case.
4	Base Funding with Demand Downside	This scenario assumes that there is a decrease in demand of 15% from year five of the appraisal period (FY 2031/2032) which then remains over the appraisal period. Further details can be found in the Economic Case.
5	Funding Scenarios with Demand Upside	This scenario is a combined scenario taking both elements of the Upside and Downside Funding Scenario explained in paragraph 9 and the Demand Upside Scenario above. Further details can be found in the Economic Case.
6	Funding Scenarios with Demand Downside	This scenario is a combined scenario taking both elements of the Upside and Downside Funding Scenario explained in paragraph 9 and the Demand Downside Scenario above. Further details can be found in the Economic Case.
7	Operators own vehicles	This scenario relates specifically to the Franchising Scheme, In this scenario, the Operators own fleet which increases margin by 2.5 percentage points and increase fleet costs by 3.0% from FY 2027/2028. Further details can be found in the Economic Case.

8	Operators own depots	This scenario relates specifically to the Franchising Scheme, In this scenario, the Operators own depot which increases margin by 1.5 percentage points from FY 2027/2028. Further details can be found in the Economic Case.

4.11 The sensitivities which have been considered by the Authority can be seen in Table 4-8.

Table 4-8: Sensitivities

#	Sensitivity Title	Description
1	Supported Services Margin	The margin for Supported Services and Services under Franchise Contracts is a measure of the financial buffer or profit margin that is anticipated for Services that are either subsidised by the Government or operated under Franchising. The sensitivity analysis considers how variations in this margin, both in the fixed and variable elements, could impact the Economic Case and this Financial Case for the Reference Case and the Delivery Options, as well as the potential risk to Service continuity and quality if margins are too tight. The Authority has determined testing an increase and decrease of 2.5% (10% and 5% from 7.5%) in margin on the fixed component and 2.0% (6.0% and 2.0% from 4.0%) is appropriate for sensitivity analysis from 10 years after FY 2022/2023.
2	Services under Franchise Contract Margin	The margin for Supported Services and Services under Franchise Contracts is a measure of the financial buffer or profit margin that is anticipated for Services that are either subsidised by the Government or operated under Franchising. The sensitivity analysis considers how variations in this margin could impact the Economic Case and this Financial Case for the Reference Case and the Delivery Options, as well as the potential risk to Service continuity and quality if margins are too tight. The Authority has determined testing an increase and decrease of 2.5% (10% and 5% from 7.5%) in margin is appropriate for sensitivity analysis from 10 years after FY 2022/2023.
3	Management Costs	Management costs refer to the ongoing expenses related to the administration and oversight of Services. Although the Authority has undertaken a robust process to identify the key positions that would be needed under the Franchising Scheme, as with all changes, there is some degree of unpredictability. Therefore, a

		sensitivity analysis has been undertaken to look at the impact of a potential increase in management costs. It is important to assess how changes in these costs could influence the long-term sustainability of the Services and the Reference Case and the Delivery Options. The Authority has determined an increase of 10% in management costs for Franchising is appropriate for sensitivity analysis due to uncertainty around additional positions required.
4	Transitional Costs	Transitional costs encompass the expenses associated with the shift from the current state of operations to a new regulatory framework. Transitional costs are included in the sensitivity analysis because they can significantly impact the overall financial viability of the Reference Case and the Delivery Options and uncertainties may arise when transitioning between the Reference Case and the Delivery Options. Actual costs can vary widely depending on the scale and complexity of the regulatory changes, and thus, it is important to understand how different levels of transitional costs could affect this Assessment. The Authority has determined an increase of 10% in transitional costs in Franchising is appropriate for sensitivity analysis.
5	Fleet Costs	Fleet costs encompass the capital and operational expenses of acquiring, maintaining, and operating the bus fleet. This includes the purchase price of vehicles, financing costs, fuel, maintenance, and potential retrofitting or upgrades. Fleet capital costs are a major component of the overall cost structure and are subject to variability due to factors such as technological advancements, fuel price volatility, and regulatory requirements for emissions or accessibility. Including fleet capital costs in the sensitivity analysis allows for an assessment of how changes in these costs could influence the economic feasibility and Service quality of the Services under new regulatory frameworks. This sensitivity only relates to the fleet being owned specifically by the Authority. The Authority has determined an increase of 10% in fleet costs is appropriate for sensitivity analysis due to the level of risk associated with acquiring and owning fleet such as bargaining power, and the global supply chain.
6	Financing Costs	Financing costs are the expenses incurred from borrowing funds to finance the capital and/or operational expenditures of Services.

		These costs are sensitive to changes in underlying interest rates. In the sensitivity analysis, it is important to include financing costs because they can represent a significant portion of the total costs over the life of the Reference Case and the Delivery Options. Variations in financing costs can affect the affordability and the overall VfM of the Reference Case and the Delivery Options. The sensitivity which is to be tested under Financing Costs is the differential between the public sector borrowing rate and private sector borrowing rate. As the Authority receives a net benefit from financing through public sector routes, it then does not incur the private sector borrowing rate through contracts. The Authority has determined that a sensitivity should be tested which looks at a decrease and increase in the public versus private sector differential of 1%.
7	Variable Management Costs	As is described in paragraph 5, variable management costs in the Reference Case and the Future Partnership relate to additional management costs which are required to deal with an increased level of Supported Services over time. A sensitivity increase in the variable management costs from 1.5% to 2.5% is considered in this Assessment.
8	Inflation	Inflationary pressures on all organisations have been observed in recent times with the Authority being no exception. These inflationary impacts have an effect on how much the Authority can afford to put into Services. In the Reference Case and the Delivery Options, revenues and costs are inflated using TAG RPI or CPI. The inflation sensitivity tests the ability of the Authority to absorb inflationary rises on costs and revenues when the budget available for Services remains the same (i.e. cannot rise with an increase in inflation). The Authority has determined that a sensitivity should be tested to show what happens if inflation increases by 1%, but the budget available for Services inflation rate remains constant.

Risk Mapping

4.12 As seen in the previous paragraphs, the Authority has sought to align the sensitivities it runs in this Assessment to the risks within their ARAC documents.

4.13 Table 4-9 shows a summary table identifying the relevance of each sensitivity against the key risk identified by the Authority. The Authority understands that risks identified can impact multiple elements of this Assessment directly and indirectly. For example, cost management issues directly impact funding, margin, staffing and transitional costs. However, there is also an indirect impact upon demand if the Authority is not able to provide enough Services. Therefore, only direct risks and sensitivities have been ticked within the mapping exercise.

Table 4-9: Risk mapping

	Scenarios to address the key risk			Sensitivity to address the key risk					
Key Risk	**Funding**	**Demand**	**SS / FS Margin**	**Operators own assets**	**Management Costs**	**Transitional Costs**	**Fleet Costs**	**Financing Costs**	**Inflation**
Failure to Deliver the Opportunities and Benefits of the Investment Programme	✓	✓	✓	✓	✓	✓	✓	✓	✓
Inflation and Global Supply Chain Pressures	✓						✓		✓
The Authority's Programme Cost Management	✓		✓		✓	✓			
Financial Resilience of the Authority to Absorb Fiscal Shocks	✓					✓	✓	✓	✓
Information and IT Systems Assurance and Security						✓			
Stakeholder and Political Relations	✓			✓					
Capacity and Capability					✓				
Post Pandemic Sustainability of Public Transport Network	✓	✓	✓						
Commerciality			✓	✓			✓		

	Scenarios to address the key risk			Sensitivity to address the key risk					
Key Risk	**Funding**	**Demand**	**SS / FS Margin**	**Operators own assets**	**Management Costs**	**Transitional Costs**	**Fleet Costs**	**Financing Costs**	**Inflation**
Investment Programme Delivery	✓			✓			✓	✓	
Cost of Living Crisis	✓				✓	✓	✓		✓

4.14 Table 4-9 above shows that the Authority has considered every risk within the sensitivity analysis which has been undertaken.

4.15 The results of the sensitivity analysis can be seen in paragraph 10.

5 Modelling Principles and Approach

Introduction

5.1 This paragraph 5 sets out the approach the Authority has taken to modelling the financial impact of the Delivery Options. This builds on the approach to modelling of the Delivery Options undertaken within the Economic Case and includes:

(a) an overview of the modelling approach employed in this Financial Case and the different scenarios which have been developed;

(b) a description of the operating costs and revenues for Services and how they are treated in the financial model; and

(c) a description of other modelling assumptions employed, such as the approach to inflation or comparison of the Delivery Options.

Structure of the Financial Model

5.2 The financial model used in this Financial Case relies on a number of inputs:

(a) the budget available for bus;

(b) the internal costs for the Authority to manage Services (which vary between the Delivery Options);

(c) the costs and revenues of Services which are produced by the forecasting model;

(d) margins earned by the Operators;

(e) indexation of costs and revenues;

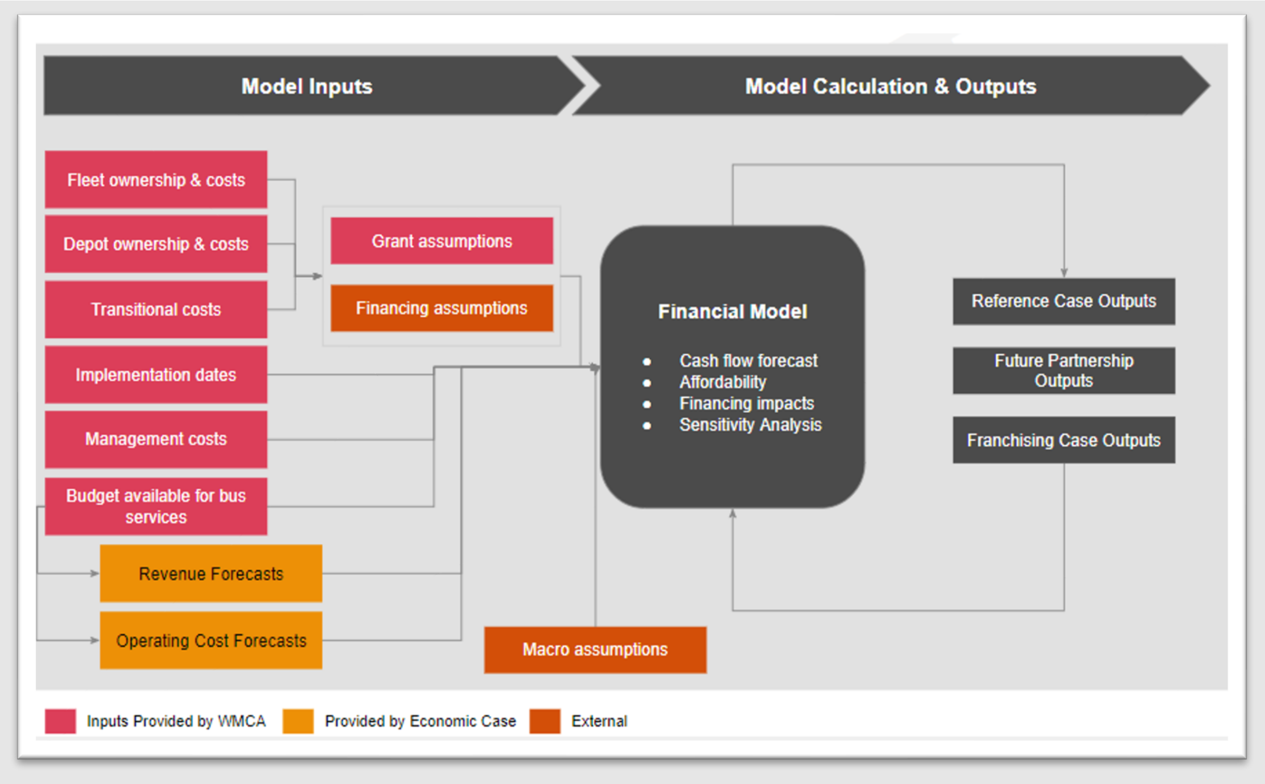
(f) the costs of servicing debt associated with each of the Delivery Options;

(g) the cost of transitioning to the Delivery Options; and

(h) appraisal period and timing.

5.3 These are combined in the financial model, the structure of which is described in Figure 4-1.

Figure 4-1: Financial Model Structure



5.4 The financial model works out the nominal value of the budget available for each year, and then subtracts for the Reference Case and the Delivery Options the debt service of transition costs, additional management costs and specific direct costs or income that the Authority is forecast to incur under the Reference Case and the Delivery Options.

5.5 This creates a net budget for Services for each year for the Reference Case and the Delivery Options. The Delivery Options start with the same budget, then make specific adjustments based on the options chosen by the Authority. The model works under the pretence that all the Delivery Options are affordable and can be paid for under the current budget available for Services. The budget is then used in the economic forecasting model to estimate the Services that can be provided within the budget. The economic forecasting model then produces the revenues and costs associated with the Reference Case and the Delivery Options, which are transferred to the financial model to produce the cash flows for the Reference Case and the Delivery Options.

Structure of the Financial Model

Equal Funding and Cost of the Reference Case and the Delivery Options

5.6 This Financial Case compares the financial impacts on the Authority of the two different Delivery Options against the Reference Case.

5.7 To make this comparison, it is important to consider that each Delivery Option will deliver different outcomes (the Authority will have different priorities compared with the Operators and differing levels of control under each Delivery Option). Therefore, it is not possible to compare identical networks and bus offerings between the different Delivery Options and comparisons to the Reference Case to view the potential added value.

5.8 Because of this, and together with the scarcity of funds for Supported Services and the expectation of a continued drop in the background level of demand for bus (in line with the historic trend), the approach to modelling has been to seek to equalise the amount spent on the Reference Case and the Delivery Options, and compare the number of passengers being carried on the West Midlands Bus Network (as a consequence of the different level of Services provided).

5.9 This Financial Case does not attempt to quantify any benefits from the additional control that the Authority would have over, for example, infrastructure improvements such as the implementation of bus priority schemes. The potential benefits are described in the Strategic Case.

5.10 The key question considered by this Financial Case is what level of Service provision can be provided under the Reference Case and the Delivery Options for the same (or similar) amount of funding available.

Comparing Options Under Different Scenarios

5.11 This Assessment tests the relativity of the Reference Case and the Delivery Options under different external operating environment scenarios: from a demand and funding perspective.

Demand Scenarios

5.12 In the Authority's Region, as with many other regions in the UK, there has been a partial recovery of bus patronage from the impact of Covid-19

5.13 For the period that data has been sourced for the forecasting model (2022/23), recovery had been lower and additional funding was required as a step in to support demand.

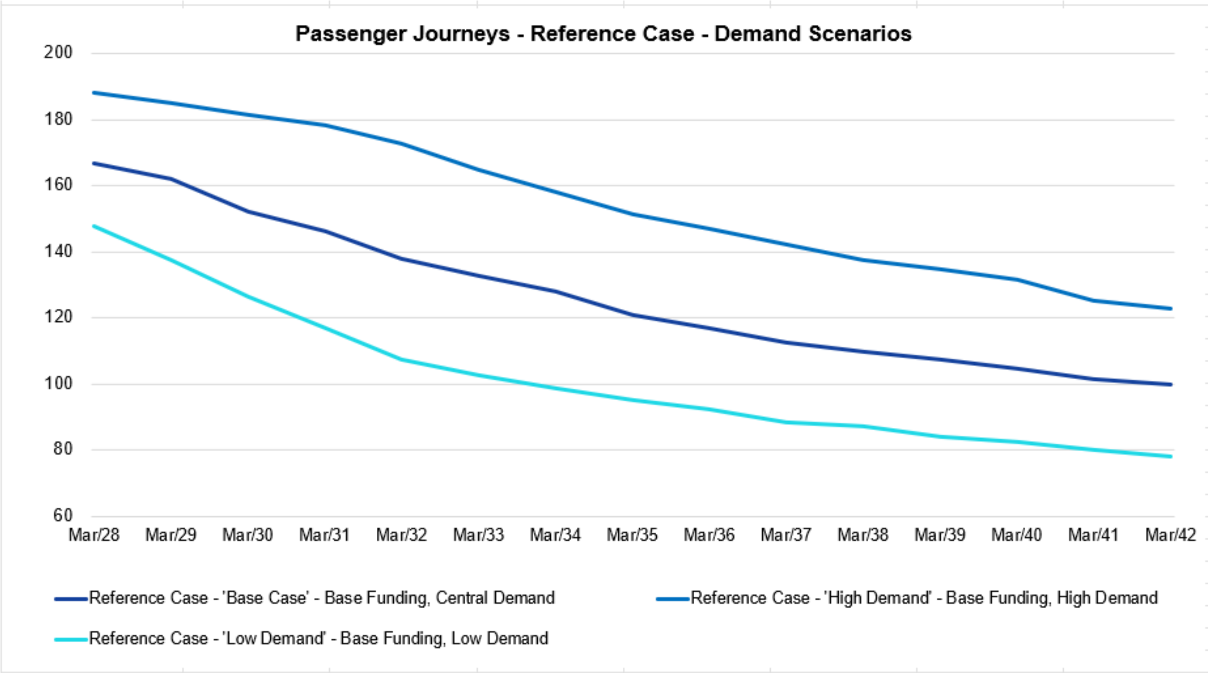
5.14 For additional demand scenarios, this Assessment assumes:

(a) For the low case (**'Low Demand'**), there is assumed to be a steady decrease to 15% by year five of Franchising (FY 2031/2032) over the central demand case; and

(b) For the high case (**'High Demand'**), there is assumed to be a steady increase by 15% by year five of Franchising (FY 2031/2032) over the central demand case.

5.15 Figure 4-2 shows the level of passenger journeys under these scenarios for the Reference Case for this Assessment period from FY 2027/2028 to FY 2041/2042.

Figure 4-2: Demand Scenarios for the Reference Case Passenger Journeys



Funding Scenarios

5.16 Current funding arrangements for the West Midlands sees the Authority and the Government providing an additional c.£50 million into the West Midlands Bus Network to ensure the network would not be lost. If the Authority does not provide the required subsidy, the West Midlands Bus Network will reduce to the extent that the Authority will not be able to achieve its vision or objectives. Further details of how this is modelled can be seen in the Economic Case.

5.17 The Authority and its LAs face competing demands for funding. In the Authority's Region, additional funding is potentially available; however, this is not guaranteed, and the current level of funding may not also be maintained in real terms.

5.18 This Assessment considers three scenarios for funding below and shown in Figure 4-3.

5.19 In summary the funding scenarios are:

(a) **Base Funding Scenario:** the assumed level of gross funding available across the Reference Case and the Delivery Options is £102 million in FY 2024/2025 (nominal) (which is calculated from the most recent current spend but excluding costs and revenues from ring and ride other one-off adjustments). From FY 2025/2026, this budget is assumed to grow at TAG RPI over the appraisal period. This works out as an average of 2.23% per annum;

(b) **Downside Funding Scenario:** the Authority has determined that an appropriate Downside Funding Scenario is a scenario where from FY 2031/2032, the budget drops by 10% for the remainder of the appraisal period; and

(c) **Upside Funding Scenario:** the Authority has determined that an appropriate upside scenario to be tested is a scenario where the Authority has an additional £50 million of budget available for the duration of the appraisal period. This has been applied as £50 million indexed from the base year by RPI. The additional £50 million remains flat in real terms over time.

Budget Available for Bus

5.20 As discussed in paragraph 3, the amount of Transport Levy funding for Services is uncertain, and therefore we have modelled three scenarios – a Base, Downside and Upside Funding Scenario (as outlined above).

5.21 Figure 4-3 and Figure 4-4 show the total bus budget under each of the three funding scenarios, in nominal and real terms (discounted at RPI). Figure 4-4 shows that the bus budget continues at a constant amount in real terms.

5.22 It can be seen that there is a large gap in the assumptions between the Base and Downside Funding Scenarios and the Upside Funding Scenario. This is due to the Authority identifying that they currently put £50 million into the West Midlands Bus Network to ensure it is not lost and therefore this is a realistic scenario.

5.23 The approach to the financial modelling seeks to optimise available budget (i.e. Authority spends 100% of the income it receives on Services). However, due to the varying net costs of individual Services, it is not always possible to use exactly 100% of the budget. While the model aims to use as much budget as possible, it will not choose to operate an additional Service if this leads to a significant overspend. This results in a budget utilisation range of 94-101% depending on the scenario and forecast year. If at any point the spend on Services goes slightly above 100%, the Authority will firstly use underspend from previous years which would be ringfenced and rolled over into years where overspend may happen. The Authority would then ensure this is in line with internal treasury management activities. The financial modelling has tested that the cumulative underspend in all options during the appraisal period is enough to cover any potential overspend, making all options affordable.

5.24 The Budget available for Services for the Reference Case can be seen in Table 4-15, Table 4-19 for Future Partnership and Table 4-25 for Franchising.

Figure 4-3: Budget for Services for the Reference Case (£million nominal, Central Demand, Funding Scenario)

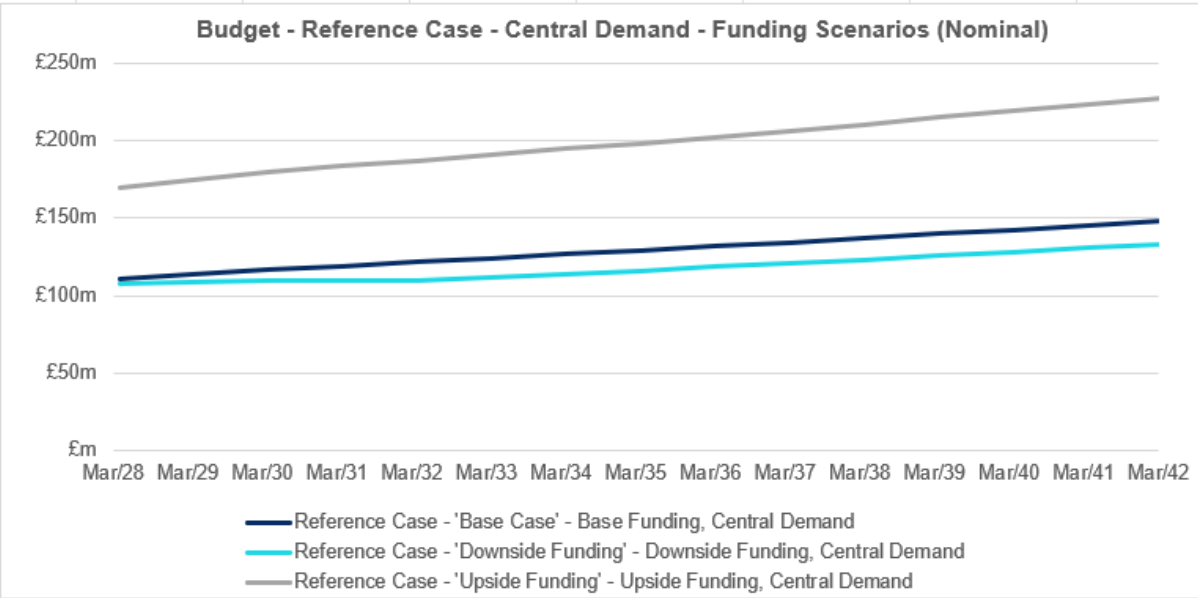
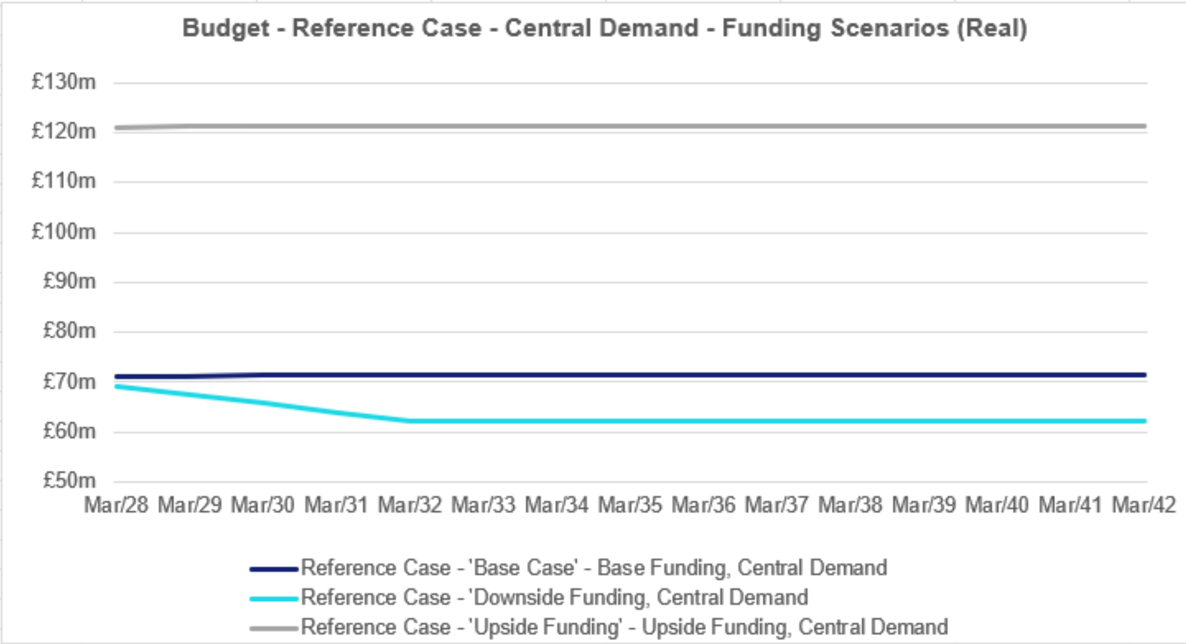


Figure 4-4: Budget for Services for the Reference Case (£million real, Central Demand, Funding Scenario)



Internal Costs for the Authority

5.25 Under the Reference Case and the Delivery Options, the Authority has a range of activities to undertake and needs to provide for these.

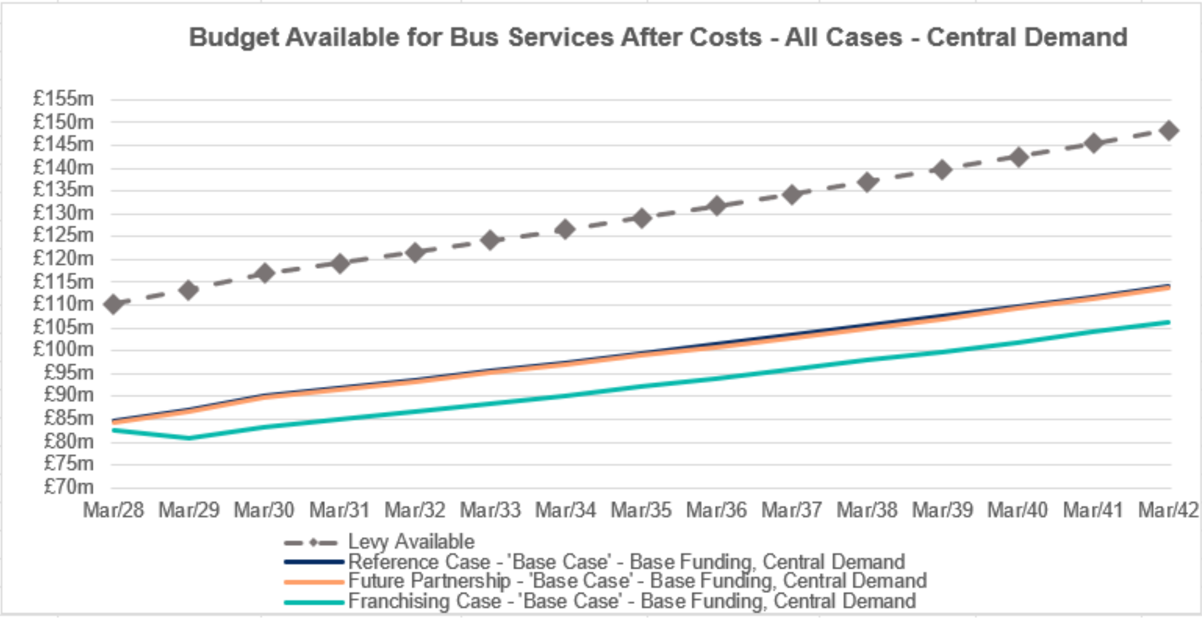
5.26 The current internal costs which the Authority pays for each year includes staff costs, overheads and bus station related costs, etc. These come out of the same budget as concessionary payments and payment for Supported Services.

5.27 Additional internal costs are forecast to be incurred for the Delivery Options. The amounts for the Reference Case and each of the Delivery Options are set out in paragraphs 6, 7 and 8. For the Delivery Options, there are increased management costs, and recovery of transitional cost investments.

5.28 Figure 4-5 shows the impact of the different CAs management costs and transitional costs associated with the Reference Case and the Delivery Options for the Base Funding Scenario. This shows that there is a reduction in the budget available for Services in the Future Partnership and especially for Franchising, as a consequence of higher internal costs. Consequently, there is less budget available for Services.

5.29 In addition, variable management costs are included if the proportion of Supported Services increases (paragraphs 5.49 - 5.56 below).

Figure 4-5: Budget Available for Services for the Reference Case and the Delivery Options (£million nominal, Central Demand, Base Funding Scenario)



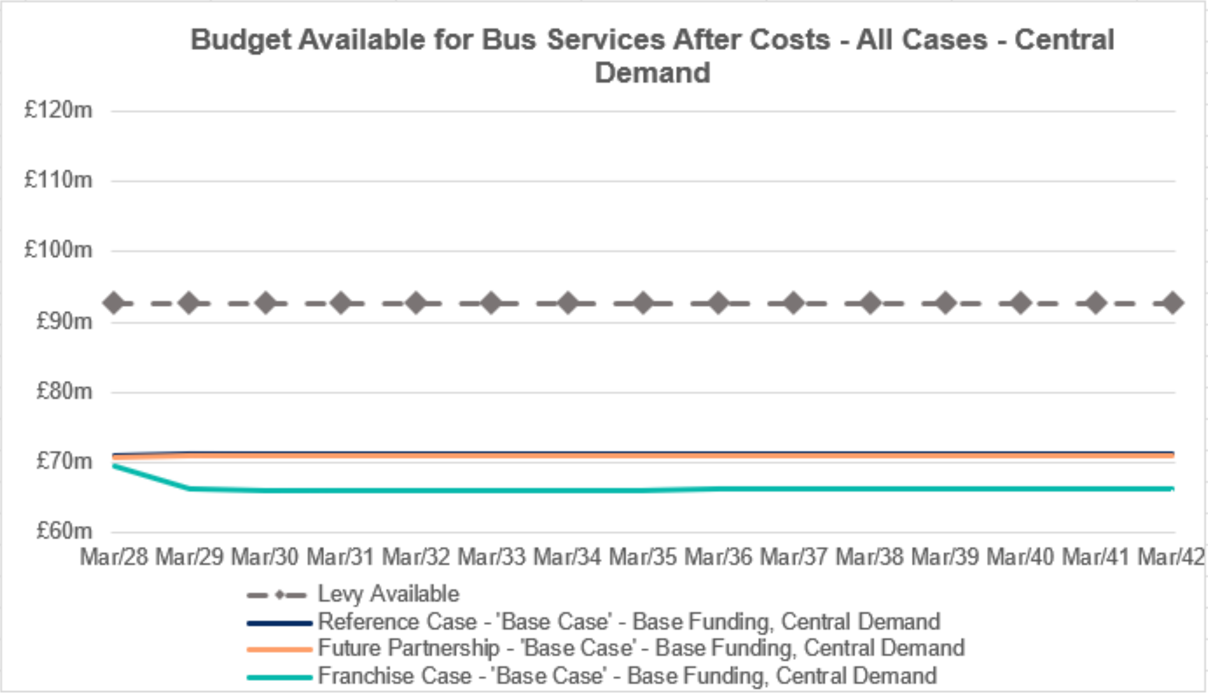
Costs and Revenues from Forecasting Model

5.30 The forecasts of revenues and costs from running Services are developed within the Economic Case and these are then used as inputs into this Financial Case.

5.31 The Economic Case forecasts are based on data which is primarily provided by the Operators or otherwise obtained by the Authority.

5.32 The forecasting model works entirely in FY 2022/2023 prices. This real budget for the Reference Case and the Delivery Options is shown in Figure 4-6.

Figure 4-6: Budget Available for Services after Direct Authority costs (£million real FY 2022/2023, Central Demand, Base Funding Scenario)



5.33 The forecasting model uses assumptions for budget, costs and demand for Services, and forecasts the level of network that can be provided for the Reference Case and the Delivery Options.

5.34 Each forecast consists of annual cash flows in real terms for commercial Services, Supported Services and Services under Franchise Contracts. The forecasts are broken down into operating costs, farebox revenues and concessionary payments. All numbers sourced from the forecasting model are in FY 2022/2023 prices and are subject to RPI indexation in the financial model.

Margin Earned by the Operators

5.35 A key assumption that drives the outputs of the financial analysis is the margin required by Operators.

5.36 This is the amount of revenue that the Operator takes for profit. It is expected that this will be lower for gross cost contracts under the Franchising Scheme, compared with that earned on commercial Services. The reason why this is lower is due to the Franchising Scheme giving the opportunity for increased competition in the West Midlands Bus Network. The margin assumptions used in each of the Reference Case and the Delivery Options are described below.

The Reference Case and the Future Partnership

5.37 Commercial Services earn a margin through the difference between farebox revenue and operating costs. As outlined in the Economic Case, the forecasting model estimates the level of demand for Services and then adjusts Services to achieve an overall target return.

5.38 For Supported Services, the Authority has considered various factors which affect the margin to apply to Supported Services. Nearly all of the current Supported Services provided are either on a net cost or de minimis payment basis, so there is little data for margins on gross cost contracts (and these contracts do not always show a margin).

5.39 Given that Supported Services Contracts are likely to be simpler than Franchise Contracts, without the same performance mechanism, there is an argument for the margin to be lower than for Franchise Contracts. However, given the expectation that there would be a greater number of Supported Services Contracts in the future, and that competition is likely to be limited in both the Reference Case and the Future Partnership, the Authority has decided to use a higher margin for Supported Services Contracts than for Franchise Contracts. This is a margin of between 9.1%-10.7% in the Reference Case.

5.40 For the Delivery Options, contracts switch to gross cost, and it is the expectation that margins decrease compared to the Reference Case. The Franchising Scheme, with its increased level of competition, will look to reduce those margins which is a benefit to the West Midlands Bus Network as a whole. Given Supported Services Contracts are expected to increase over time and there will be a market with limited competition, margins are higher in the Future Partnership than the Franchising Scheme. This can be seen by a margin of between 9.1%-9.4% in the Future Partnership and 7.1%-7.5% in the Franchising Scheme.

The Franchising Scheme

5.41 In choosing an assumption for the margin for Services under Franchise Contracts, the Authority has considered data available from the Bus Industry Performance 2020 report, the GMCA bus Franchising in Greater Manchester assessment and WYCA.

5.42 The former suggests that margins for Operators outside London should be between 7.5% and 8.0% for the Franchising Scheme which are for commercial Services where revenue risk, fleet ownership and depot ownership are the responsibility of the Operators.

5.43 The GMCA and WYCA business cases also assume a margin of 7.5% for Services under Franchise Contracts on a gross cost contract basis. The structure proposed in the GMCA business case is different from the Authority's proposal, with fleet being procured by the private sector; however, the approach in WYCA is similar where the Authority acquires a level of fleet.

5.44 On this basis, the Authority has assumed that an operating margin of 7.5% will be charged by the Operators for all Services under Franchise Contracts.

Indexation

5.45 Indexation has been applied to each element of income and expenditure within the financial modelling.

5.46 Cost and revenue assumptions in this Financial Case have a range of different base price dates. The indexation applied to each item of income and expenditure item is set out in Table 4-10.

5.47 For data that is sourced from the models utilised to model the economic impact under this Assessment, RPI is applied, which is in line with the HM Treasury's Green Book Guidance.

Table 4-10: Model Element Price Date and Inflation Assumptions

Income/ Expenditure Element	Base Price Date	Inflation Assumption	Source
Farebox Revenue	2024/2025	RPI	A5.3.1, TAG data book
Concessionary Travel	2024/2025	RPI	
Operator Costs	2024/2025	RPI	
Fleet and Depot	2023/2024	RPI	
The Authority Sundry Costs	2024/2025	CPI	
Transition Costs	2024/2025	CPI	

5.48 Table 4-11 shows the data from WebTag table A5.3.1 and shows how the expenditure and revenues in the model are indexed.

Table 4-11: Inflation Assumptions for CPI and RPI per Year

Year	**Inflation Assumption** A5.3.1, TAG data book		**Source**
	CPI	**RPI**	
2022/2023	10.03%	12.87%	A5.3.1, TAG data book
2023/2024	5.67%	7.48%	A5.3.1, TAG data book
2024/2025	1.55%	2.36%	A5.3.1, TAG data book
2025/2026	1.60%	2.20%	A5.3.1, TAG data book
2026/2027	1.67%	2.63%	A5.3.1, TAG data book

2027/2028	1.97%	2.97%	A5.3.1, TAG data book
2028/2029	2.00%	2.89%	A5.3.1, TAG data book
2029/2030 thereafter	2.00%	3.12% reducing to 2.00% from 2030/2031	A5.3.1, TAG data book

Source: TAG Data Book

Transition and Management Costs

Transition Costs

5.49 The Franchising Scheme involves transition costs as part of the process of moving to this Delivery Option from the Reference Case. The Franchising Scheme has a three-year transition period.

5.50 Transitional costs for the Franchising Scheme are assumed to be financed from Prudential Borrowing with repayments paid over 15 years. A simplified assumption has been made that all transitional costs would be able to be financed.

5.51 The specific values for the Franchising Scheme are included in Table 4-22. The categories of transition costs are set out in Table 4-12:

Table 4-12: Transition Cost Categories

Transition cost category
The Franchising Scheme
Transition Management and Operation
Branding/Marketing
Advisory/Consultancy
Assets
Furniture
Information Technology

Management Costs

5.52 Basic management costs are calculated individually for the Delivery Options, and the Reference Case is based on the existing Authority management costs with additional positions for Services/route planning, network integration and data roles costing c.£500k per annum commencing in January 2025.

5.53 Under the Franchising Scheme, the additional management costs required are existing roles which are currently undertaken in the Authority's Region; however, under the Franchising Scheme, these roles would effectively transfer to the Authority rather than sit with the Operators. This would ensure there is limited duplication of roles across the bus sector.

5.54 Non staff costs are set at the same level for the Delivery Options as the Reference Case, but there are differences in staff costs reflecting the larger number of staff required to manage the Delivery Options.

5.55 For each of the Delivery Options, an estimate of staff costs has been made in the Management Case to reflect the various functional responsibilities of the Authority, with current levels of Services. In both the Reference Case and the Future Partnership, there is the possibility that Supported Services, as a proportion of all Services, increases, as fewer commercial Services are viable. As the level of Supported Services rise, there will be an additional cost to the Authority of managing these Services.

5.56 To estimate these additional costs, the Authority has considered how much management cost is required under the Franchising Scheme and estimated an additional rate that would equalise management costs if all Services under the Future Partnership were supported. This results in an additional amount of management cost of just over 1.5% of Supported Services costs as additional variable management costs, and a rounded down assumption of 1.5% of Supported Services costs is included in this Financial Case for both the Reference Case and the Future Partnership.

Capital Requirement

Capital Expenditure and Asset Ownership

5.57 The Authority understands several risks associated with increasing the amount of capital expenditure spend on buses and bus depots, but also in relation to ownership of these assets.

5.58 These risks include:

(a) **Financial risk**: increasing capital expenditure on fleet and depots would require the Authority to either use its own reserves, which are limited and needed for other purposes, or borrow from external sources, which would incur interest and repayment obligations. The Authority would ensure that it has sufficient revenue to cover the operational costs of the Services, which may be affected by factors such as inflation, demand, and competition. These scenarios and sensitivities are tested within paragraphs 9 and 10. The Authority would also need to consider the impact of its borrowing on its debt cap limit and other prudential indicators;

(b) **Delivery risk**: increasing capital expenditure on fleet and depots would involve complex and large-scale procurement, construction, and transition processes, which could be subject to delays, cost overruns, and quality issues. The Authority would need to manage multiple contracts, suppliers, and stakeholders, and ensure that the new assets are compatible with the existing infrastructure and systems, and if not, invest in further capital expenditure to make them compatible. The Authority also needs to plan for contingencies and mitigate any disruption to the Services during the transition period; and

(c) **Asset risk**: increasing capital expenditure on fleet and depots would expose the Authority to the risk of depreciation, obsolescence, and damage of the assets. The Authority would ensure that the assets are maintained and upgraded to meet the changing needs and expectations of the passengers, regulators, and the Operators. The Authority would monitor and protect the value of the assets and consider the implications of owning or leasing the assets in terms of liability and flexibility.

Fleet and Depot

5.59 As described in the Fleet and Depot strategies in this Assessment, acquisition of assets is considered under the Reference Case and the Delivery Options. Paragraph 8 shows a scenario where the Authority does not own depots or vehicles.

5.60 For the Franchising Scheme, the Authority assumes it will make capital investments in both fleet and depot to support its wider Commercial Objectives under Franchising.

5.61 For the Future Partnership, the Authority assumes it will make capital investments in depot only, to support its wider Commercial Objectives.

5.62 For the Reference Case and the Future Partnership, all fleet is assumed to remain with the private sector.

5.63 It should also be noted that the amount of fleet purchased is assumed to be the same for the Reference Case and the Delivery Options, although the purchase mechanism is different between the Reference Case and the Future Partnership and the Franchising Scheme.

Approach to Authority Revenue Risk

5.64 Under the Delivery Options, the Authority would take on the revenue risk in the contracts (for example, gross cost contracts). This means that the Authority would pay the Operators a fixed and variable fee for running the Services and collect all the farebox revenue from passengers. This would give the Authority more control over the West Midlands Bus Network, fares, and ticketing, but also expose it to the uncertainty of demand and income, something which the Authority does not currently deal with.

5.65 There are several risks associated with the Delivery Options of taking on the revenue risk, as outlined in the Strategic Case.

5.66 Firstly, the Authority could overestimate the farebox revenue under the Reference Case and the Delivery Options and face a funding gap if the actual demand and income are lower than expected. This could be due to factors such as changes in travel patterns, economic conditions, competition from other modes, or external shocks such as another pandemic. In this case, the Authority will monitor and forecast the revenue performance closely and adjust the Service provision and/or the fares accordingly.

5.67 Another risk that the Authority may face is higher costs than anticipated for procuring and managing the Franchise Contracts. This could be due to factors such as inflation, changes in operating costs, legal challenges, or disputes with the Operators. The Authority will ensure that the contracts are designed and tendered in a way that minimises the risk of costs overrunning and maximises the VfM for the money available.

5.68 The Authority may face resistance or opposition from some stakeholders, such as the existing Operators, LAs, or passengers. This could be due to factors such as perceived loss of market share, cross-boundary Service issues, or dissatisfaction with the new fare structure or Service quality. The Authority plans to engage with these stakeholders through public consultation to address and alleviate any concerns and expectations, as well as communicate the benefits and rationale of the preferred Delivery Option.

Appraisal Period and Timing

5.69 The appraisal period for this Financial Case has been set at 15 years, beginning from April 2027 and ending in March 2042. The start date for this has been selected as it is the year in which Round 1 of the Franchising Scheme occurs. Any transitional costs associated with either alternative Delivery Options to the Reference Case before this date have been capitalised and amortised within the appraisal period.

5.70 The 15-year period has been selected for this Financial Case as it is the assumed bus life cycle and covers more than one of the assumed Franchising periods (seven years).

5.71 The model works on an April to March FY.

5.72 The model assumes a decision on the Franchising Scheme is made in March 2025, and a nine-month procurement period for each of Round 1, Round 2 and Round 3.

5.73 Mobilisation follows a similar timeline with a nine-month mobilisation period for Round 1 and then six months for Round 2 and Round 3.

6 Financial Case Analysis - the Reference Case

Introduction

6.1 The Reference Case is based on the continuation of the Authority's current Services arrangements set out in the Strategic Case and built up in the other business cases of this Assessment.

6.2 The structure of this paragraph 6 is as follows:

(a) description of the Authority's income relating to Services under the Reference Case;

(b) description of the Authority's expenditure relating to Services under the Reference Case; and

(c) the forecast financial impact on the Authority over the appraisal period.

Income - the Reference Case

6.3 Under the Reference Case, the Authority receives limited revenue from Services as a result of Services being predominantly run commercially by the Operators who collect and retain farebox revenue.

6.4 However, there are a number of income items to the Authority, including;

(a) Revenue from tendered Supported Services (on a net cost basis which effectively nets off to an expenditure line for the Authority) (see Table 4-13); and

(b) Sundry income which includes income from sales and advertising, rental income and payments from the Operators to use the Authority owned bus stations and parking income.

6.5 As well as the above items, the Authority also receives the Transport Levy from each of its LAs.

6.6 Table 4-13 sets out the income to the Authority under the Reference Case annually during the appraisal period.

Table 4-13: The Reference Case Income (nominal)

Income (£million)	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	2038/2039	2039/2040	2040/2041	2041/2042
Sundry Income	**9.9**	**10.1**	**10.3**	**10.5**	**10.7**	**10.9**	**11.1**	**11.3**	**11.5**	**11.8**	**12.0**	**12.3**	**12.5**	**12.8**	**13.0**
Total	**9.9**	**10.1**	**10.3**	**10.5**	**10.7**	**10.9**	**11.1**	**11.3**	**11.5**	**11.8**	**12.0**	**12.3**	**12.5**	**12.8**	**13.0**

Expenditure – The Reference Case

6.7 In the Reference Case, the Authority's expenditure is made up of the following items:

(a) Supported Services payments to the Operators;

(b) Concessionary travel payments to the Operators (ENCTS);

(c) The Authority staff costs (including bus station operations, passenger information, contract, network and data and compliance staff);

(d) Overheads (including IT hardware and software licence requirements, general administrative costs, publicity and marketing costs (net of Operator contributions));

(e) Additional Management Costs annually of £500,000 from 1st January 2025 to cover the cost of additional staff who would be required to manage the network resizing and additional Supported Services following the withdrawal of grant funding to the Operators; and

(f) Variable management costs (paragraph 5 above).

6.8 Table 4-14 sets out the expenditure to the Authority under the Reference Case annually during the appraisal period.

Table 4-14: The Reference Case Expenditure (nominal)

Expenditure (£million)	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	2038/2039	2039/2040	2040/2041	2041/2042
Payments															
Net Cost - Supported Services	29.5	33.8	35.1	39.4	41.8	45.1	48.2	50.3	52.6	55.4	57.8	59.4	61.3	62.8	65.3
ENCTS payments	49.2	49.3	47.9	46.8	45.0	44.4	44.2	42.5	42.0	41.7	42.2	42.8	43.3	43.5	44.2
Overheads															
Sundry Operating Costs	12.2	12.4	12.7	12.9	13.2	13.5	13.7	14.0	14.3	14.6	14.9	15.2	15.5	15.8	16.1
Staff Costs	13.5	13.8	14.3	14.6	14.9	15.2	15.5	15.8	16.1	16.4	16.7	17.1	17.4	17.8	18.1
Variable management costs	2.1	2.3	2.6	2.9	3.1	3.1	3.2	3.3	3.2	3.3	3.4	3.4	3.4	3.4	3.5

Expenditure (£million)	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	2038/2039	2039/2040	2040/2041	2041/2042
Total Gross Expenditure	106.5	111.7	112.6	116.6	117.9	121.2	124.7	125.9	128.2	131.5	135.0	137.9	140.9	143.2	147.2
Total Net Expenditure (Levy Required)	96.6	101.6	102.3	106.2	107.3	110.3	113.6	114.5	116.6	119.7	123.0	125.6	128.4	130.4	134.2

Income and Expenditure - Analysis

6.9 Supported Services net cost increases by 121.1% from £29.5 million in FY 2027/2028 to £65.3 million in FY 2041/2042.

6.10 The ENCTS payments are expected to decrease by 10.1% from £49.2 million in FY 2027/2028 to £44.2 million in FY 2041/2042. This is due to a significant drop off of commercial Services under the Reference Case to c.3% by the end of the appraisal period.

Asset Costs

6.11 Under the Reference Case, there is expected to be no acquisition of fleet by the Authority, therefore no capital costs are expected in the Reference Case. However, it is assumed the cost of private sector borrowing is captured within the contracts with the Operators. For fleet, it is assumed that the private sector cost of capital is 6.23%, based on benchmarking conducted of Operator bonds. Based on this, over a 15-year period, it is assumed the Authority will pay an additional c.10% cost than if they were to own fleet and finance through public sources of borrowing (public sector borrowing assumed at 5.09%, based on DMO fixed annuity rates).

6.12 Furthermore, there is expected to be no additional acquisition of depots to what the Authority already owns or will be completed before April 2027.

6.13 In the Reference Case and the Delivery Options, it is assumed that the same number of assets are acquired during the appraisal period, the method of acquisition changes depending on whether this is as part of the Reference Case or the Delivery Options.

Transition Costs

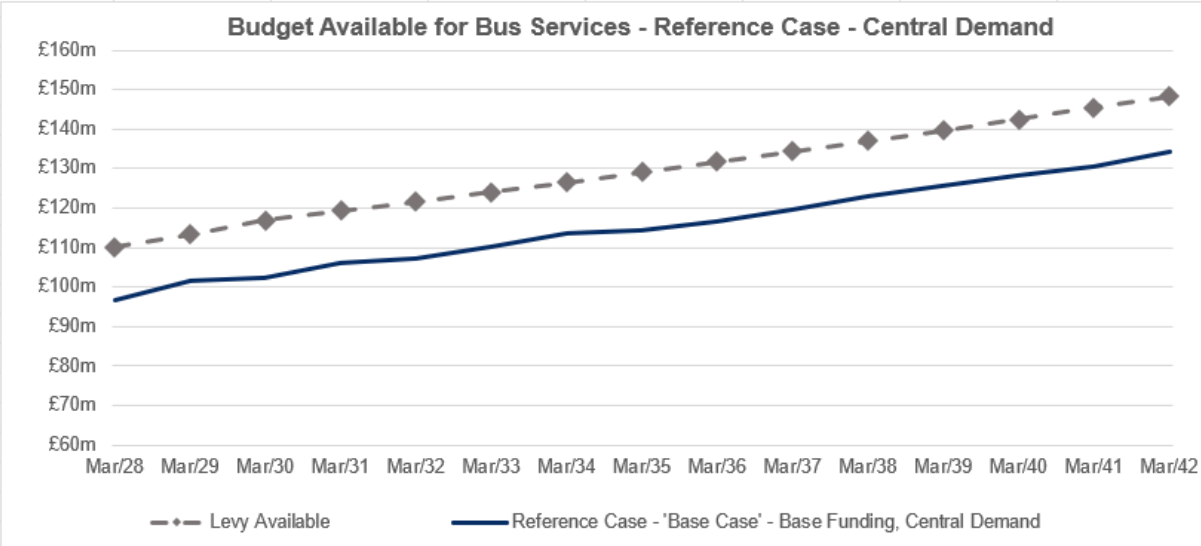
6.14 Under the Reference Case, there is expected to be no transitional costs required as the Reference Case is the 'do nothing' option and there are no fundamental changes to the Reference Case.

The Reference Case Results

6.15 Figure 4-7 shows the forecast profile of the overall budget available for Services, and the net amount available (after the Authority's internal costs) to pay the Operators concessionary travel and Supported Service payments. A full cash flow statement is included in the Financial Case Appendix.

6.16 It is important to note that Figure 4-7 shows that the Reference Case is ultimately affordable.

Figure 4-7: The Reference Case Transport Levy (£million, nominal)



6.17 In the Reference Case, there are no structural changes to the use of funds for the Authority, which effectively makes the Reference Case the 'do nothing' option.

6.18 However, Figure 4-8 shows that there is a significant reduction in demand over the appraisal period in the bus sector and this means that there is a fundamental shift in how the Authority spends the budget available for Services.

6.19 Figure 4-8 shows, in nominal terms, how the proportion of Commercial and Supported Services changes over time. In FY 2027/2028, it is assumed 55.3% of the Services by expenditure are Supported Services. By the end of the appraisal period in FY 2041/2042, the level of Supported Services increases to 96.8% with the remainder being commercial Services.

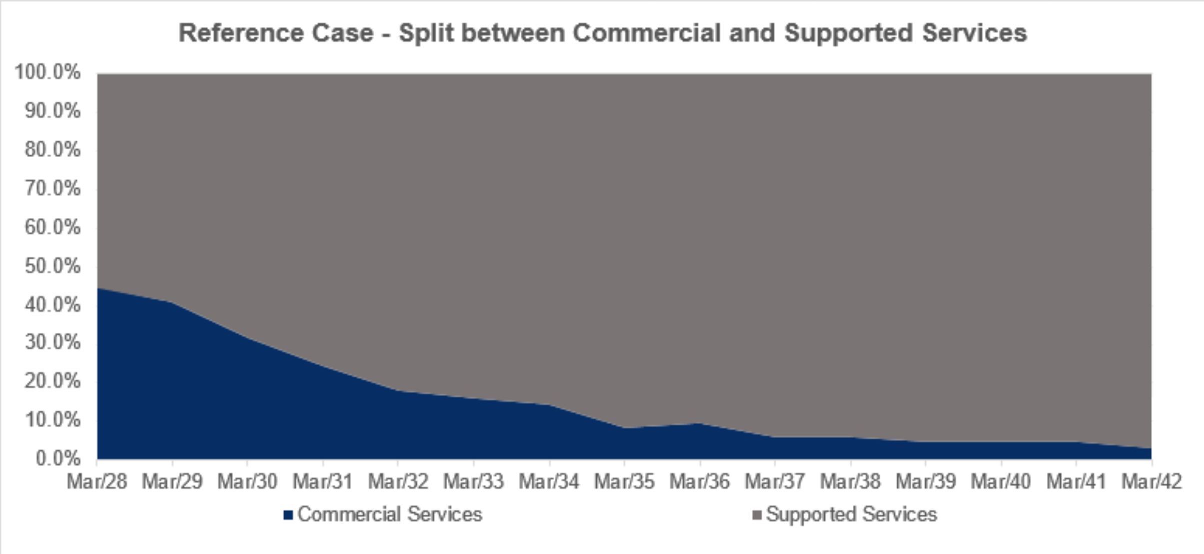
6.20 There are several effects that lead to this outcome over time:

(a) the profitability of commercial Services is reduced and therefore the Operators will shift to cutting commercial Services; and

(b) with the need for the Authority to show continued support to residents and provide Services, many of these former commercial Services will be paid for as Supported Services and require a higher level of subsidy.

6.21 The dramatic increase in the expense of Supported Services to the Authority is why, in the Reference Case, an additional variable management cost has been included to represent the increased administrative effort the Authority would undertake to manage more Supported Services.

Figure 4-8: The Reference Case - Split between Expenditure Commercial and Supported Services (nominal expenditure)



Impact on Passenger Numbers

6.22 As illustrated in Figure 4-9, under the Reference Case, there are c.166.9 million passenger journeys per annum in FY 2027/2028. By FY 2041/2042, passenger journeys per annum are forecast to be 40.1% lower at c.99.9 million.

6.23 The economic forecasting model works on the basis of maintaining an affordable West Midlands Bus Network. However, due to the decline in background demand, the number of commercial Services which are viable reduces over time (Figure 4-10).

6.24 Figure 4-9 shows a continual reduction in bus usage in the Authority's Region, which is consistent with assumptions outlined in the Strategic Case, the Commercial Case and the Economic Case. The reasons for this are due to:

(a) increases in car ownership across the Authority's Region, resulting in a shift away from bus towards private cars. Car usage increased by 15% between 1991 and 2017, whilst total bus kilometrage in the Authority's Region decreased by 3% during the same period;

(b) a reduction in the number of trips undertaken per person has contributed to the long-term decline in bus patronage. As a result of home working, improved telecommunications and other technological advances, there has been a reduced need for multiple trips to meet daily needs. This has resulted in the average number of trips per person falling by 20% over the past 20 years;

(c) the real-term cost of travelling by bus has significantly increased over the last two decades nationally;

(d) limited competition which has made the West Midlands Bus Network increasingly inefficient due to lower incentives for network improvement; and

(e) further details can be found in the Strategic Case.

6.25 The underlying assumptions outlined above lead to a long-term declining trend in passenger journeys. The consequences of this are:

(a) increasing costs of providing Services for Operators reduces the viability of many commercial Services and, over time, the Operators withdraw from many of these Services;

(b) as Supported Services increase, the Authority is constrained with a real terms static level of funding to fund the required Services which means the West Midlands Bus Network will struggle to recover over time; and

(c) both of the above consequences then lead to a cycle where there is less opportunity to travel on the network and therefore a further reduction in passenger numbers as alternatives are then found.

Figure 4-9: The Reference Case Passenger Journeys

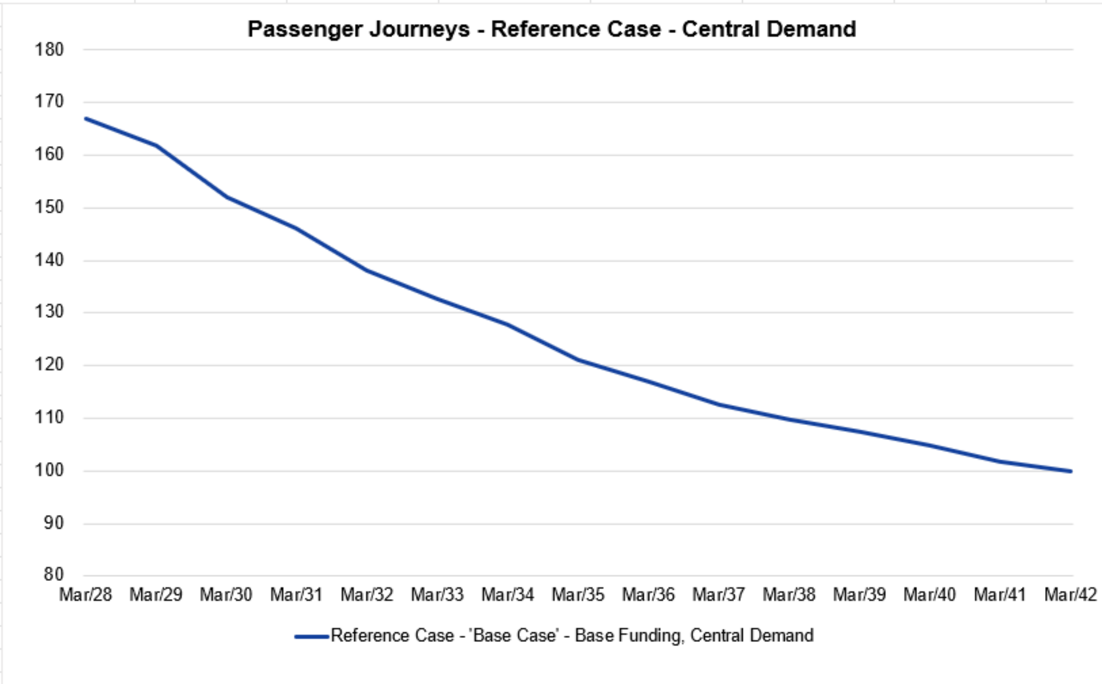
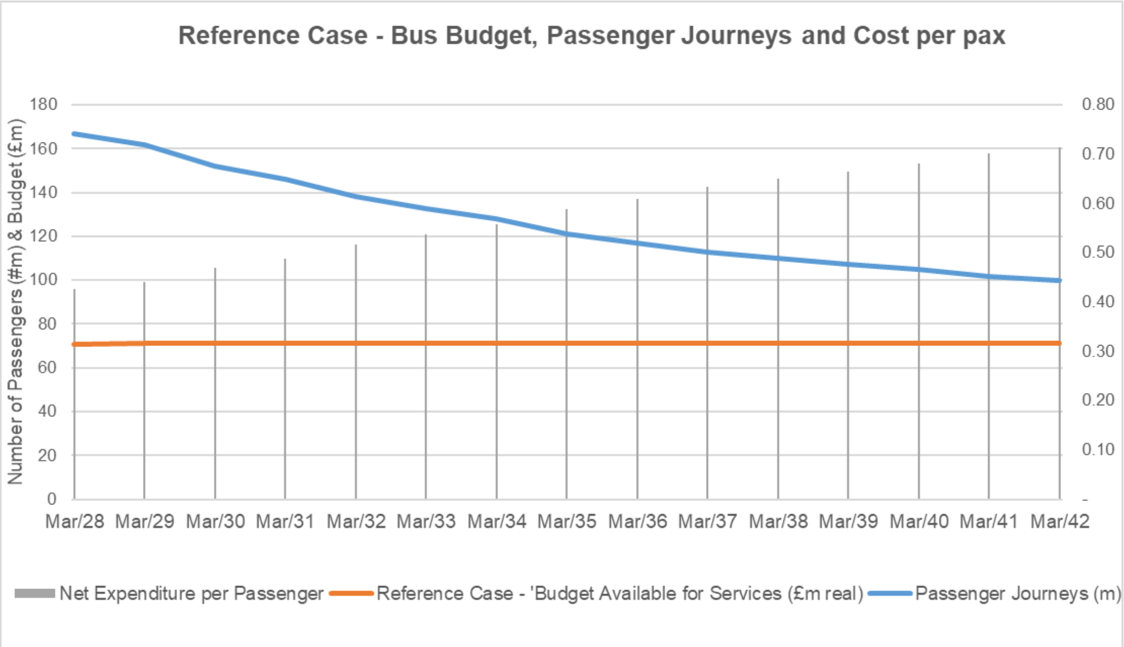


Figure 4-10: Bus Budget, Passenger Journeys and Cost per Pax



6.26 Figure 4-10 above shows how much it costs the Authority in real terms per passenger journey between FY 2027/2028 and FY 2041/2042. In FY 2027/2028, it can be seen that the Authority has a c.£71.2 million real budget available for Services. This amount gives the West Midlands Bus Network c.166.9 million passenger journeys. Therefore, the cost per journey for the Authority is c.£0.43/journey. As the number of Supported Services increases over time, and the Authority's budget does not increase in real terms, it is expected that the cost per journey would increase. Figure 4-10 shows that compared to FY 2027/2028, in FY 2041/2042, the real terms budget available remains at £71.4 million with c.99.9 million journeys per annum. Therefore, the cost per journey increases by 67.5% under the Reference Case to c.£0.71.

6.27 Further analysis on the impact on passenger journeys under multiple scenarios and sensitivities are shown in paragraphs 9 and 10.

The Reference Case Risk Analysis

6.28 Risks that the Operators and the Authority are exposed to under the Reference Case are well known as this is the current long-term operating model for the sector in the Authority's Region. In this system, the Operators take both revenue and operational risks in normal circumstances.

6.29 Under the Reference Case, the Authority takes risk on what it spends its budget on and this is primarily the Supported Services described in paragraph 4.

6.30 In paragraphs 9 and 10, further analysis is conducted to understand how changes in funding, demand and Supported Services margin would impact the Reference Case against the Delivery Options.

The Reference Case Conclusion

6.31 The primary conclusion of the above analysis is that if the Services are to remain affordable, there would need to be a reduction in Services, which will lead to a reduction not only in bus mileage, but also in passengers carried.

6.32 The Reference Case is important to consider for the purpose of providing a benchmark based on common assumptions for the alternative Delivery Options, and the following paragraphs provide a comparison to the Reference Case.

6.33 Table 4-15 sets out both the income and expenditure items under the Reference Case annually during the appraisal period alongside the net position and budget position.

Table 4-15: The Reference Case Summary Table

Summary (£million)	2027/2028	2028/2029	2029/2030	2030/2031	2031/2032	2032/2033	2033/2034	2034/2035	2035/2036	2036/2037	2037/2038	2038/2039	2039/2040	2040/2041	2041/2042
Income	9.9	10.1	10.3	10.5	10.7	10.9	11.1	11.3	11.5	11.8	12.0	12.3	12.5	12.8	13.0
Gross Expenditure	106.5	111.7	112.6	116.6	117.9	121.2	124.7	125.9	128.2	131.5	135.0	137.9	140.9	143.2	147.2
Net Expenditure	96.6	101.6	102.3	106.2	107.3	110.3	113.6	114.5	116.6	119.7	123.0	125.6	128.4	130.4	134.2
Budget Available for Services	110.2	113.4	116.9	119.3	121.6	124.1	126.6	129.1	131.7	134.3	137.0	139.7	142.5	145.4	148.3
Utilisation Percentage	96.6%	98.5%	96.3%	97.8%	97.0%	97.7%	98.5%	97.5%	97.3%	97.9%	98.6%	98.7%	98.8%	98.5%	99.3%

7 Financial Case Analysis - The Future Partnership

Introduction

7.1 The Future Partnership is similar to the Reference Case, with the Authority supporting an increasing level of Supported Services in the West Midlands Bus Network over time. However, the contracting structure would change under the Future Partnership. This is because a transition to the Future Partnership would move contracts from net cost to a gross cost basis, effectively pushing revenue risk to the Authority.

7.2 This paragraph 7 sets out the following details and results:

(a) Description of income from Services under the Future Partnership for the Authority;

(b) Description of expenditure relating to Services under the Future Partnership for the Authority; and

(c) The projected financial impact on the Authority (net position) over a 15-year period (the appraisal period).

Income - The Future Partnership

7.3 In the Future Partnership, income sources for the Authority have, although appear the same as the Reference Case, changed due to the move to gross contract. The Authority would receive the farebox revenue for Supported Services, increasing the amount of revenue flowing to the Authority. It is assumed that on commercial Services, the revenue risk would sit with the private sector.

7.4 Similar to the Reference Case, there are a number of additional income items to the Authority, including:

(a) revenue from tendered Supported Services (as described above in paragraph 6.3);

(b) BSOG;

(c) sundry income which includes income from sales and advertising, rental income and payments from Operators to use the Authority owned bus stations and parking income.

7.5 As well as the above items, the Authority also receives income in the form of the Transport Levy from each of its LAs.

7.6 Table 4-16 sets out the income to the Authority under the Future Partnership annually during the appraisal period.

Table 4-16: The Future Partnership Income

Income (£million)	2027/ 2028	2028/ 2029	2029/ 2030	2030/ 2031	2031/ 2032	2032/ 2033	2033/ 2034	2034 /2035	2035/ 2036	2036/ 2037	2037/ 2038	2038/ 2039	2039/ 2040	2040/ 2041	2041/ 2042
Supported Services Revenue	87.5	91.9	107.8	120.3	123.4	128.2	127.0	129.6	132.4	130.8	132.0	131.0	133.7	131.2	130.4
Sundry Income	9.9	10.1	10.3	10.5	10.7	10.9	11.1	11.3	11.5	11.8	12.0	12.3	12.5	12.8	13.0
Total	**97.4**	**102.0**	**118.1**	**130.8**	**134.1**	**139.1**	**138.1**	**140.9**	**144.0**	**142.6**	**144.0**	**143.3**	**146.2**	**144.0**	**143.4**

Expenditure – The Future Partnership

7.7 In the Future Partnership, the Authority's expenditure is made up of the following items:

(a) Supported Services payments to the Operators;

(b) Concessionary travel payments to the Operators (ENCTS);

(c) The Authority staff costs (including bus station operations, passenger information, contract, network and data and compliance staff);

(d) Overheads (including IT hardware and software licence requirements, general administrative costs; publicity and marketing costs (net of Operator contributions);

(e) Additional Authority staff costs of £0.8 million above the budgeted staff costs from 1 January 2025 to cover the cost of additional staff who would be required to manage the network resizing and additional Supported Services following the withdrawal of grant funding to the Operators. In addition, there is an additional £0.1 million of roles relating to the Authority's plan to own and operate a number of depots; and

(f) Variable management costs.

7.8 Unlike the Franchising Scheme, the Authority would not directly finance capital investment in fleet. However, similar to the Franchising Scheme and a diversion away from the Reference Case, the Future Partnership makes the Authority an owner of a number of new depots (paragraph 5).

7.9 Table 4-17 sets out the expenditure to the Authority under the Future Partnership annually during the appraisal period.

Table 4-17: The Future Partnership Expenditure

Expenditure (£million)	2027/ 2028	2028/ 2029	2029/ 2030	2030/ 2031	2031/ 2032	2032/ 2033	2033/ 2034	2034/ 2035	2035/ 2036	2036/ 2037	2037/ 2038	2038/ 2039	2039/ 2040	2040/ 2041	2041/ 2042
Payments															
Supported Services	117.1	125.3	142.6	159.5	164.8	172.8	174.3	179.0	183.8	184.8	188.8	189.5	193.9	192.5	193.9
ENCTS payments	49.2	49.4	48.0	47.2	45.4	45.0	44.8	43.3	43.0	42.1	42.7	43.3	44.0	44.2	44.7
Overheads															
Sundry Operating Costs	12.2	12.4	12.7	12.9	13.2	13.5	13.7	14.0	14.3	14.6	14.9	15.2	15.5	15.8	16.1
Staff Costs	13.8	14.2	14.6	14.9	15.2	15.5	15.8	16.1	16.5	16.8	17.1	17.5	17.8	18.2	18.5
Variable management costs	2.1	2.3	2.6	2.9	3.0	3.2	3.2	3.3	3.3	3.4	3.4	3.5	3.5	3.5	3.6
Total Gross Expenditure	**194.3**	**203.6**	**220.5**	**237.5**	**241.7**	**249.9**	**251.7**	**255.7**	**260.8**	**261.6**	**266.9**	**268.8**	**274.8**	**274.2**	**276.8**
Total Net Expenditure (Levy Required)	**96.9**	**101.6**	**102.4**	**106.7**	**107.6**	**110.8**	**113.7**	**114.8**	**116.9**	**119.0**	**122.9**	**125.6**	**128.6**	**130.2**	**133.4**

Income and Expenditure - Analysis

7.10 Compared to the Reference Case, the Authority receives Supported Services revenues due to the move to gross cost contracts. Net expenditure (income minus expenditure) under the Future Partnership increases by 37.6% from £96.9 million in FY 2027/2028 to £133.4 million in FY 2041/2042. However, in contrast to the Reference Case, under the Future Partnership, the net expenditure of Supported Services is c.£0.8 million lower in FY 2041/2042, £133.4 million compared to £134.2 million respectively.

7.11 Similar to the Reference Case, ENCTS payments under the Future Partnership are expected to decrease by 9.0% from £49.2 million in FY 2027/2028 to £44.7 million in 2041/2042. This is due to the level of commercial Services dropping to c.3.1% of total Services by the end of the appraisal period.

7.12 The net expenditure as a percentage of the gross expenditure is expected to decrease from 49.9% in FY 2027/2028 to 48.2% in FY 2041/2042. This is at a lower level than in the Reference Case which increases from 90.7% in FY 2027/2028 to 91.2% in FY 2041/2042. This indicates that the Future Partnership gives further improvement in the financial efficiency of the Supported Services.

Fleet Costs

7.13 Under the Future Partnership, the fleet is assumed to remain with the private sector. The impact of this has been modelled within the economic forecasting model. However, it is assumed that the private sector will continue to purchase fleet at the same rate.

Depot Investment

7.14 As has been identified in the Authority's depot strategy, the Future Partnership assumes investment in depot based on the following assumptions in relation to acquisition:

(a) Four planned depots acquired (Sandwell/Dudley, Coventry, South Birmingham and Wolverhampton) (see Table 4-18);

(b) Depot sites will be owned and managed by the Authority; and

(c) The acquisition date will be three years prior to when it is required operationally with some depots requiring a two-year build period (see Table 4-18);

7.15 Under the Reference Case and the Delivery Options, the Authority owns the Walsall depot which was acquired in December 2023 for c.£6.5 million.

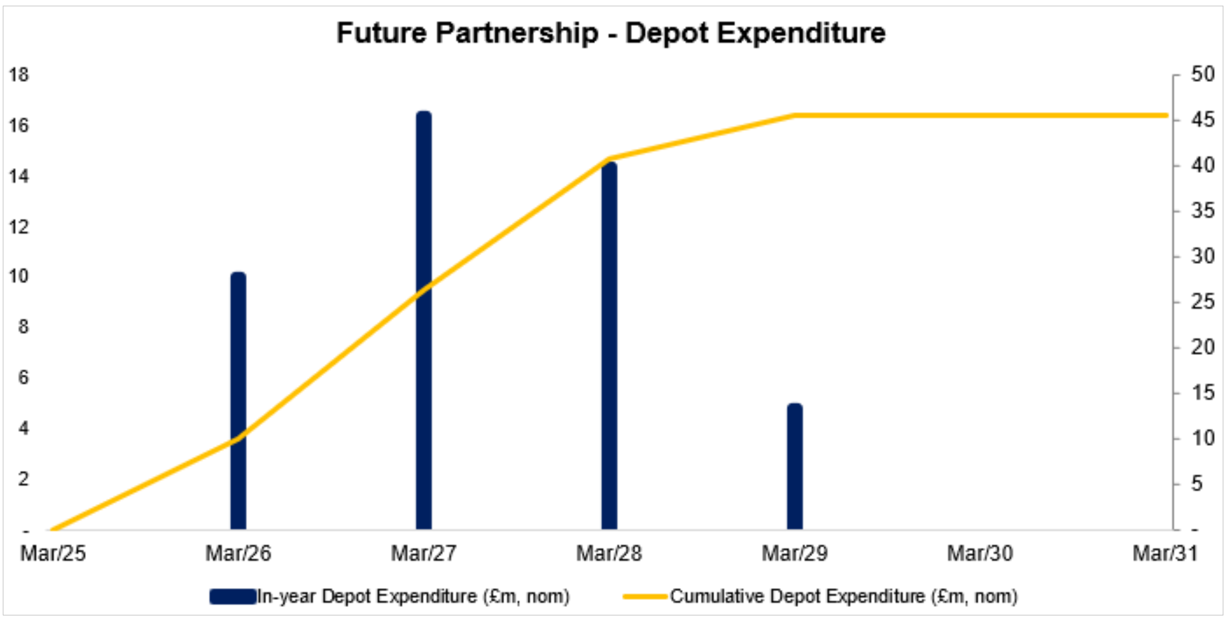
Table 4-18: Depot Acquisition

Partnership area	Approx Capital Investment (£million real)	Option(s)	Acquisition year	Two-year build period end year
Sandwell/ Dudley	£21.0	Peartree £7 million purchase, £14 million development	2025/2026	2027/2028
Coventry	£6.5	£3 million land and £3.5 million development	2025/2026	2027/2028
South Birmingham	£9.0	£4 million land £5 million development	2026/2027	2028/2029
Wolverhampton	£6.5	£3 million land £3.5 million development	2026/2027	2028/2029
Total	**£43.0**			

7.16 In the Future Partnership, the Authority considered a number of options for funding the capital spend on depots. Following internal consultation, the planned depots are expected to be funded out of grant funding (paragraph 3 above). Although this was a cash impact for the Authority overall, in this Assessment this has been captured as capital expenditure followed by grant funding at the same time, therefore a net zero impact which can be seen in the cash flow in the Financial Case Appendix.

7.17 The capital expenditure profile for the depots which will be acquired by the Authority can be seen in Figure 4-11:

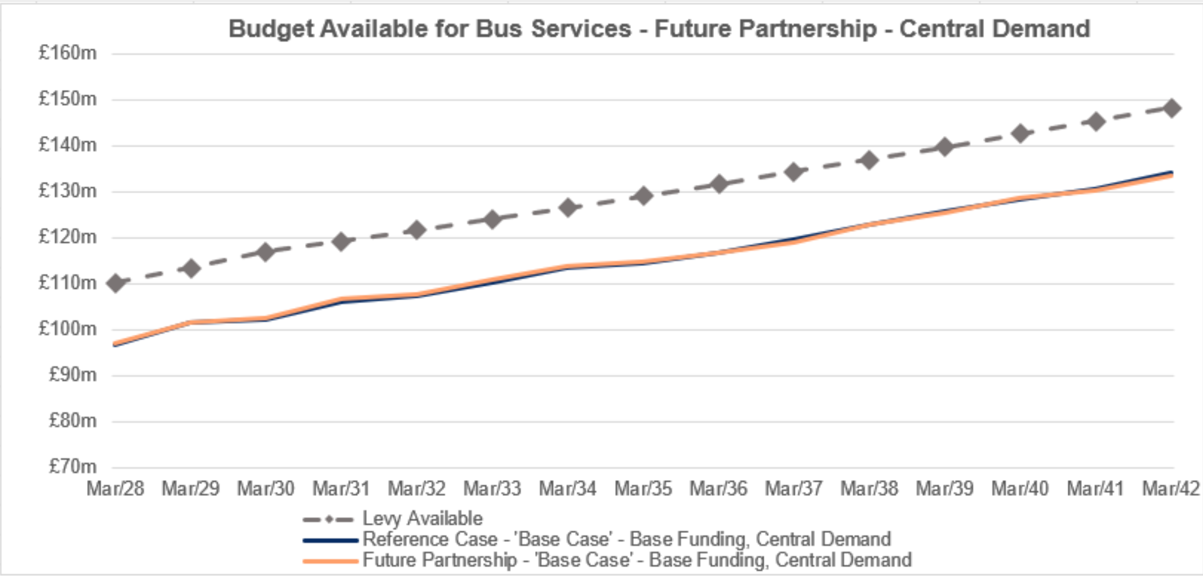
Figure 4-11: Depot Capital Expenditure



The Future Partnership Results

7.18 Figure 4-12 shows the forecast profile of the overall budget available for bus, and the net amount available (after the Authority's internal costs) to pay the Operators concessionary travel and Supported Service payments. When converted into real terms (using RPI), the amount available in FY 2022/2023 prices is consistent year on year. A full cash flow statement is included in the Financial Case Appendix.

Figure 4-12: The Future Partnership Budget for Services versus the Reference Case (£million, nominal)



7.19 In the Future Partnership, there are many changes compared to the Reference Case which are outlined in the Strategic Case.

7.20 An important consideration for the Future Partnership, which can be seen in Figure 4-12 is that the Future Partnership, like the Reference Case and the Franchising Scheme, is ultimately affordable for the Authority.

7.21 Under the Future Partnership, there is an increased level of revenue being received by the Authority due to the shift to gross contracts. However, the Authority then takes on an increased share of the revenue risk.

7.22 The main income and expenditure in the Future Partnership is mainly around Supported Services, which increases over time (Figure 4-13). Under the Future Partnership, Supported Services net expenditure (income minus expenditure) to the Authority is on average c.5% less across the appraisal period. This is mainly due to the Future Partnership looking to improve delivery of the fares and ticketing function to simplify the process. Further details can be seen in the Strategic Case.

7.23 Figure 4-13 shows, in nominal terms, how the proportion of commercial and Supported Services changes over time. Similar to the Reference Case, in FY 2027/2028, it is assumed 55.3% of the Services by expenditure are Supported Services. By the end of the appraisal period in FY 2041/2042, the level of Supported Services increases to 96.9% with the remainder being commercial Services.

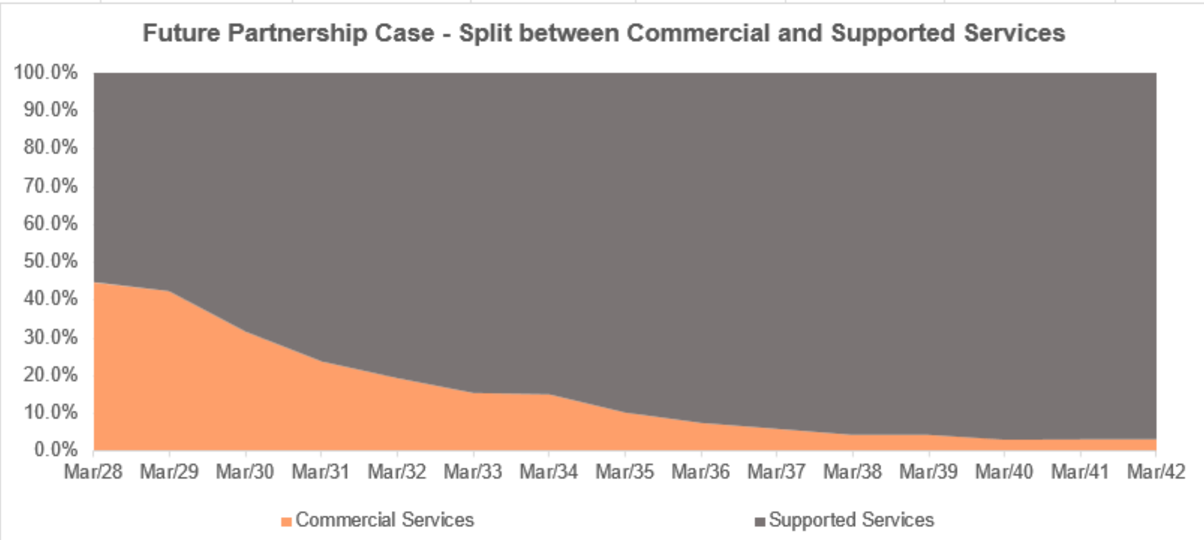
7.24 Similar to the effects on the Reference Case, there are several effects that lead to this outcome over time:

(a) The profitability of commercial Services is reduced and therefore the Operators will shift to cutting commercial Services;

(b) With the need for the Authority to show continued support to residents and provide Services, many of these former commercial Services will be paid for as Supported Services and require a higher level of subsidy; and

(c) The dramatic increase in the expense of Supported Services to the Authority is why, in the Future Partnership, an additional variable management cost has been included to represent the increased administrative effort the Authority would undertake to manage more Supported Services.

Figure 4-13: The Future Partnership - Split between Expenditure for Commercial and Supported Services



Passenger Numbers

7.25 Figure 4-14 shows that the Future Partnership is forecast to deliver greater numbers of passenger journeys than the Reference Case.

7.26 This is despite there being marginally less budget available for Services for the Future Partnership due to higher additional management costs for depot ownership.

7.27 Under the Future Partnership, there are c.166.9 million passenger journeys per annum in 2027/28. By FY 2041/2042, passenger journeys per annum are forecast to be 38.7% lower at c.102.4 million which is an increase of c.2.4 million passenger journeys over the Reference Case. Across the appraisal period, the Future Partnership delivers on average 2.1% (c.2.6 million) additional journeys per annum. Over the whole appraisal period, this equates to an additional 39.7 million journeys across the Authority's Region.

Figure 4-14: The Future Partnership Passenger Journeys, Central Demand

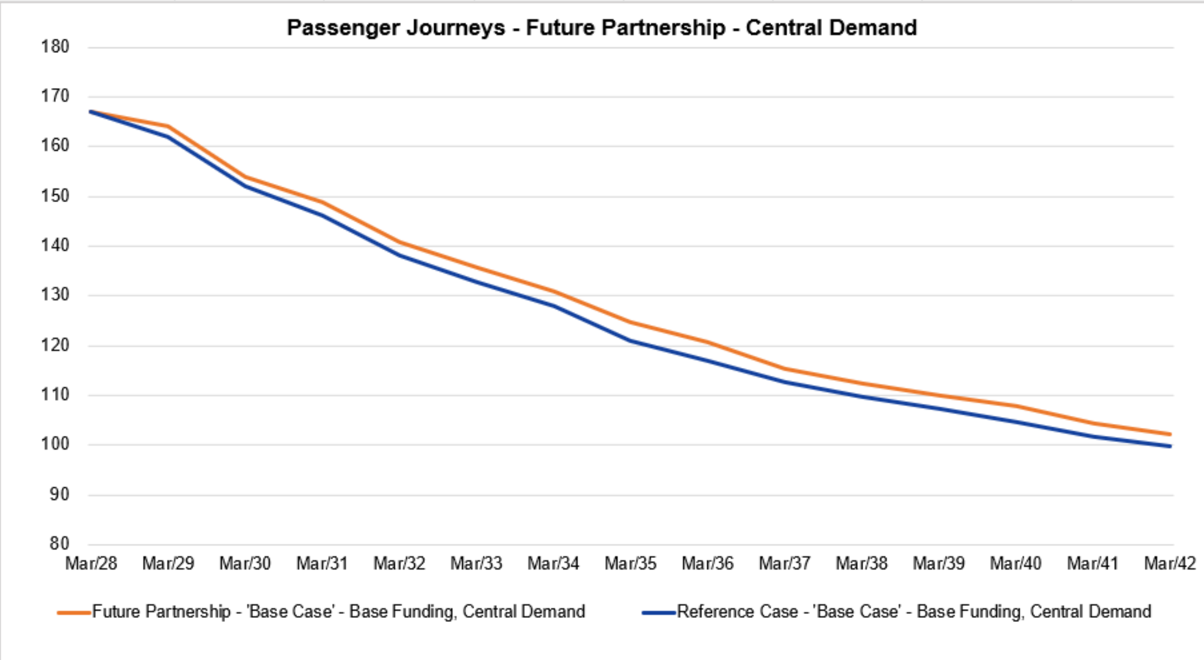
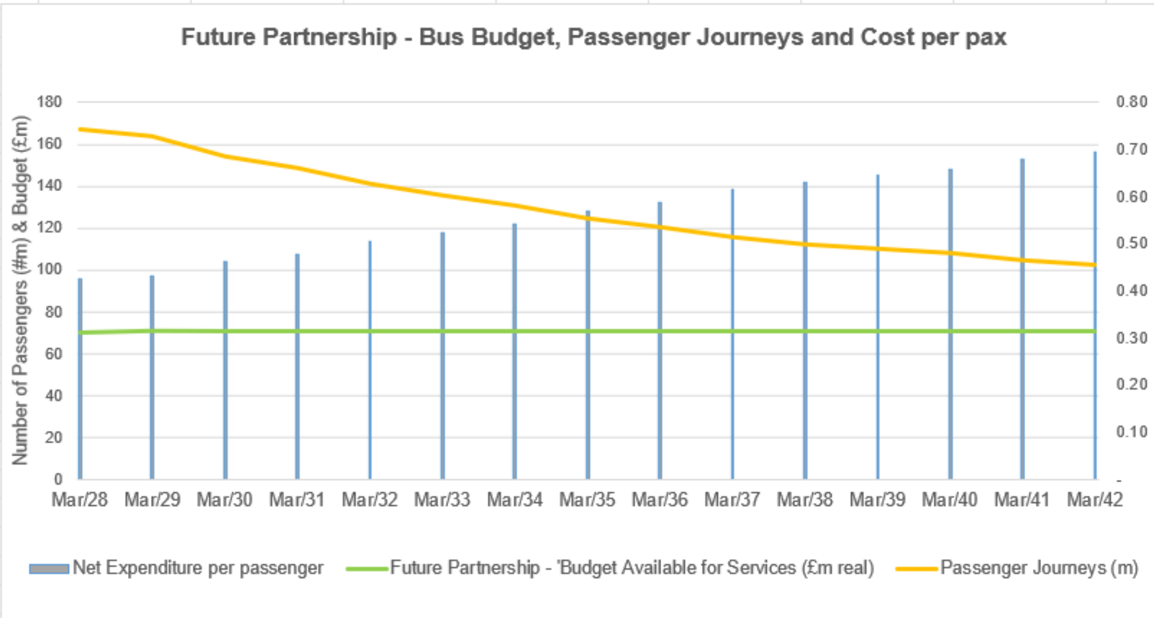


Figure 4-15: Bus Budget, Passenger Journeys and Cost per Pax



7.28 Figure 4-15 above shows how much it costs the Authority in real terms per passenger journey between FY 2027/2028 and FY 2041/2042. In FY 2027/2028, the Authority has a c.£70.9 million real budget available for Services compared to £71.2 million in the Reference Case (Figure 4-8). This gives the West Midlands Bus Network c.166.9 million passenger journeys in FY 2027/2028. Therefore, the cost per journey for the Authority is c.£0.42/journey. This is the same as the Reference Case as the Future Partnership fundamentally does not differ in the early periods from the Reference Case.

7.29 However, as the number of Supported Services increases over time, and the Authority's budget does not increase in real terms, it is expected that the cost per journey would increase. Figure 4-15 shows that compared to FY 2027/2028, in FY 2041/2042, the real terms budget available remains at £71.1 million with c.102.4 million journeys per annum. Therefore, the cost per journey increases by 63.6% under the Future Partnership to c.£0.69. Compared to the Reference Case, the percentage increase and cost per journey is lower, showing a more efficient use of Authority funding compared to the Reference Case.

7.30 Further analysis on the impact on passenger journeys under multiple scenarios and sensitivities are shown in paragraphs 9 and 10.

The Future Partnership Risk Analysis

7.31 The risks that the Operators and the Authority are exposed to under the Future Partnership include and expand on those that affect the Reference Case.

7.32 Moving to the Future Partnership from the Reference Case shifts the revenue risk to the Authority from the private sector for Support Services. This means that the Authority would assume the risk of revenue fluctuations. This means that if the revenue generated is less than expected, the Authority must bear the shortfall, which can strain its budget and financial resources. Furthermore, predicting revenue for the Authority can be difficult, and inaccuracies in forecasts can lead to budgeting challenges. The Authority may need to allocate additional funds as a contingency, which could limit the availability of funds for Services.

7.33 Under the Future Partnership, the Authority will own several planned depots. There is a risk to the Authority with acquiring depots, these include operation and maintenance costs of the depots as well as property value risk. Furthermore, there is an opportunity cost for the Authority to consider when going down the grant funding route, of what other projects could the grant fund.

7.34 In paragraphs 9 and 10, further analysis is conducted to understand how changes in funding, demand and Supported Services margin would impact the Future Partnership against the Reference Case and the Franchising Scheme.

The Future Partnership Conclusion

7.35 The primary conclusion of the above analysis is that, as with the Reference Case, if the Services are to remain affordable, there would need to be a reduction in Services, which will lead to a reduction in passengers carried.

7.36 However, compared with the Reference Case, the level of Service provided, and the number of passengers carried is greater.

Table 4-19: The Future Partnership Summary Table

Summary (£million)	2027/ 2028	2028/ 2029	2029/ 2030	2030/ 2031	2031/ 2032	2032 /2033	2033/ 2034	2034/ 2035	2035/ 2036	2036/ 2037	2037/ 2038	2038/ 2039	2039/ 2040	2040/ 2041	2041/ 2042
Income	97.4	102.0	118.1	130.8	134.1	139.1	138.1	140.9	144.0	142.6	144.0	143.3	146.2	144.0	143.4
Total Gross Expenditure	194.3	203.6	220.5	237.5	241.7	249.9	251.7	255.6	260.8	261.6	266.9	268.8	274.8	274.2	276.8
Net Expenditure	96.9	101.6	102.4	106.7	107.6	110.8	113.7	114.8	116.9	119.0	122.9	125.6	128.6	130.2	133.4
Budget Available for Services	110.2	113.4	116.9	119.3	121.6	124.1	126.6	129.1	131.7	134.3	137.0	139.8	142.5	145.4	148.3
Budget Utilisation	96.9%	98.5%	96.4%	98.2%	97.2%	98.1%	98.6%	97.7%	97.5%	97.4%	98.5%	98.6%	99.0%	98.3%	98.7%

8 Financial Case Analysis - the Franchising Scheme

Introduction

8.1 The Franchising Scheme represents a change in the management of Services in the Authority's Region, with the Authority having full control over the configuration of the West Midlands Bus Network, and the level of Services provided. Further details can be found in the Strategic Case.

8.2 This paragraph 8 sets out the following details and results for the Franchising Scheme:

(a) Description of income from Services under the Franchising Scheme for the Authority; and

(b) Description of expenditure relating to Services under the Franchising Scheme for the Authority.

The Results of the Projected Financial Impact on the Authority (net position)

Income - The Franchising Scheme

8.3 Under the Franchising Scheme, the Authority will be assumed to collect passenger farebox income from those Services under Franchise Contracts. The Authority will also be expected to pay the Operators to run Services in accordance with the contracts set out in the Franchise.

8.4 The income which would be retained by the Authority under the Franchising Scheme includes:

(a) farebox income from Services under Franchise Contracts (based on gross cost contracts);

(b) farebox revenue from Supported Services (prior to the full implementation of the Franchising Scheme) (based on gross cost contracts); and

(c) additional income (sundry income) that the Authority earns (this is consistent across the Reference Case and the Delivery Options).

8.5 Table 4-20 sets out the income to the Authority under the Franchising Scheme annually during the appraisal period.

Table 4-20: The Franchising Scheme Income

Income (£million)	2027/ 2028	2028/ 2029	2029/ 2030	2030/ 2031	2031/ 2032	2032/ 2033	2033/ 2034	2034/ 2035	2035/ 2036	2036/ 2037	2037/ 2038	2038/ 2039	2039/ 2040	2040/ 2041	2041/ 2042
Supported Services / Services under Franchise Contracts Services Revenue	109.9	150.3	176.4	167.9	163.3	160.3	156.6	154.6	152.2	147.1	146.1	145.0	143.3	143.2	141.3
Sundry Income	9.9	10.1	10.3	10.5	10.7	10.9	11.1	11.3	11.5	11.8	12.0	12.3	12.5	12.8	13.0
Total	**119.8**	**160.4**	**186.6**	**178.4**	**174.0**	**171.2**	**167.7**	**165.9**	**163.8**	**158.9**	**158.1**	**157.2**	**155.8**	**156.0**	**154.3**

Expenditure - The Franchising Scheme

8.6 Paragraphs 8.6 to 8.9 present the expenditure line items which would impact the Authority in the Franchising Scheme. The expenditure items under the Franchising Scheme which are different to those presented in the Reference Case and the Future Partnership include:

(a) payments to the Operators for Supported Services Contracts (prior to the Franchising Scheme implementation);

(b) payments to the Operators for Services under Franchise Contracts (from the Franchising Scheme implementation);

(c) transition costs for the transition to the Franchising Scheme including management and operation, branding and IT upgrades (paragraphs 8.10 to 8.13 below);

(d) an increased level of management costs compared to the Future Partnership and the Reference Case due to the increased level of control over the West Midlands Bus Network (paragraphs 8.21 to 8.26 below); and

(e) fleet and depot investment (paragraphs 8.27 to 8.40 below).

8.7 Table 4-21 sets out the expenditure to the Authority under the Franchising Scheme annually during the appraisal period.

Table 4-21: The Franchising Scheme Expenditure

Expenditure (£million)	2027/2028	2028/ 2029	2029/ 2030	2030/ 2031	2031/ 2032	2032/ 2033	2033/ 2034	2034/ 2035	2035/ 2036	2036/ 2037	2037/ 2038	2038/ 2039	2039/ 2040	2040/ 2041	2041/ 2042
Payments															
Supported Services	172.7														
Franchise Payments (incl fleet and transition financing)		219.0	257.5	250.5	247.6	247.5	245.2	245.8	245.1	239.9	242.9	243.8	243.8	246.4	246.1
ENCTS payments	17.7	6.7													
Overheads															
Sundry Operating Costs	12.2	12.4	12.7	12.9	13.2	13.5	13.7	14.0	14.3	14.6	14.9	15.2	15.5	15.8	16.1
Staff Costs	12.9	17.5	18.6	18.9	19.3	19.7	20.1	20.5	20.9	21.3	21.7	22.2	22.6	23.1	23.5

Expenditure (£million)	2027/2028	2028/ 2029	2029/ 2030	2030/ 2031	2031/ 2032	2032/ 2033	2033/ 2034	2034/ 2035	2035/ 2036	2036/ 2037	2037/ 2038	2038/ 2039	2039/ 2040	2040/ 2041	2041/ 2042
Total Gross Expenditure	**218.0**	**258.2**	**291.2**	**284.8**	**282.6**	**283.1**	**281.5**	**282.8**	**282.8**	**278.2**	**282.0**	**283.6**	**284.3**	**287.8**	**288.2**
Total Net Expenditure (Levy Required)	**98.2**	**97.9**	**104.6**	**106.5**	**108.6**	**112.0**	**113.8**	**116.9**	**119.0**	**119.3**	**123.9**	**126.4**	**128.5**	**131.8**	**134.0**

Income and Expenditure - Analysis

8.8 Compared to the Reference Case and the Future Partnership, a key element of the cost to the Authority is financing. Under the Franchising Scheme, the Authority is expected to finance an acquisition of fleet. The benefit of this is that there would be increased competition. It is assumed that the same level of fleet would be acquired under the Reference Case and the Delivery Options, where in the Reference Case and the Future Partnership, this would be undertaken by the Operators.

8.9 The impact of fleet costs has been considered within the economic forecasting model and has been represented within the cash flow in the Financial Case Appendix.

Transition Costs

8.10 The Franchising Scheme requires the Authority to make funds available for transition costs during the period prior to the award of the first Franchise Contracts.

8.11 Table 4-22 and Table 4-23 set out the assumed costs associated with the implementation and ongoing administration costs of a Franchising Scheme, to be incurred over the three-year implementation period commencing FY 2025/2026 and ending in FY 2027/2028.

8.12 Table 4-22 shows the component parts of the transitional costs in the Franchising Scheme totalling £17.5 million. The Authority has allocated £22.5 million towards transition to the Franchising Scheme. The expenditure amount of this totals £17.5 million (Table 4-22). A further £5 million would be used for Service support and is effectively additional funding. More details can be found in the Economic Case.

8.13 Further detail around each of the component parts of the £17.5 million is set out below.

Transition Management and Operation

8.14 Transition management and operation makes up over 50% of the assumed transitional costs within the Franchising Scheme. The key elements which fall under the transition management and operation include systems to manage Service Permits, bolt-on to systems which look after contract management and timetabling systems.

Branding/Marketing

8.15 During the implementation period, an educational campaign and launch is assumed to take place with costs assumed of £1 million in FY 2026/2027 and £3.0 million in FY 2027/2028. Alongside this campaign, the Authority will update branding on buses, depots plus a number of other assets at a cost of £1 million.

Advisory/Consultancy

8.16 The Authority has assumed costs of c.£2.3 million for advisory/consultancy services across the transitional period. These costs relate to the use of legal advisors/external advice in relation to TUPE/Pension issues which would arise following a decision to franchise.

Furniture

8.17 During the implementation period, the Authority would upgrade and acquire additional furniture within the offices housing staff running and operating the West Midlands Bus Network at a cost of c.£0.3 million. This is required to support the additional headcount within the Franchising Scheme.

IT provisional costs

8.18 The Authority has assumed that IT equipment such as computers, monitors, keyboards, printers, etc would be upgraded at a cost of c.£0.8 million.

8.19 Upgrades to digital channels also have been included within IT provisional costs, these costs would cover the development of web functionality, decommissioning of the Operator apps, set-up of social media channels and set up/integration of a customer relationship management system.

8.20 It has been assumed by the Authority that all transitional costs can be financed through public sector borrowing. The transitional costs have been assumed to be financed through PWLB with repayments assumed to be spread over 15-years starting in FY 2027/2028 (when the first Franchise Contracts commence).

Table 4-22: Assumed Transition Costs for the Franchising Scheme

Implementation costs	**2025/2026**	**2026/2027**	**2027/2028**	**Total**
£million real, 2023/2024				
Transition Management and Operation	4.3	4.8	0.6	**9.7**
Branding/Marketing	-	1.0	3.0	**4.0**
Advisory/Consultancy	0.8	1.2	0.3	**2.3**
Assets	0.1	0.3	0.1	**0.5**
Furniture	0.1	0.1	0.1	**0.3**
IT provisional costs	0.1	0.3	0.4	**0.8**
Total	**5.4**	**7.7**	**4.5**	**17.5**

Management Costs

8.21 Under the Franchising Scheme, all the direct costs that the Authority incurs under the Reference Case would continue. On top of these direct costs, there is also forecasted to be additional management costs. From the year after all Rounds have been contracted, it is expected that there will be an additional management cost of £4.2 million (real FY 2023/2024) which is inflated by RPI over the appraisal period.

8.22 It should be noted that in the Franchising Scheme, the additional management costs associated with the Franchising Scheme are effectively positions that already exist within the Operators under the Reference Case. These positions are expected to be transferred to the Authority and therefore Operators and the Authority will have limited, if any, duplicated roles.

8.23 Table 4-23 sets out the assumed number of proposed posts to run the West Midlands Bus Network and the associated costs for these new posts for the Franchising Scheme.

8.24 The Authority has looked at the number of roles needed within the Bus Team directly and also then other functions within transport and the wider Authority.

8.25 The additional roles within the Bus Team include, but are not limited to:

(a) Bus Performance Managers and Specialists;

(b) Bus Intelligence Manager and Specialist;

(c) Network Managers;

(d) Services and routes Planning Managers plus Services and routes Planning Leads;

(e) Administration Support roles;

(f) Customer Intelligence Team roles;

(g) Digital Advisors; and

(h) Commercial Managers.

8.26 The Authority have also looked at other functions within transport and the wider Authority which would be needed to staff and manage the West Midlands Bus Network should the Authority decide to franchise. These additional roles would be in the following areas:

(a) IT support;

(b) Environment and Sustainability;

(c) Commercial analysis;

(d) Finance;

(e) Health and Safety; and

(f) Human Resources.

Table 4-23: Assumed staffing requirement and associated Costs for the Franchising Scheme

Additional staffing requirement and associated costs during transition	2025/2026	2026/2027	2027/2028	2028/2029	2029/2030
£million real, 2023/2024					
Number of additional FTEs - Bus Team	27	3	35	9	4
Number of additional FTEs - other functions within transport and the wider Authority	10	6	46	15	11
Additional management costs (£million)	**1.0**	**2.6**	**3.6**	**3.8**	**4.2**

Fleet and Depot

8.27 The Franchising Scheme would assume that the Authority makes capital investments in the ZEB fleet and depots. These investments include:

(a) **Fleet investment:** investment in the Authority owned diesel and ZEB fleet; and

(b) **Depot investment**: investment in the acquisition of new or existing depots and supporting zero-emissions infrastructure.

8.28 Having control over these assets allows the Authority to establish a level playing field for competition between the Operators and new market entrants.

8.29 Depots are assumed to be purchased or developed before Franchise Contracts are let. The ZEB fleet is assumed to be purchased when the novated NX fleet and existing diesels reach the year of their economic life (15 years). Further detail is provided in the depot and fleet strategies.

8.30 The Franchising Scheme assumes that newly acquired ZEBs and diesel buses and associated infrastructure will be funded through a combination of CRSTS grant funding and financing using Prudential Borrowing. The assumptions made regarding the capital cost of the fleet are set out below.

8.31 For depots, it is assumed that capital costs relating to newly acquired depots will be grant funded through CRSTS.

Fleet Investment

8.32 For the financial analysis shown in this Financial Case, only the financial impact of new Authority acquired ZEBs and diesels are shown. This is due to Franchise Contracts novated from NX not expected to have a cash flow impact due to their back-to-back nature and the fact that lease payments will be passed directly to Operators under the Franchise Contracts.

8.33 At the first round of the Franchising Scheme FY 2027/2028, the Authority will novate 600 existing or planned NX ZEBs which are either in operation in the Authority's Region or have been committed by NX. Some of these vehicles are supported by subsidies (for example, ZEBRA funding). There is the opportunity to access these vehicles either through the terms of a Grant Funding Agreement (which provide the Authority with the ability to access vehicles in the event of a Franchising decision), or through commercial negotiation for those non-grant funded vehicles. This will see the Authority novate lease arrangements from NX to the Authority, which would then be sub-leased to the Operators on the same terms. For the Financial Model, it is assumed these have no cash impact.

8.34 At the same time as the Authority novates the NX vehicles, the Authority has identified the opportunity to access the existing Operator vehicles currently operating in the Authority's Region. This option would involve the direct acquisition of the existing diesel fleet by the Authority to provide to the Operators under the terms of Franchise Contracts. The Authority will purchase vehicles which are up to 15 years old and will be utilised until they reach their useful economic life of 15 years assumed for this Assessment. The Authority will seek to acquire 895 diesel vehicles in FY 2027/2028 for £86,000/vehicle (real FY 2023/2024). This equates to c.£77 million of capital cost with the vehicles assumed to be financed through PWLB.

8.35 In addition to novated ZEB and diesel bus, the Authority under the Franchising Scheme will look to acquire new ZEBs based on a replacement cycle once the NX ZEBs and diesel bus life expire. The profile of which can be seen in Figure 4-16.

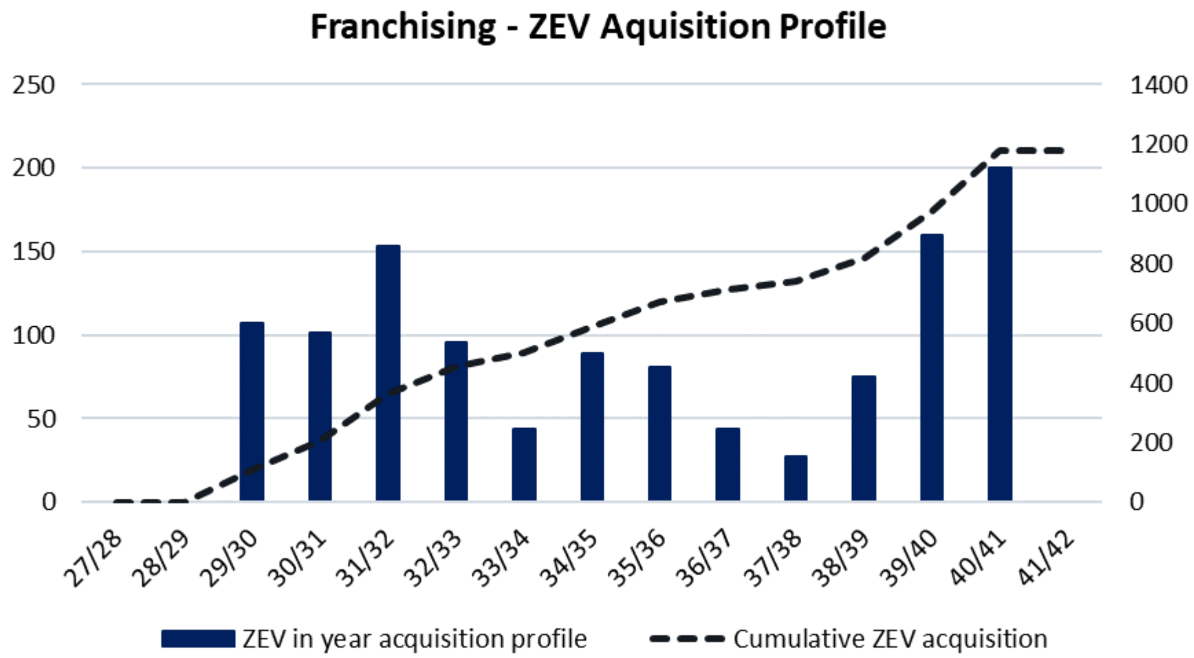
8.36 The ZEB acquisition schedule is based on the following cost assumptions within the Fleet strategy:

(a) The assumed weighted average gross cost of a ZEB for the purposes of this Financial Case is £487,863 with the average cost of a new diesel bus being £230,000. As part of making the fleet operational, there is expected to be an additional £60,000 fit out cost per ZEB;

(b) It is assumed that c.75% (although this may vary year on year) of the difference in price between a ZEB (£487,863) and a new diesel vehicle (£230,000) will be grant funded, which equates to £193,397 per vehicle. The remaining amount of £294,466 will be financed through Prudential Borrowing, and an associated annuity repayment profile; and

(c) The remaining amount of capital to be financed through Prudential Borrowing based on 1,177 ZEBs is assumed to be £346.6 million in real terms. It's important to note that in the Reference Case and the Delivery Options, it is assumed these vehicles would be acquired. In the Franchising Scheme, the Authority is assumed to be the purchasing entity whereas in the Future Partnership and the Reference Case, the Operators would be the purchaser. Sensitivities on the impact of Operator owned fleet can be seen in paragraph 10.

Figure 4-16: ZEB acquisition profile



(d) The financial cost of the fleet is expected to take into account the acquisition profile of fleet detailed below with specific milestone payments the Authority will pay to the third party, these are:

(i) 20% deposit on order (24 months before operation);

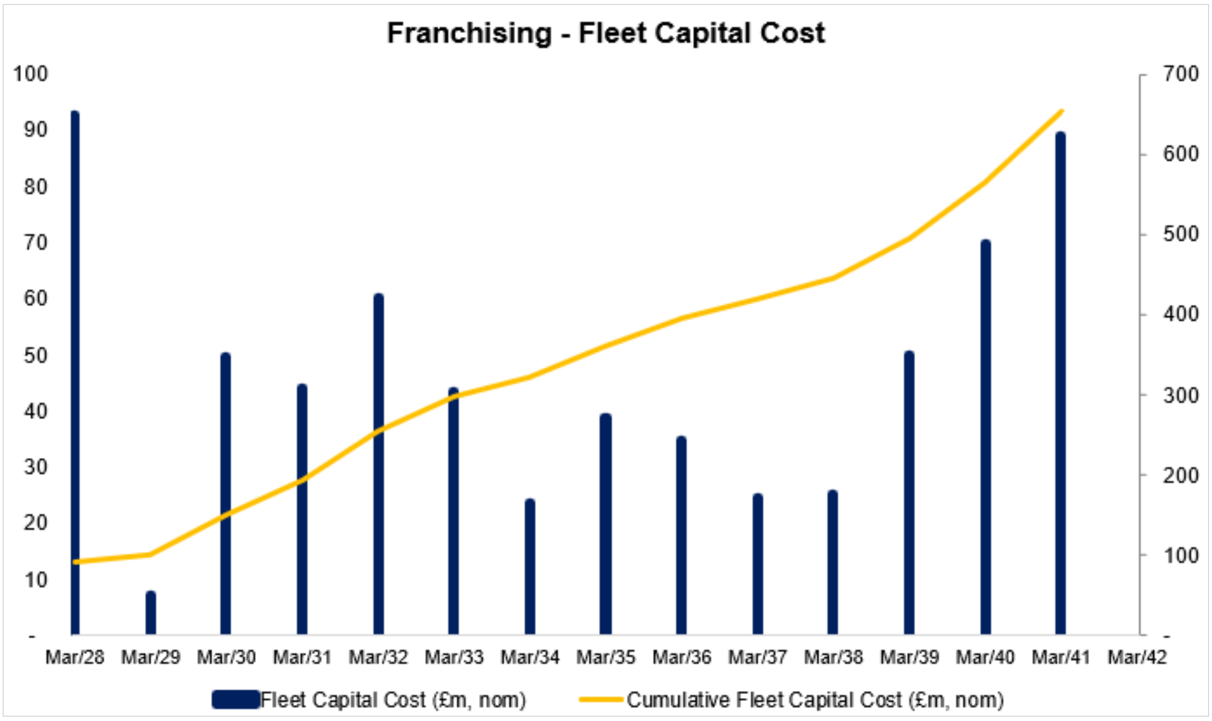
(ii) 60% on inspection (c.one month before delivery); and

(iii) 20% on delivery.

8.37 For the purposes of this Assessment, and within the financing costs included in the economic forecasting model, a simplifying assumption has been assumed where all fleet is paid for in the same period as delivery. This is a prudent assumption compared to milestone payments due to the impact of inflation. The actual milestone profile of fleet payment will be unknown until commercial arrangements with manufacturers are agreed.

8.38 The capital expenditure profile of fleet can be seen in in Figure 4-17:

Figure 4-17: Fleet Capital Expenditure



Depot Investment

8.39 As has been identified in the Authority's depot strategy, the Franchising Scheme assumes investment in depots based on the following assumptions in relation to acquisition:

(a) Nine planned depots acquired directly or via a leasehold arrangement (Wolverhampton, Perry Barr (N Birmingham), Coventry, Sandwell / Dudley, Sandwell / Dudley, Sandwell / Dudley, Solihull, East Birmingham, South Birmingham) (see Table 4-24);

(b) Depot sites will be owned and managed by the Authority; and

(c) The costs associated with depots assumed to be leaseholds are captured within the economic forecasting model. This Financial Case only explicitly highlights the capital and grant impact of depot ownership.

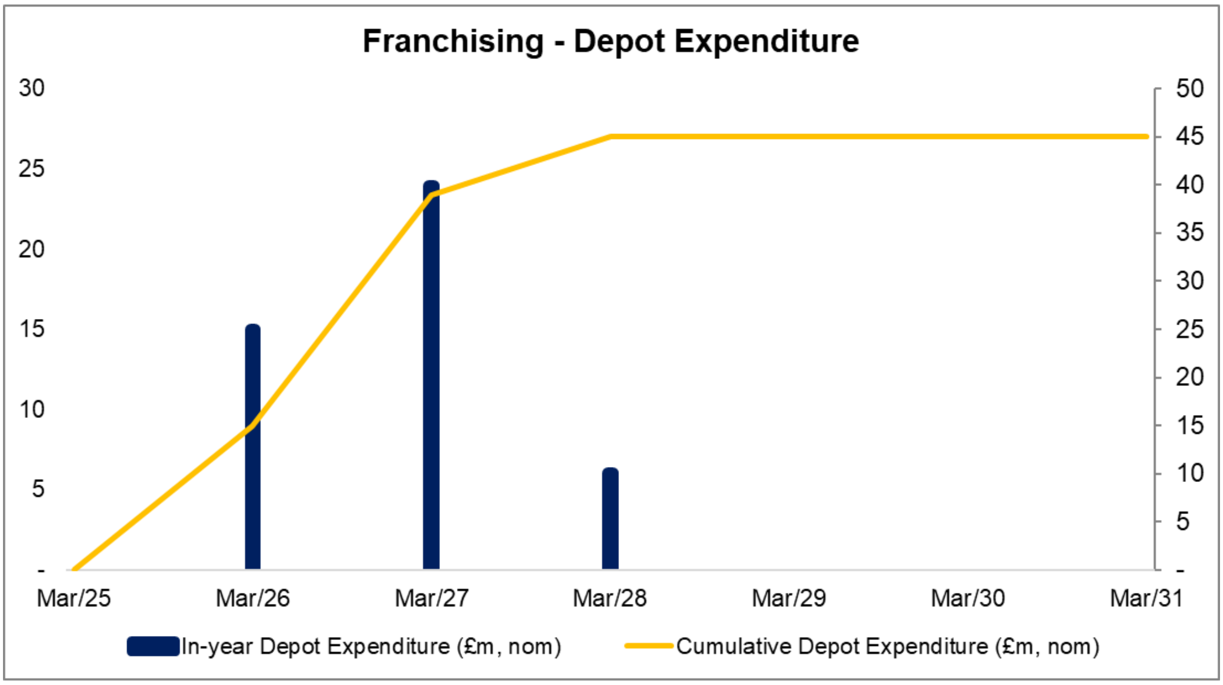
Table 4-24: Depot Acquisition

Partnership area	Approx Capital Investment (£million real)	Option(s)	Acquisition year	Two-year build period end year
Wolverhampton	£4.4	Acquire from NX, keep as depot and lease back	2026/2027	n/a
Perry Barr (North Birmingham)	£15.0	Acquire from NX, keep as depot and lease back	2025/2026	n/a

Partnership area	Approx Capital Investment (£million real)	Option(s)	Acquisition year	Two-year build period end year
Coventry	Leasehold	Transfer lease on existing site with Coventry County Council to the Authority from NX.	2025/2026	n/a
Sandwell / Dudley	£4.5	Acquire Tividale (full site) from Rotala.	2026/2027	n/a
Sandwell / Dudley	£11.0	New depot- Total Park, Oldbury. £8m purchase, £3m development.	2026/2027	2027/2028
Sandwell / Dudley	Leasehold	Pensnett owned by third party. Either acquire lease / agreement to transfer lease, or freehold. Location possibly suboptimal.	2026/2027	n/a
Solihull	£4.4	NX own Acocks Green. Possibly acquire and lease back but needs to be considered in context of possible new site(s).	2027/2028	n/a
East Birmingham	£5.5	Requirement for new site(s) to replace Bham Central – engage with BCC, also other options (for example, former Lea Hall depot).	2026/2027	2028/2029
South Birmingham	Leasehold	Yardley Wood owned by third party, either acquire lease of freehold / agreement to transfer lease, though site not ideal, so consider in context of new site.	2027/2028	n/a
Total	**£44.8**			

8.40 The capital expenditure profile for the depots which will be acquired by the Authority can be seen in Figure 4-18:

Figure 4-18: Depot Capital Expenditure

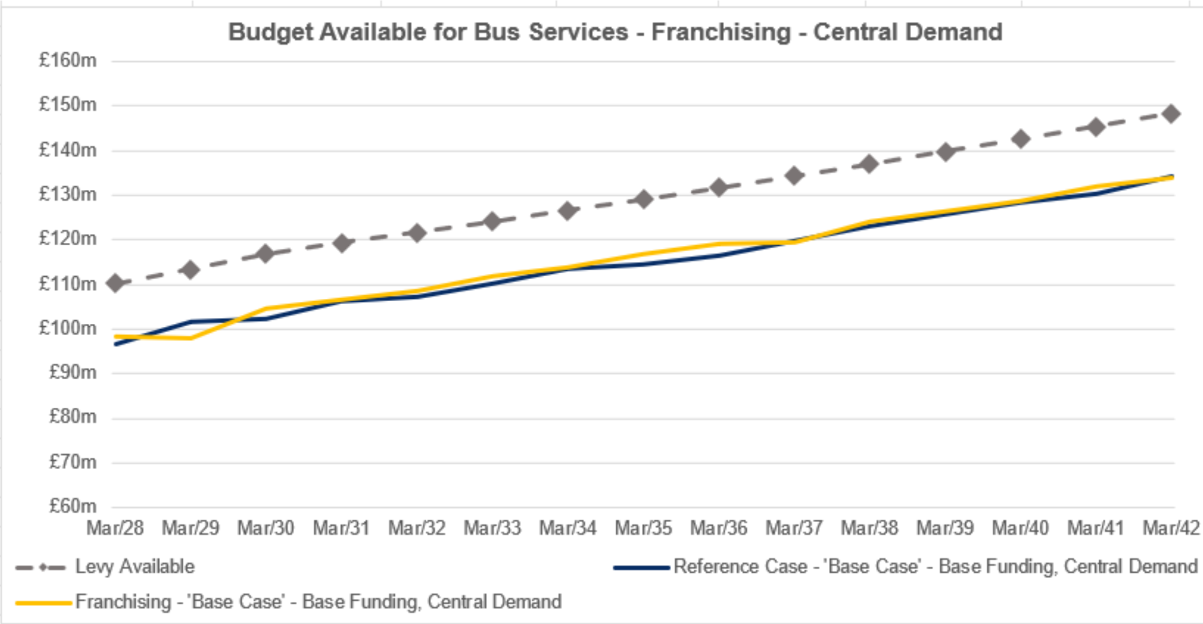


The Franchising Scheme Results

8.41 Figure 4-19 shows the forecast profile of the overall budget available for bus, and the net amount available (after the Authority's internal costs) to pay for Services under Franchise Contracts. When converted into real terms (using RPI) the amount available in FY 2022/2023 prices is similar year on year, however it alters by the changes in transitional cost debt service. A full cash flow statement is included in the Financial Case Appendix.

8.42 The Franchising Scheme represents a change to the management of the West Midlands Bus Network in the Authority's Region compared to the Reference Case. Details of these changes are outlined in the Strategic Case.

Figure 4-19: The Franchising Scheme Budget for Services (£million, nominal)

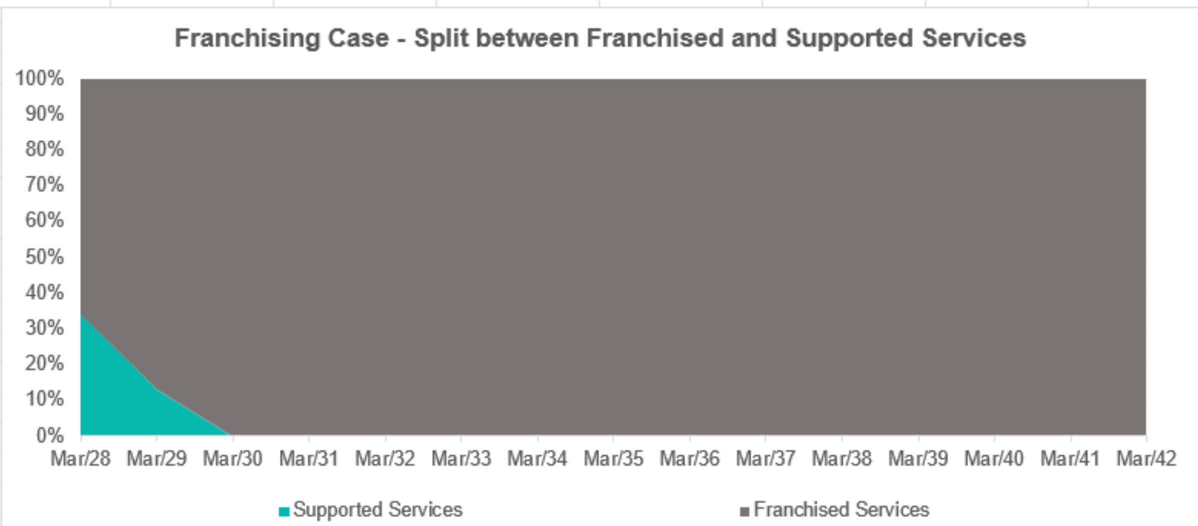


8.43 An important consideration for the Franchising Scheme, which can be seen in Figure 4-19 is that the Franchising Scheme, like the Reference Case and the Future Partnership, is ultimately affordable for the Authority.

8.44 Under the Franchising Scheme, similar to that of the Future Partnership, there is an increased level of revenue being received by the Authority due to the shift to gross contracts. However, the Authority then takes on an increased share of the revenue risk.

8.45 Figure 4-20 shows, in nominal terms, how the proportion of Services under Franchise Contracts and Supported Services changes over time. In a fundamental shift from the Reference Case, in FY 2027/2028, it is assumed 65.6% and 87.0% in FY 2028/2029 of the Services by expenditure are Supported Services. The following period (FY 2029/2030), it is assumed all Services are Services under Franchise Contracts which continue until the end of the appraisal period and beyond.

Figure 4-20: The Franchising Scheme - Split between Expenditure for Commercial and Supported Services



Passenger Journeys

8.46 Figure 4-21 shows that the Franchising Scheme is forecast to deliver greater numbers of passenger journeys than the Reference Case and the Future Partnership.

8.47 This is despite there being less budget available for Services for the Franchising Scheme due to higher additional management costs and transitional costs.

8.48 Under the Franchising Scheme, there are c.169.6 million passenger journeys per annum in FY 2027/2028. This is initially a reduction compared to the Reference Case and the Future Partnership due to additional start-up costs of Franchising. As with all the Reference Case and the Delivery Options, by FY 2041/2042, passenger journeys per annum are forecast to be 36.7% lower at c.107.4 million per annum. Compared to the Reference Case and the Future Partnership, albeit at the end of the appraisal period, the Franchising Scheme is due to have more passenger journeys per annum with c7.5 million and c.5.1 million additional passenger journeys compared to the Reference Case and the Future Partnership respectively.

8.49 Across the appraisal period, the Franchising Scheme delivers on average 5.9% additional journeys per annum above the Reference Case and on average 3.7% additional journeys above the Future Partnership. Over the whole appraisal period, this equates to an additional 111.2 million and 71.6 million journeys across the Authority's Region compared to the Reference Case and the Future Partnership respectively.

Figure 4-21: The Franchising Scheme Passenger Journeys

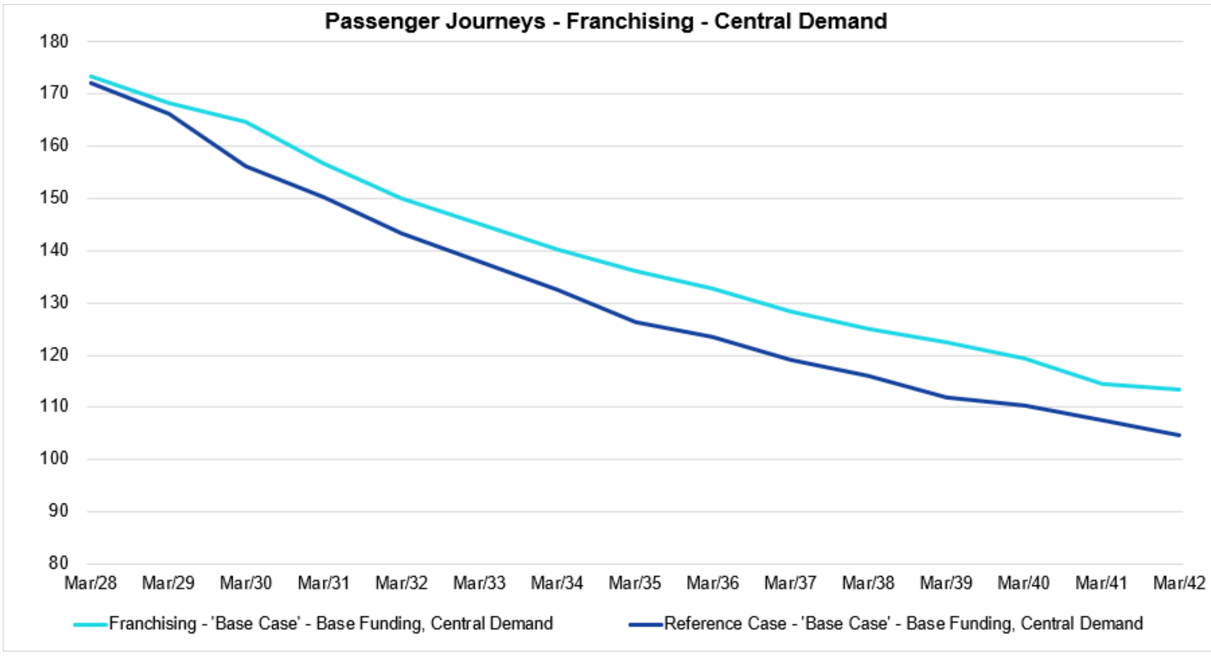
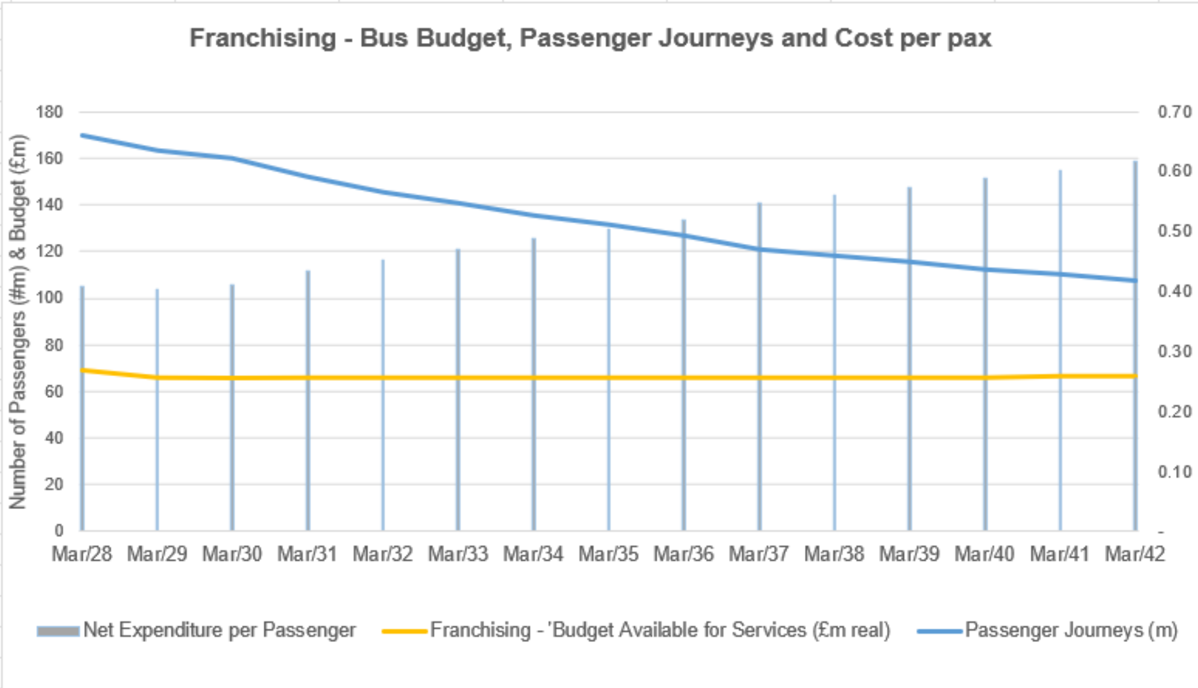


Figure 4-22: Bus Budget, Passenger Journeys and Cost per Pax



8.50 Figure 4-22 above shows how much it costs the Authority in real terms per passenger journey between FY 2027/2028 and FY 2041/2042. In FY 2027/2028, it can be seen that the Authority has a c.£69.5 million real budget available for Services compared to £71.2 million in the Reference Case (Figure 4-8). This amount gives the West Midlands Bus Network c.169.6 million passenger journeys in FY 2027/2028. Therefore, the cost per journey for the Authority is c.£0.41/journey.

8.51 However, as passenger numbers decrease over time, and the Authority's budget does not increase in real terms, it is expected that the cost per journey would increase. Figure 4-23 shows that compared to FY 2027/2028, in FY 2041/2042, the real terms budget available remains relatively stable at c.£66.4 million (increase on FY 2027/2028 due to lower debt service) with c.107.4 million journeys per annum. Therefore, the cost per journey increases by 50.9% under the Franchising Scheme to c.£0.62/journey. Compared to the Reference Case and the Future Partnership, the percentage increase and cost per journey is lower, showing a more efficient use of Authority funding.

8.52 Further analysis on the impact on passenger journeys under multiple scenarios and sensitivities are shown in paragraphs 9 and 10.

The Franchising Scheme Risk Assessment

8.53 As with the Future Partnership, the Franchising Scheme is exposed to the risks of changes in demand and changes in funding. The impact of these on the level of passengers carried, and a comparison with the Reference Case and Future Partnership on a like for like basis is shown in paragraph 9.

8.54 The margins to be charged on Franchise Contracts are uncertain, and paragraph 10 shows the impact of changes in these margins.

8.55 Unlike the Reference Case and Future Partnership, the Franchising Scheme has the Authority purchasing fleet. Paragraph 10 shows the impact of changes in the costs of assets, and the costs of financing them. In addition, paragraph 10 shows the impact of increases in additional transitional and management costs associated with the Franchising Scheme.

The Franchising Scheme Conclusion

8.56 The primary conclusion of the above analysis is that the Franchising Scheme maintains a higher level of bus passengers carried than the Reference Case and the Future Partnership for the same level of affordability.

8.57 Like the Reference Case, there would need to be a reduction in Services over time, if the Service is to remain affordable, but the level of passenger journeys would continue to be higher under the Franchising Scheme. Achieving this outcome depends on the successful management of risk in transitioning to the Franchising Scheme.

Table 4-25: The Franchising Scheme Summary Table

Summary (£million)	2027/ 2028	2028/ 2029	2029/ 2030	2030/ 2031	2031/ 2032	2032/ 2033	2033/ 2034	2034/ 2035	2035/ 2036	2036/ 2037	2037/ 2038	2038/ 2039	2039/ 2040	2040/ 2041	2041/ 2042
Income	119.8	160.4	186.6	178.4	174.0	171.2	167.7	165.9	163.8	158.9	158.1	157.2	155.8	156.0	154.3
Total Gross Expenditure	218.0	258.2	291.2	284.8	282.6	283.1	281.5	282.8	282.8	278.2	282.0	283.6	284.3	287.8	288.2
Net Expenditure	98.2	97.9	104.6	106.5	108.6	112.0	113.8	116.9	119.0	119.3	123.9	126.4	128.5	131.8	134.0
Budget Available for Services	110.2	113.4	116.9	119.3	121.6	124.1	126.6	129.1	131.7	134.3	137.0	139.7	142.5	145.4	148.3
Budget Available for Services	98.1%	95.2%	98.3%	98.0%	98.1%	99.0%	98.7%	99.3%	99.2%	97.6%	99.2%	99.2%	98.9%	99.4%	99.1%

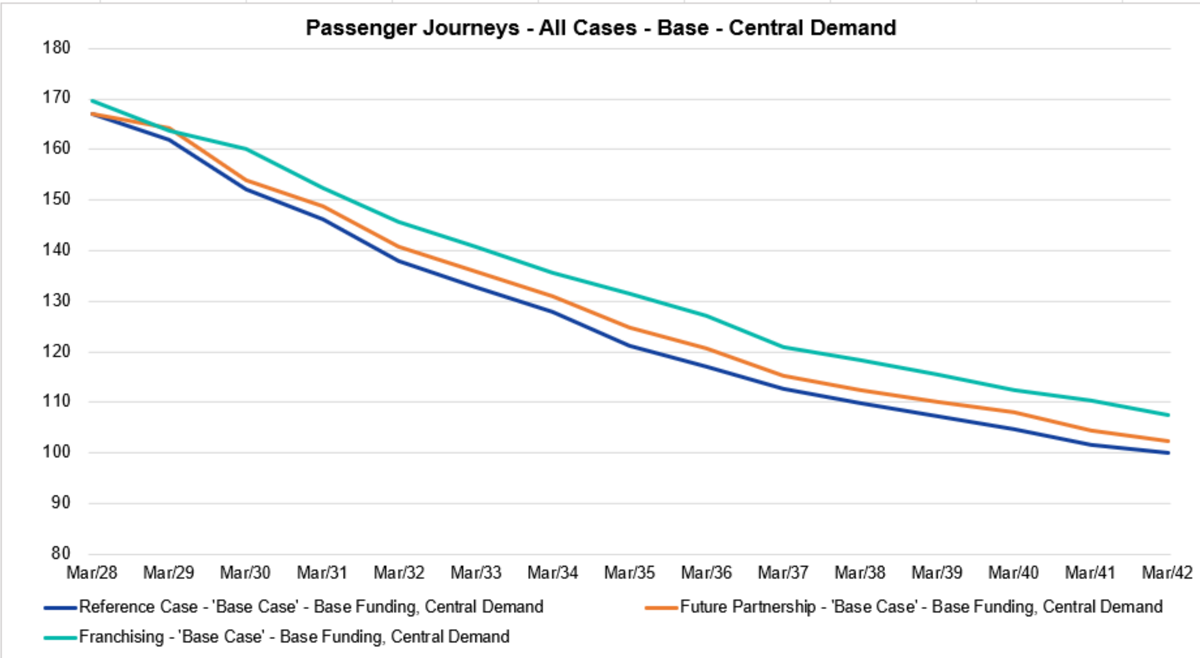
9 The Reference Case and the Delivery Options Scenario Comparison

Introduction

9.1 The results set out in paragraphs 6 to 8 for the Delivery Options, plus the Reference Case modelled across this Financial Case are all based on a central case for both demand and funding. Figure 4-23 shows the comparison of journeys provided under the Reference Case and the Delivery Options.

9.2 This paragraph 9 shows the comparison between the Reference Case and the Delivery Options, as well as the different scenarios modelled within the economic forecasting model. The scenarios are described in Table 4-7.

Figure 4-23: Passenger Journeys for the Reference Case and the Delivery Options, Base Funding and Central Demand Scenarios



Base Case Funding and Demand

9.3 Figure 4-23 shows that the Franchising Scheme creates more passenger journeys than the Reference Case and the Future Partnership under the Base Funding, Central Demand scenario. The Franchising Scheme has on average more passenger journeys per annum across the appraisal period with c.7.4 million and c.4.8 million additional passenger journeys compared to the Reference Case and the Future Partnership respectively. The Reference Case and the Delivery Options show a similar decline in passenger journeys due to lower expected demand over the period.

9.4 The graph shows us there is a ranking between each of the Reference Case and the Delivery Options in terms of the number of passengers carried, this may not be the same for all demand and budget outcomes. This has been tested by comparing the Reference Case and the Delivery Options under different scenarios.

Demand Scenarios

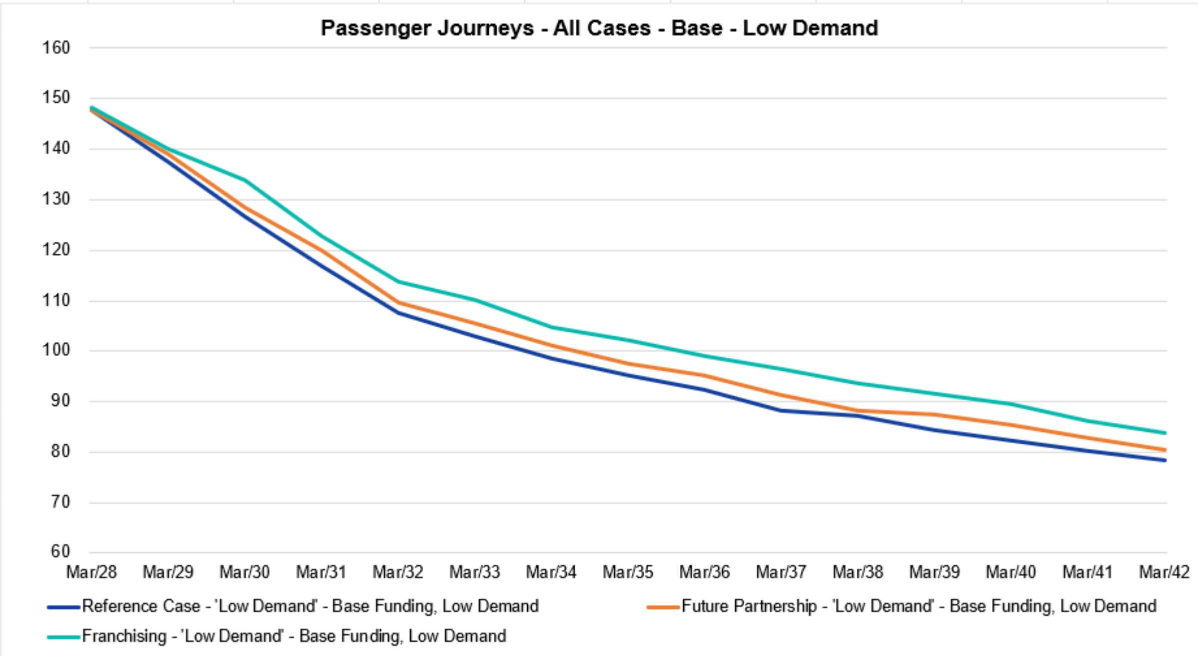
9.5 Paragraphs 5.12 to 5.15 set out the demand scenarios which have been tested as part of this Assessment for higher and lower demand scenarios, reflecting uncertainty in the bus market. Under the Reference Case and the Delivery Options, there continues to be a decline in network patronage over time.

9.6 The demand downside and upside scenarios show a 15% increase and decrease by year five of the Franchising Scheme (FY 2031/2032) which increases steadily by 3% year on year until 15% is reached.

9.7 Within the demand scenarios, the model assumes the Authority maintains the same level of budget available for the Reference Case and the Delivery Options.

9.8 Figure 4-24 shows the outcome for passenger journeys in the demand downside case. The graph shows that under the downside demand scenario, the ranking of the Franchising Scheme, the Future Partnership and the Reference Case would be maintained as per the central demand scenario. The scenario shows that the Franchising Scheme has an average of 6.4% more journeys than the Reference Case. Furthermore, the results in Table 4-26 show that the Future Partnership maintains an increased patronage of 2.4% over the Reference Case.

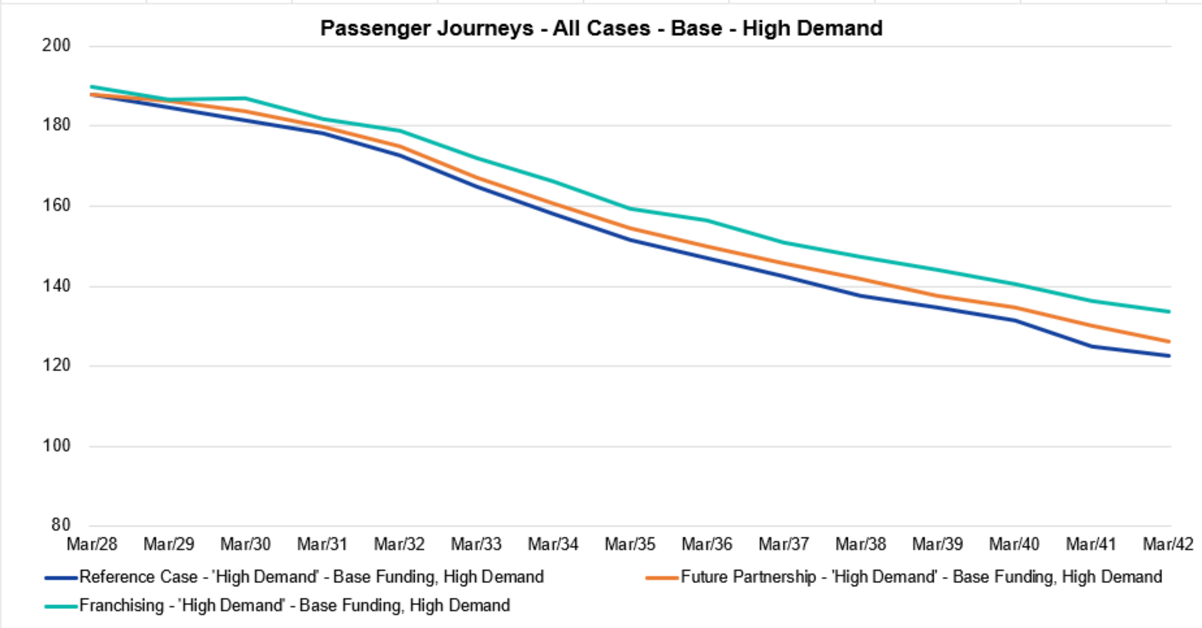
Figure 4-24: Passenger Journeys for the Reference Case and the Delivery Options, Base Funding and Low Demand Scenarios



9.9 Figure 4-25 shows a similar result, but for the high demand scenario. Similar to the downside demand scenario, the ranking is maintained across the Reference Case and the Delivery Options in the upside demand scenario.

9.10 Table 4-26 identifies that in the upside demand scenario, the Franchising Scheme maintains the highest level of bus patronage increase over the Reference Case at 5.1%, however, the amount of headroom over the Reference Case drops as the gap between the Delivery Options gets closer together.

Figure 4-25: Passenger Journeys for the Reference Case and the Delivery Options, Base Funding and High Demand Scenarios



9.11 Table 4-26 shows the average percentage difference from the Reference Case in the level of passengers provided by each of the Delivery Options under the three demand scenarios, and the Base Funding Scenario.

Table 4-26: Additional Passenger Journeys over the Reference Case, Base Funding and All Demand Scenarios

Additional Passengers Over the Reference Case			
Funding Scenario	Demand Scenario	The Future Partnership	The Franchising Scheme
Base	Low	2.4%	6.4%
Base	Central	2.2%	6.2%
Base	High	1.9%	5.1%

9.12 Table 4-26 indicates that while the level of passenger journeys is clearly affected by the general level of market demand, the Future Partnership and particularly the Franchising Scheme consistently provide more passenger journeys than the Reference Case.

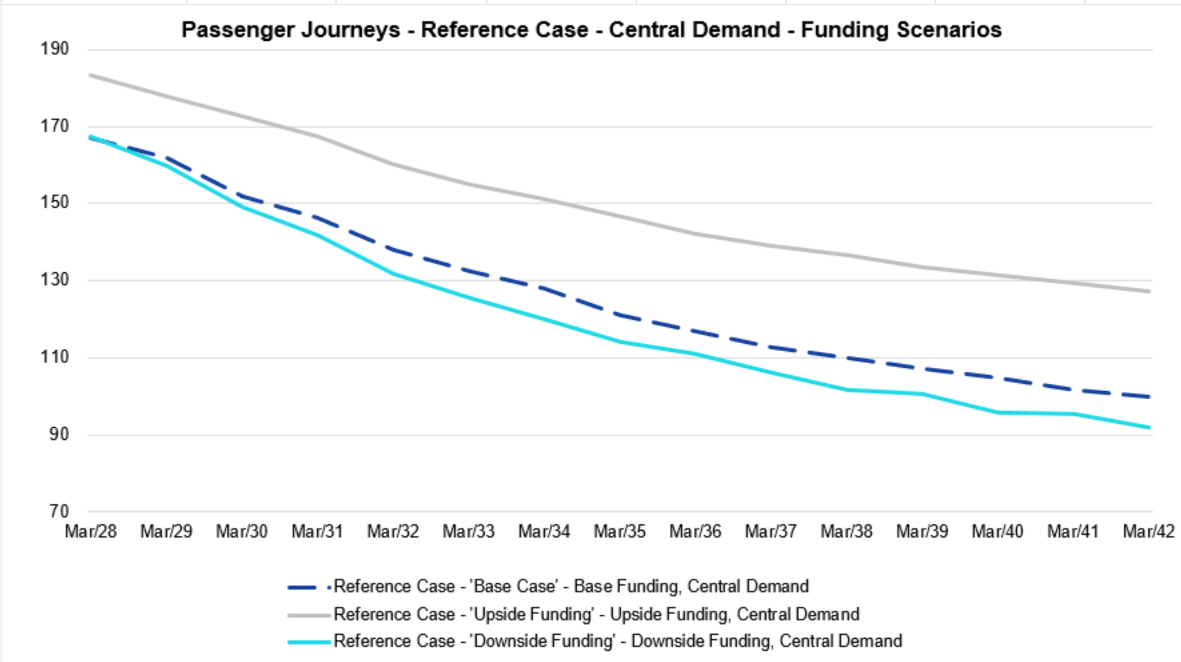
Funding Scenarios

9.13 Alongside uncertainty in demand for bus usage, there is also uncertainty regarding the budget available to support Services. For the purposes of the graphs, the funding scenarios have been shown at Base, Upside and downside.

9.14 Paragraphs 5.30 to 5.34 describe the basis of the assumptions used for the higher and lower levels of budget. It is important to note that these are not predictions, but different assumptions to test the robustness of the analysis.

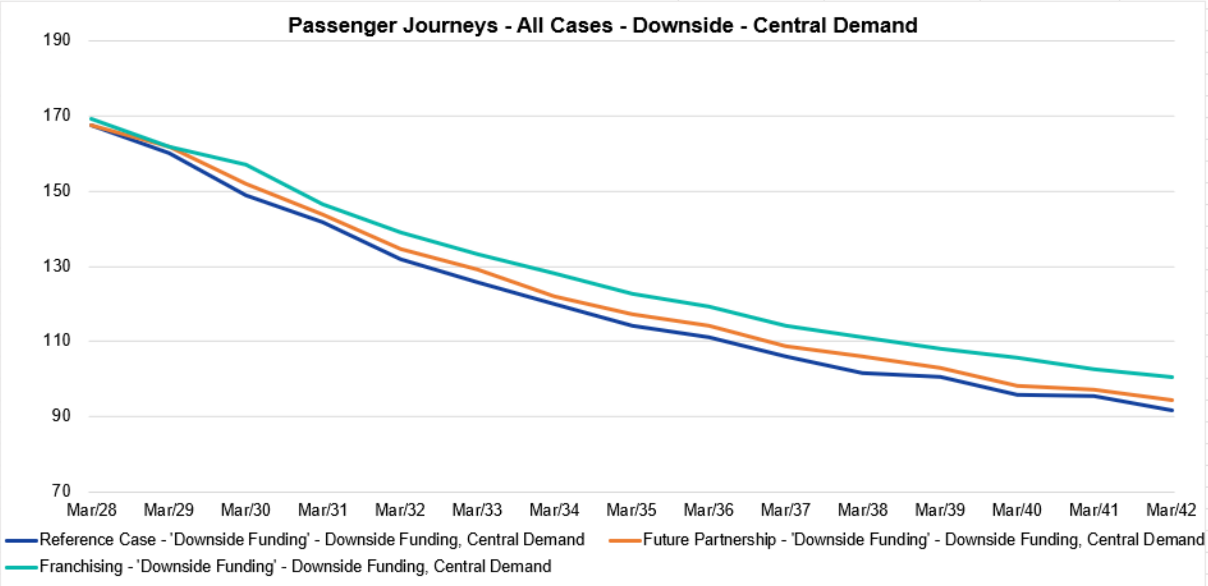
9.15 Figure 4-26 shows the impact of the three budget scenarios for the Reference Case on the number of journeys provided. The graph shows that, as expected, more journeys are made if more budget is made available (as more Supported Services or Services under Franchise Contracts can be provided).

Figure 4-26: Passenger Journeys for the Reference Case, Central Demand and All Funding Scenarios



9.16 Figure 4-27 compares the Reference Case and the Delivery Options for the Downside Funding Scenario (10% reduction in budget). As less money is available for Supported Services and Services under Franchise Contracts, this correlates to a reduction in the number of passengers carried for the Reference Case and the Delivery Options. Albeit, as with the other scenarios, the Delivery Options do provide more Services than the Reference Case.

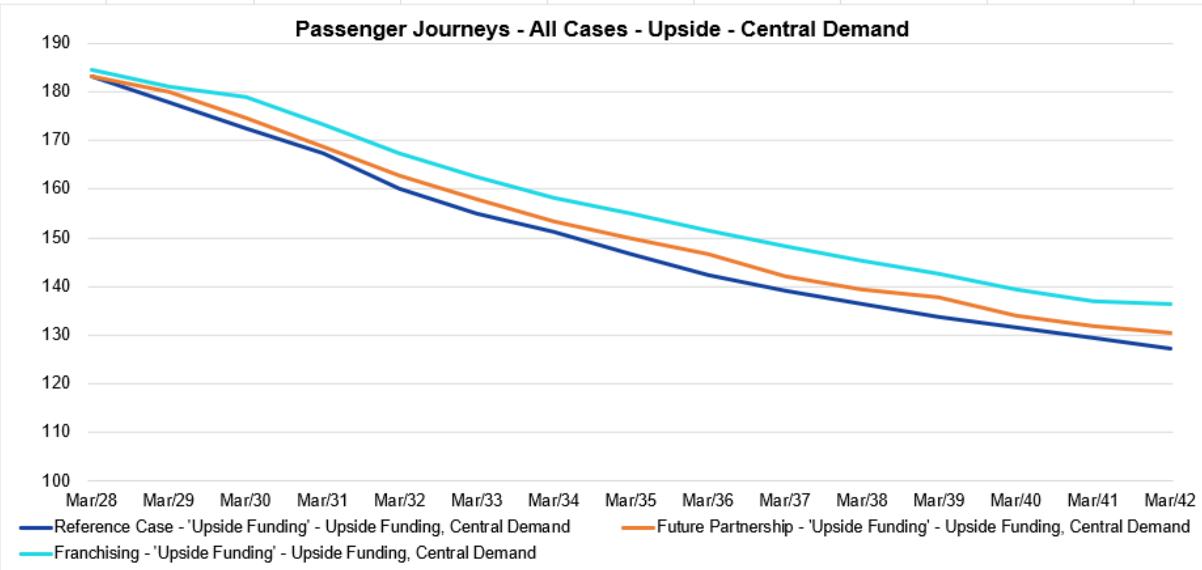
Figure 4-27: Passenger Journeys for the Reference Case and the Delivery Options, Central Demand and Downside Funding Scenario



9.17 For the Upside Funding scenario, £50 million more budget, indexed over time, is available for additional Supported Services and Services under Franchise Contracts. Figure 4-28 shows the impact of this additional funding on increased passenger numbers. The ranking of the Reference Case and the Delivery Options is maintained with the Franchising Scheme providing the most journeys per annum.

9.18 Figure 4-28 also shows that under the scenario where additional funding is received by the Authority, the Reference Case and the Delivery Options receive a benefit in passenger journeys compared to the Base Funding Scenario.

Figure 4-28: Passenger Journeys for the Reference Case and the Delivery Options, Central Demand and Upside Funding Scenario



9.19 Table 4-27 shows the average level of passengers provided by each of the Reference Case and the Delivery Options under the three budget scenarios, and the percentage difference from the Reference Case.

Table 4-27: Additional Passenger Journeys over the Reference Case, All Funding and Central Demand Scenario

Additional Passengers Over the Reference Case			
Funding Scenario	Demand Scenario	The Future Partnership	The Franchising Scheme
Downside	Central	2.2%	6.4%
Base	Central	2.2%	6.2%
Upside	Central	1.8%	4.9%

Combined Scenarios

9.20 This Assessment has also considered scenarios which combine different levels of both demand and budget. There are nine of these combinations in total across the Reference Case and the Delivery Options. For the purposes of this Assessment, we have therefore shown these only in tabular form due to the extensive nature of these scenarios, looking at comparisons between the passengers carried in each of the Delivery Options, relative to the Reference Case.

Table 4-28: Percentage of the Reference Case Journeys provided by the Future Partnership under Funding and Demand Scenarios

Funding Basis	Low Demand	Central Demand	High Demand
Downside Funding	2.4%	2.2%	2.0%
Base Funding	2.4%	2.2%	1.9%
Upside Funding	2.0%	1.8%	1.7%

Table 4-29: Percentage of the Reference Case Journeys provided by the Franchising Scheme under All Funding and Demand Scenarios

Funding Basis	Low Demand	Central Demand	High Demand
Downside Funding	6.5%	6.4%	5.2%
Base Funding	6.4%	6.2%	5.1%
Upside Funding	5.3%	4.9%	4.1%

9.21 The results in Table 4-28 and Table 4-29 show that the Future Partnership consistently provides more passenger journeys than the Reference Case and the Franchising Scheme provides higher passenger journeys over and above the Reference Case and the Future Partnership.

9.22 Moreover, it appears from the demand and funding scenarios that the ranking of the Reference Case and the Delivery Options do not change.

10 Sensitivity Analysis

Introduction

10.1 As described in paragraph 9, there are risks of changes in both demand and funding across the Reference Case and the Delivery Options, however the Reference Case and the Delivery Options each has their own specific risks. This paragraph 10 looks at the potential impacts of these risks through a number of sensitivities.

10.2 This paragraph 10 identifies nine sensitivities that have been run, these are listed in Table 4-30, but for a full description, see paragraph 4.

Table 4-30: Sensitivities and related Reference Case / Delivery Options

Sensitivity	Value	The Reference Case / Delivery Option applied to
Operators own vehicles	2.5 pp increase in margin 3.0% increase on fleet	The Franchising Scheme
Operators own depots	1.5 pp increase in margin	The Franchising Scheme
Supported Services margin upside and downside on the fixed component	2.5 pp increase and 2.5 pp decrease	The Reference Case, the Future Partnership and the Franchising Scheme (in the periods before Franchising starts)

Sensitivity	Value	The Reference Case / Delivery Option applied to
Supported Services margin upside and downside on the variable component	2.0 pp increase and 2.0 pp decrease	The Reference Case, the Future Partnership and the Franchising Scheme (in the periods before Franchising starts)
Services under Franchise Contracts margin upside and downside on the fixed component	2.5 pp increase and 2.5 pp decrease	The Franchising Scheme
An increase in the Franchising management costs	10% consistent uplift applied year on year	The Franchising Scheme
An increase in the Franchising transitional costs	10% consistent uplift applied year on year	The Franchising Scheme
Increase in the Fleet costs to the public sector	10% consistent uplift Applied year on year in line with Authority acquisition profile	The Franchising Scheme
Increase in the variable management costs	1.0 pp increase	The Reference Case and the Future Partnership

10.3 The approach that has been taken on the analysis and comparison of the Reference Case and the Delivery Options has been made consistent to ensure results of the analysis are clear for the reader. Firstly, a description of the sensitivity is set out to ensure what has been done is clear. Secondly, the impact the sensitivity has on passenger journeys has been identified where appropriate. In some sensitivities, such as management and transitional costs, there is no impact on passenger journeys due to these sensitivities testing the Authority's ability to absorb sudden increase in resource or transition requirements. Finally, under each sensitivity, the impact on net expenditure has been analysed to see the financial impact of the specific change in circumstance. The key metric for sensitivities is passenger journeys as each sensitivity continues to be required to fit into the Authority's budget envelope (for example, continues to be affordable).

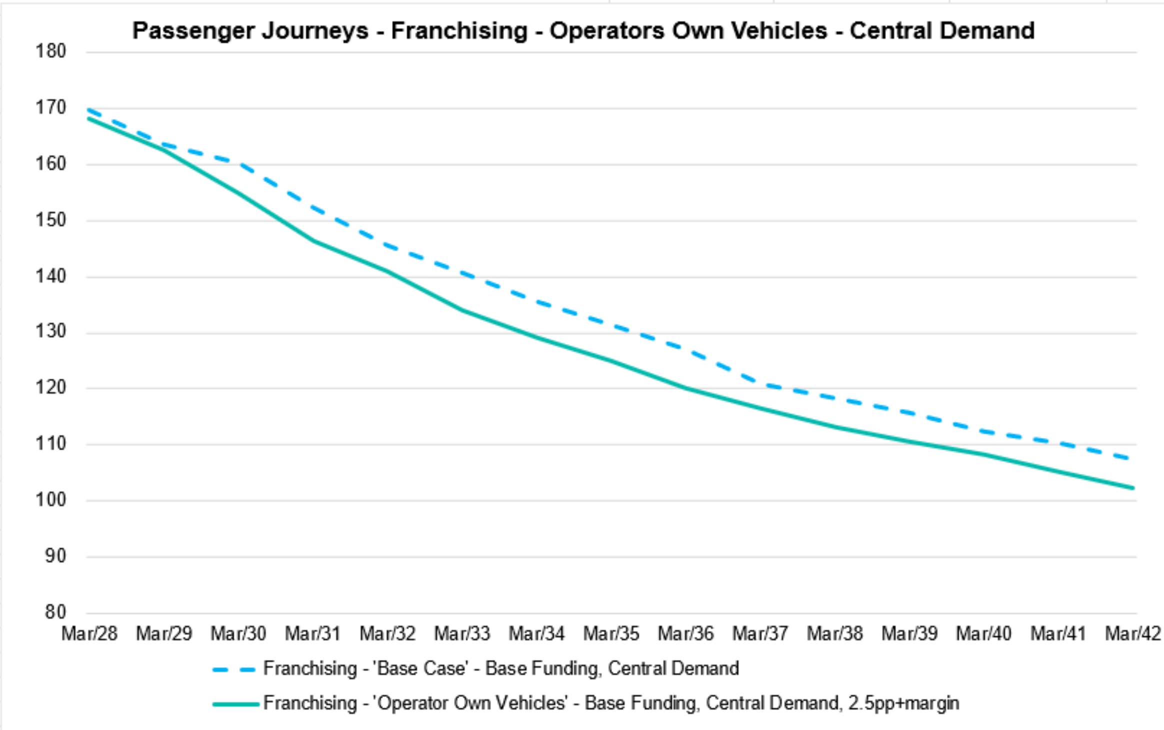
10.4 Following the analysis, commentary has then been made to understand whether under the sensitivity, the ranking of the Reference Case and the Delivery Options has changed and if so, why this is the case.

Operators Own Vehicles

10.5 The first sensitivity to be assessed is where the Operators would own their own fleet and not the Authority as is assumed in the base case for the Franchising Scheme. In this sensitivity, margin would increase by 2.5 percentage points and fleet costs would increase by 3.0% from FY 2027/2028.

10.6 Figure 4-29 outlines that at the end of the assessment period in FY 2041/2042, there are 107.4 million passenger journeys under the current proposals for the Authority to own fleet, in comparison to 102.2 million passenger journeys should the Operators own fleet. This is a 5.1% reduction in journeys.

Figure 4-29: Passenger Journeys for the Franchising Scheme, Operators Own Vehicles - Central Demand



10.7 Net expenditure for the Authority under the Franchising Scheme would increase by an average of 0.10% across the Appraisal Period as a result of the Operators owning vehicles. Therefore, the Franchising Scheme would be affordable for the Authority.

10.8 The outputs show that in a world where the Franchising Scheme is chosen, it is beneficial for the Authority to own fleet. However, it should be noted that the Authority is aware of the ownership risks which come with owning fleet rather than having this risk fall onto the private sector.

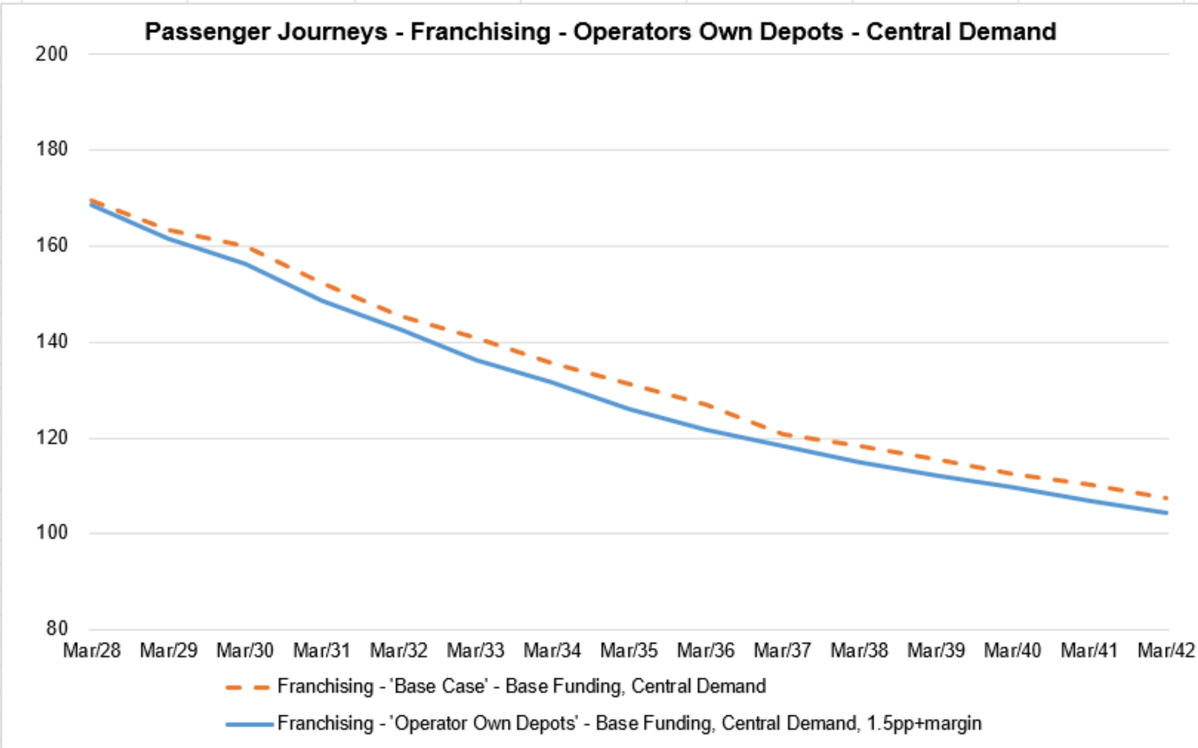
Operators Own Depots

10.9 This sensitivity looks at the Operators owning their own depots specifically in the Franchising Scheme. Under the current proposal for Franchising, the Authority would own depots. In this sensitivity, the Operators own depots which it is assumed would increase margins by 1.5 percentage points from FY 2027/2028.

10.10 Figure 4-30 sets out the impact of the Operators owning depots within the Franchising Scheme when compared against the current proposal under the Franchising Scheme where the Authority own depots.

10.11 The graph outlines that at the end of the assessment period in FY 2041/2042 that there are 107.4 million passenger journeys under the current proposals of the Authority owning depot in comparison to 104.4 million passenger journeys should the Operators own depot or a 2.8% reduction in journeys.

Figure 4-30: Passenger Journeys for the Franchising Scheme, Operators Own Depot - Central Demand



10.12 Under the Franchising Scheme, net expenditure would decrease by 0.19% over the Appraisal Period as a result of the Operators owning depots. The Franchising Scheme would still remain affordable to the Authority. The Authority is aware that there is an increased risk of depot ownership in relation to costs, but also this can help drive competition which can be seen by more passenger journeys in a world where the Authority owns depots.

Supported Services Margin

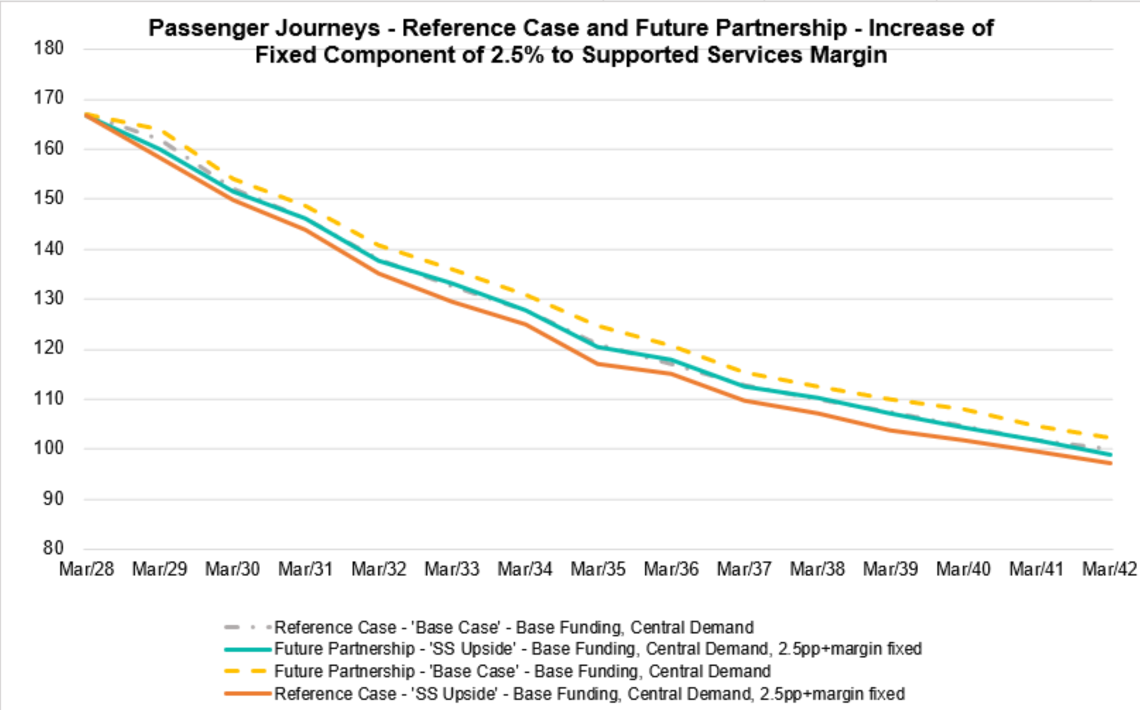
10.13 The margin for Supported Services is a measure of the profit margin that is anticipated for Services that are subsidised by the Government.

10.14 Margin is a key sensitivity because it affects the level of subsidy that may be required from the Authority. Under the Reference Case and the Future Partnership, margins are higher due to less commercial Services and less competition, something the Franchising Scheme is looking to balance.

10.15 The Authority has tested an increase and decrease of 2.5% (10% and 5% from 7.5%) in margin on the fixed component and 2.0% (6.0% and 2.0% from 4.0%) in margin on the variable component.

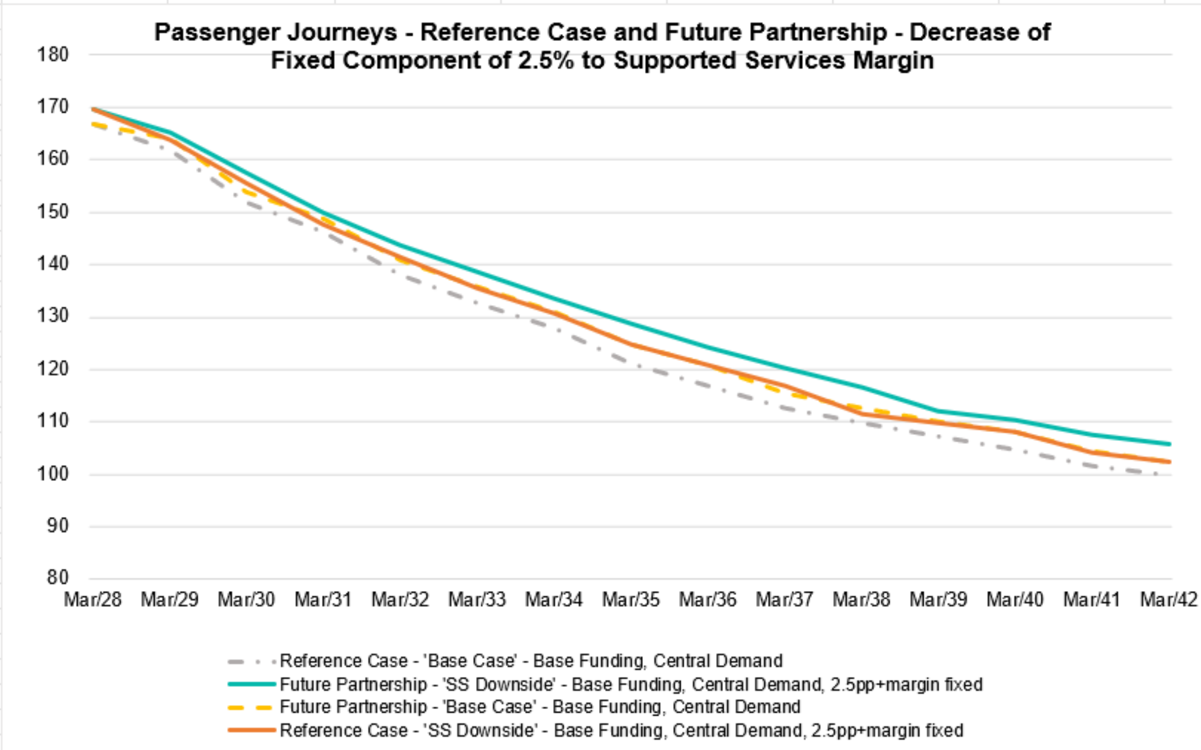
10.16 Figure 4-31 looks at the effect an increase of 2.5% on the Supported Services margin would have on the number of passenger journeys for both the Reference Case and the Future Partnership. Under the Reference Case, passenger journeys would decrease by 2.1% from the base case. This follows a similar trend for the Future Partnership with journeys decreasing by 2.2%.

Figure 4-31: Passenger Journeys – The Reference Case and the Future Partnership, Upside on Fixed Component of 2.5%



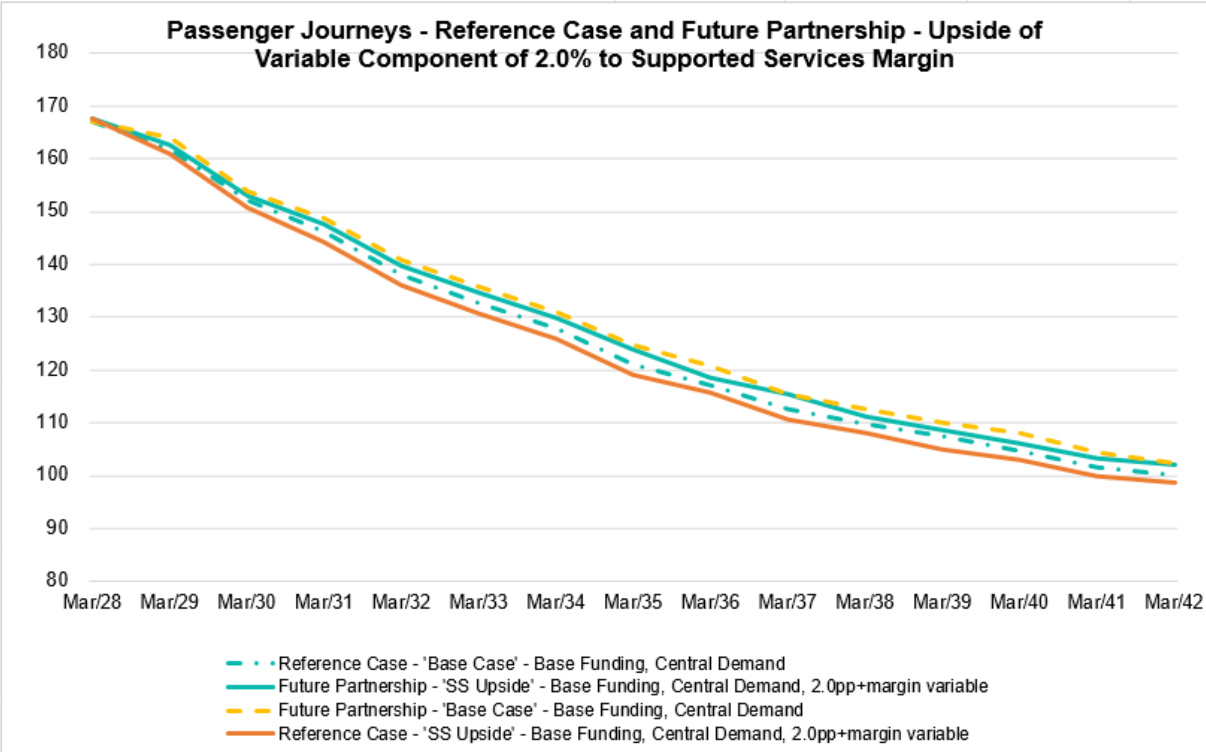
10.17 Figure 4-32 looks at what effect a decrease of 2.5% on the Supported Services margin would have on the number of passenger journeys for both the Reference Case and the Future Partnership. Opposite to what happens under an increase of 2.5% on the margin, under the Reference Case, passenger journeys would increase by 2.4 million from the base case and follows a similar trend for the Future Partnership with journeys also increasing by 3.6 million in FY 2041/2042.

Figure 4-32: Passenger Journeys - The Reference Case and the Future Partnership, Downside on Fixed Component of 2.5%



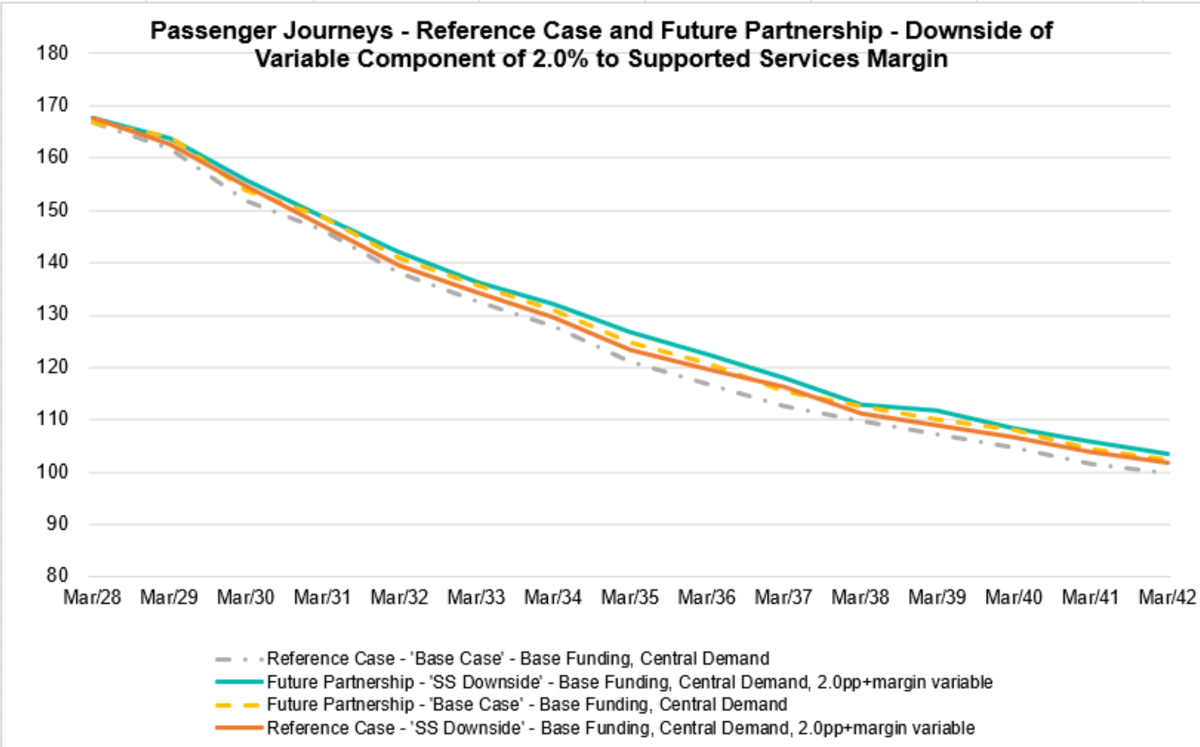
10.18 Figure 4-33 looks at the effect an increase of 2.0% on the variable component on the Supported Services margin would have on the number of passenger journeys for both the Reference Case and the Future Partnership. Under the Reference Case, passenger journeys would decrease by 1.3% from the base whereas journeys under Future Partnership decrease by 0.8%.

Figure 4-33: Passenger Journeys - The Reference Case and the Future Partnership, Upside on Variable Component of 2.0%



10.19 Figure 4-34 looks at what effect a decrease of 2.0% on the variable element on the Supported Services margin would have on the number of passenger journeys for both the Reference Case and the Future Partnership. Under the Reference Case, passenger journeys would increase by 1.9 million from the base case and follows a similar trend for the Future Partnership with journeys also increasing by 1.2 million in FY 2041/2042.

Figure 4-34: Passenger Journeys - The Reference Case and the Future Partnership, Downside on Variable Component of 2.0%



Services under Franchise Contracts Margin

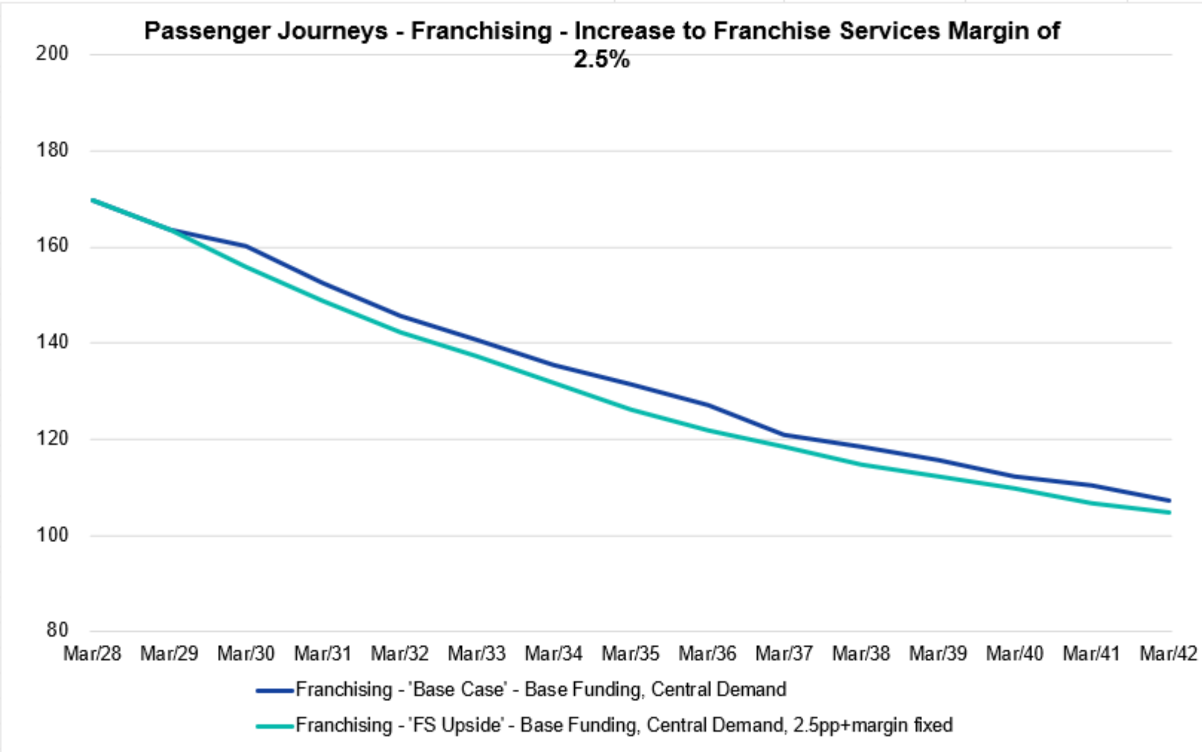
10.20 Similar to the margin for Supported Services, the margin for Services under Franchise Contracts is a measure of profit margin that is anticipated for Services that are operated under Franchising. The margin is lower in the Franchising Scheme than the Reference Case and the Future Partnership due to the increased level of competition.

10.21 The Authority has tested an increase and decrease of 2.5% (10% and 5% from 7.5%) in margin on the fixed component.

10.22 Figure 4-35 looks at increasing the Services under Franchise Contracts margin under the base case for the Franchising Scheme, there are said to be 107.4 million journeys in FY 2041/2042; however, by increasing Services under Franchise Contracts margin by 2.5%, the number of journeys would drop to 104.8 million, a reduction of 2.4%.

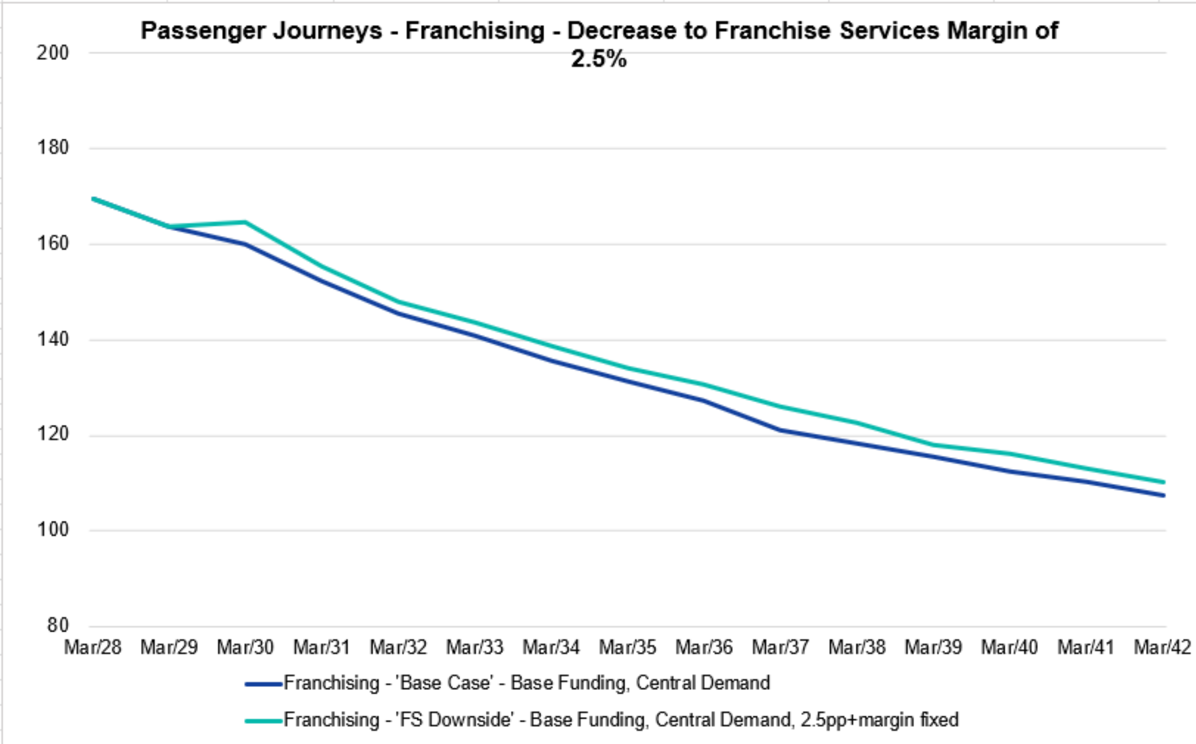
10.23 The Franchising Scheme upside sensitivity leads to the available budget being breached in 2028/2029 only. However, the level to which there is a breach in the budget is limited and the Authority would seek to use ring-fenced underspend from 2027/2028 which would support the potential overspend in the period.

Figure 4-35: Passenger Journeys - the Franchising Scheme - Increase in Services under Franchise Contracts Margin by 2.5%



10.24 Figure 4-36 looks at the effect of passenger journeys by decreasing the Services under Franchise Contracts margin by 2.5%. By decreasing the margin, the number of journeys would have the opposite effect to increasing margin as passenger journeys would increase to 110.2 million in FY 2041/2042 which is a 2.6% increase from the base case under the Franchising Scheme.

Figure 4-36: Passenger Journeys - FC - Decrease to Services under Franchise Contract Margin by 2.5%



Management Costs

10.25 Management costs are the continuing costs related to the administration and oversight of running the West Midlands Bus Network. Under the Franchising Scheme, it is expected that the Authority will transfer over roles which are already being performed in the sector.

10.26 The Authority has taken a robust approach to determining the management costs, however, as the Franchising Scheme would be new, there may be unexpected additional costs. Therefore, it is important to assess how changes in these costs could influence the long-term sustainability of Services.

10.27 The Authority has identified that an increase of 10% in management costs for the Franchising Scheme should be undertaken for sensitivity analysis due to the level of uncertainty around potential additional positions required.

10.28 A 10% rise in the management costs associated with the Franchising Scheme would result in an increase in the Authority's expenditure of £29.0 million (1.7%) across the assessment period.

10.29 For the Franchising Scheme, an increase in management costs of 10% leads to the available budget being breached. However, the level to which there is a breach in the budget is limited and the Authority would use underspend from previous years which would be ringfenced and rolled over to years where overspend may happen. The Authority would then ensure this is in line with the Authority's broad treasury management strategy and processes. The outputs show that in this sensitivity, there is enough cumulative underspend to support the potential budget breaches across all periods and therefore the option remains affordable.

Transitional Costs

10.30 Transitional costs are the costs that are related to the transition to a new bus management framework.

10.31 Transitional costs have been included in the sensitivity analysis as they can significantly impact the overall financial viability of the Reference Case and the Delivery Options.

10.32 The level of transitional costs can vary widely depending on the size and scale of the proposed regulatory changes; therefore, it is important to understand how a variation in the level of transitional costs could affect this Assessment.

10.33 For the purposes of this Assessment, the Authority has identified that an increase of 10% in transitional costs in the Franchising Scheme is appropriate for sensitivity analysis.

10.34 If transitional costs were to increase by 10%, this would result in an additional burden on the Authority budget of 0.2% (£3.7 million) across the Appraisal Period. The level of this increase would be at a level that could be absorbed by the Authority.

Fleet Costs

10.35 Fleet costs include the capital and operational expenses of acquiring, maintaining, and operating the bus fleet (for example, purchase price of vehicles, financing costs, fuel, maintenance, and potential retrofitting or upgrades).

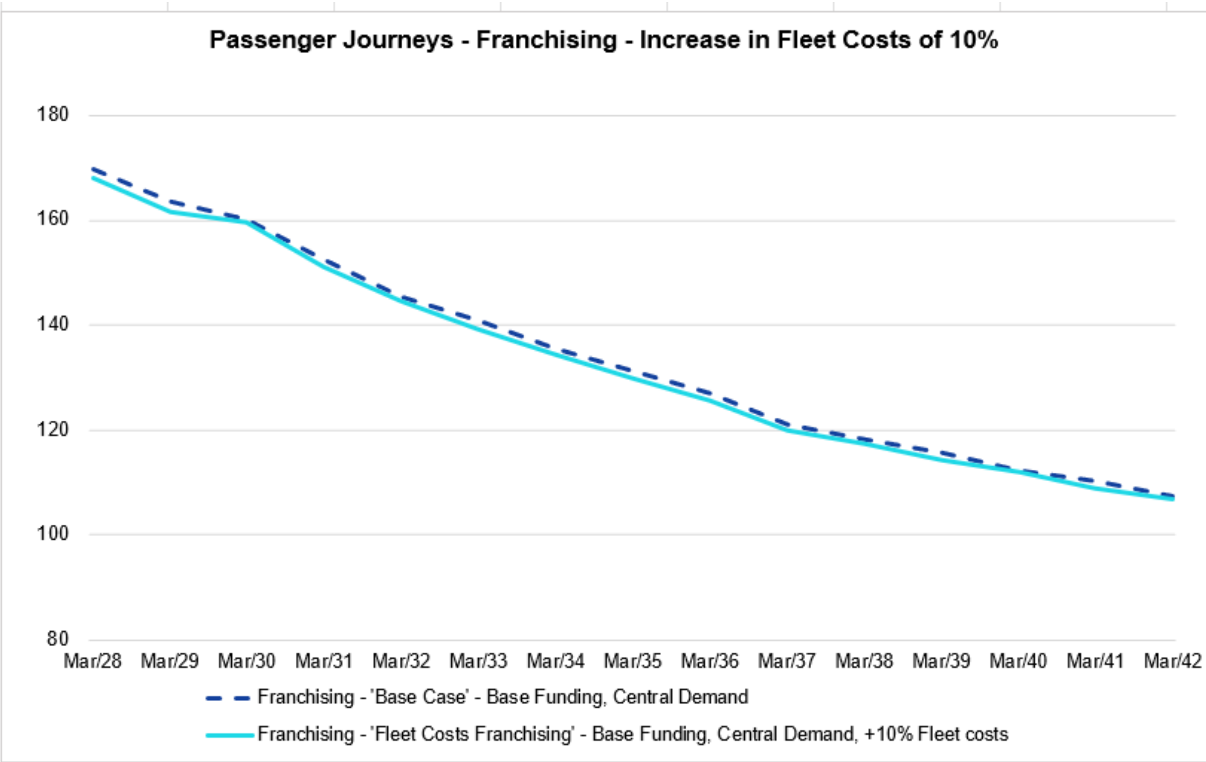
10.36 Fleet costs are a major element of the overall cost of the Reference Case and the Delivery Options and are subject to variations due to continual advancements in technology and regulatory requirements for emissions.

10.37 It should be noted that this sensitivity relates only to the fleet being owned specifically by the Authority, paragraphs 10.5 to 10.8 outline the effect of the Operators owning fleet.

10.38 For this particular sensitivity, however, the Authority has identified an increase of 10% in fleet costs is appropriate for sensitivity analysis due to the level of risk associated with acquiring and owning fleet.

10.39 If fleet costs were to increase by 10%, this would result in a decrease in the number of passenger journeys from 107.4 million in the Reference Case to 106.9 million.

Figure 4-37: Passenger Journeys - FC – Increase to Fleet Costs +10%



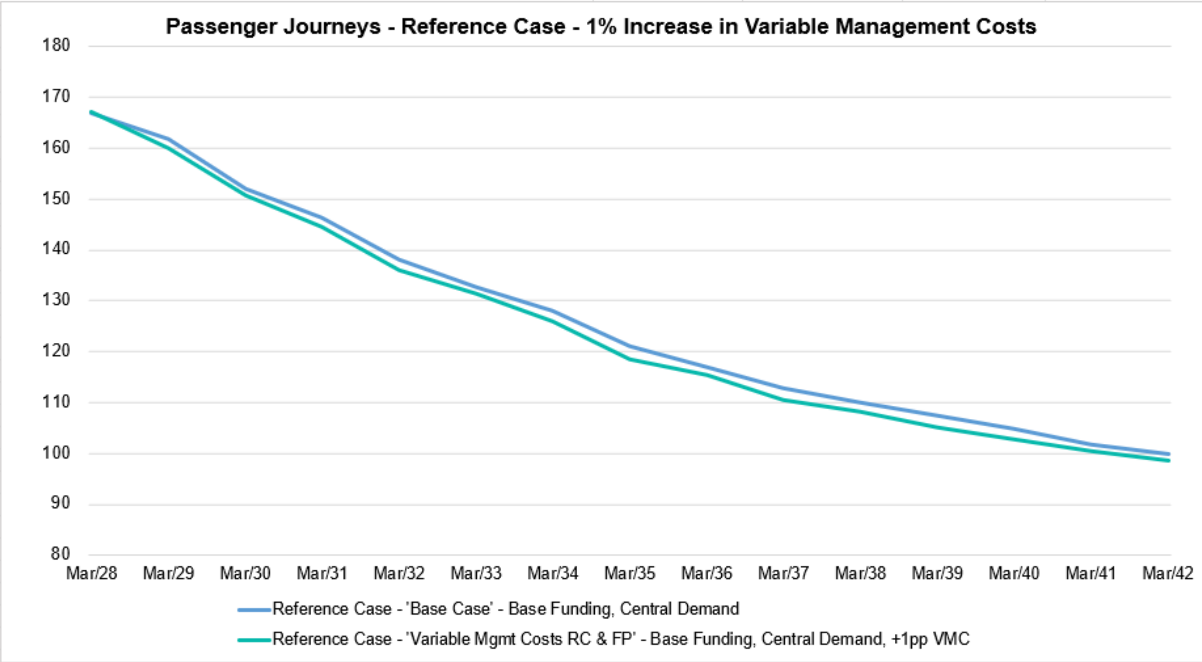
Variable Management Costs

10.40 Variable management costs in the Reference Case and the Future Partnership relate to the level of additional management resources and costs which are required to deal with an increased level of Supported Services over time. As can be seen in Figure 4-8 and Figure 4-13, Supported Services increase dramatically over time in the Reference Case and the Future Partnership.

10.41 The Authority has determined that for the purposes of this Assessment, a sensitivity increase in the variable management costs from 1.5% to 2.5% is to be undertaken.

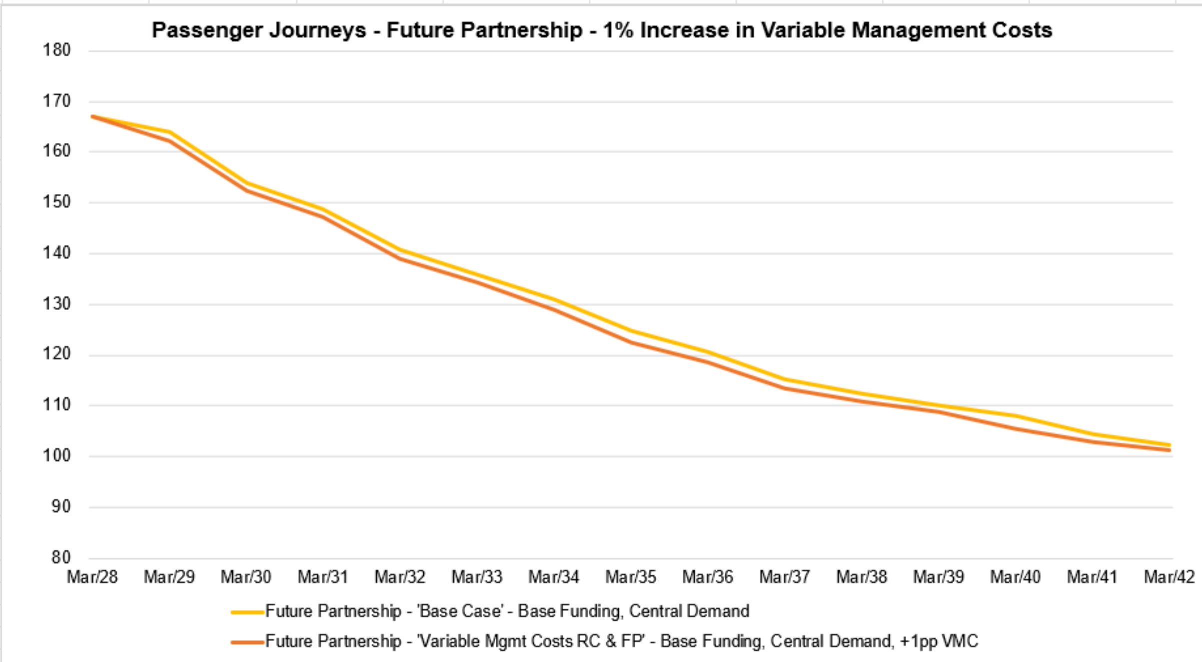
10.42 Figure 4-38 outlines that for a 1% increase in variable management costs for the Reference Case, there is 1.4 million less journeys in FY 2041/2042 when compared to the number of journeys in the Reference Case base case.

Figure 4-38: Passenger Journeys – The Reference Case - 1% increase in Variable Management Costs



10.43 A similar trend is found in the Future Partnership when we look at the graph in Figure 4-39. There are 102.4 million journeys under the base case in FY 2041/2042 in comparison to 101.2 million journeys under the 1% increase in variable management costs sensitivity which equates to a 1.1% reduction in the number of journeys at the end of the assessment period.

Figure 4-39: Passenger Journeys - the Future Partnership - 1% increase in Variable Management Costs



Financing Costs

10.44 Financing costs are the expenses incurred from borrowing funds to finance the capital and/or operational expenditures of Services and these costs are sensitive to changes in underlying interest rates.

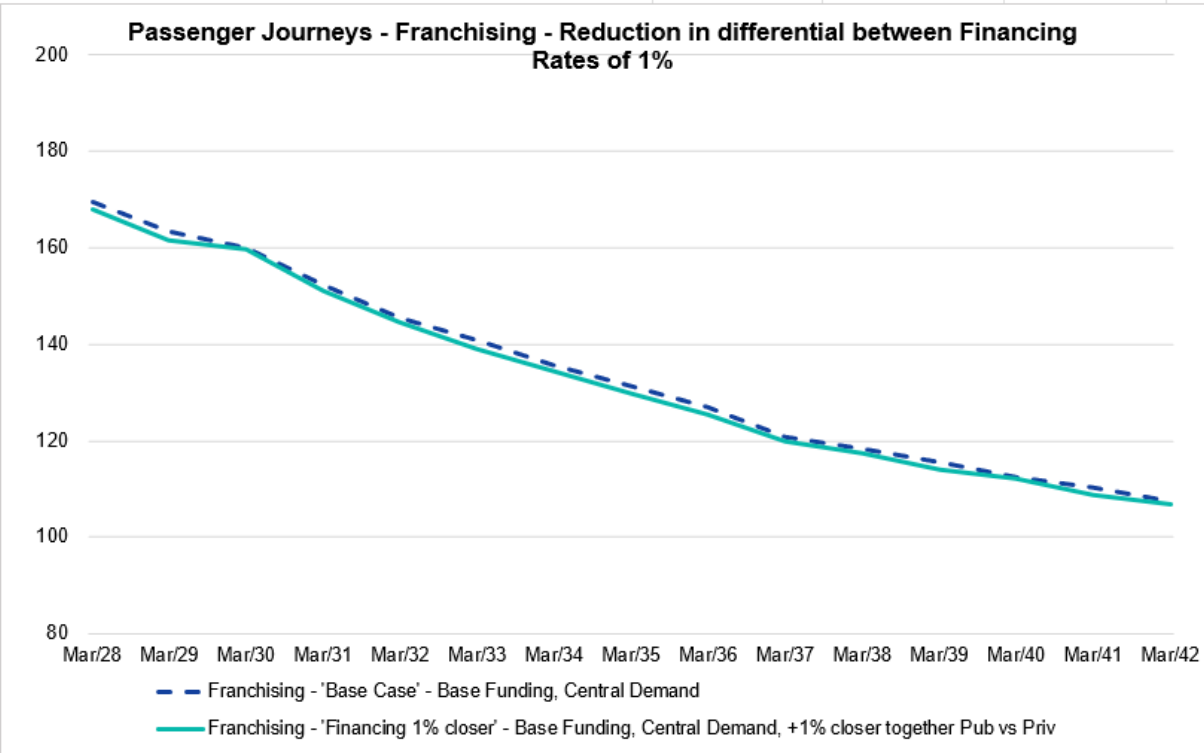
10.45 The sensitivity which is to be tested is the differential between the public sector borrowing rate and private sector borrowing rate.

10.46 The Authority has identified that a sensitivity should be tested which assesses both a decrease and increase in the public versus private sector differential of 1%.

10.47 It should be noted this sensitivity focuses solely on the Franchising Scheme due to the Franchising Scheme being the only scenario where Prudential Borrowing is undertaken.

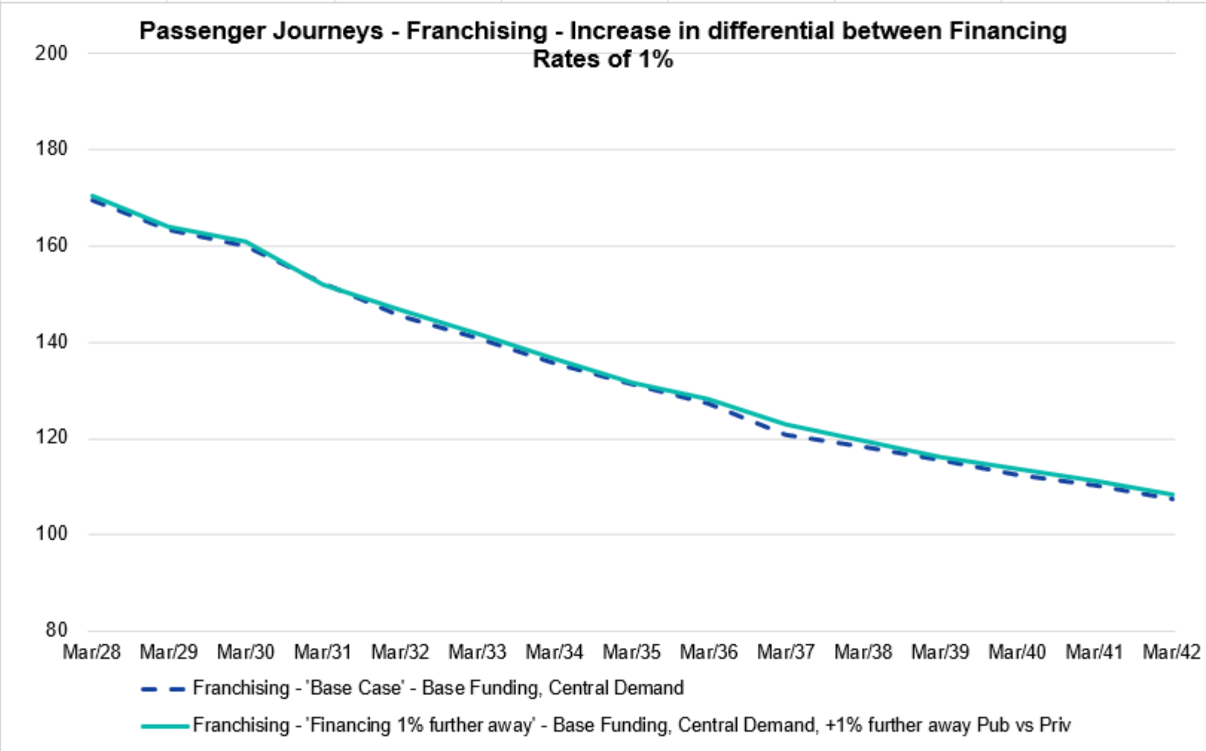
10.48 Figure 4-40 outlines the effect on passenger journeys by bringing public and private sector rates closer to each other by 1%. Under the base case for the Franchising Scheme, there are said to be 107.4 million journeys in FY 2041/2042; however, by decreasing the differential between public and private sector rates by 1%, journeys would drop by c.0.5 million to 106.9 million.

Figure 4-40: Financing Costs - the Franchising Scheme - Reduction in differential between public and private sector rates by 1%



10.49 The Authority has then assessed the effect on passenger journeys by increasing the differential between public and private sector rates by 1%. Under the base case for the Franchising Scheme, there are said to be 107.4 million journeys in FY 2041/2042; however, by increasing the differential between public and private sector rates by 1%, journeys would increase by c.1.1 million to 108.5 million or in percentage terms an increase by 1.0%.

Figure 4-41: Financing Costs - the Franchising Scheme - Increasing differential between public and private sector rates by 1%



10.50 An increase in the differential between the public and private sector rates of 1% would result in net expenditure decreasing by c.£0.1 million across the assessment period.

Inflation

10.51 Over the past number of years particularly, macroeconomic factors have led to inflationary pressures for the vast majority of sectors and vast majority of organisations globally.

10.52 In the context of the Authority's Region, inflationary impacts have an effect on how much funding the Authority can afford to put into Services.

10.53 The Authority has identified that a sensitivity should be tested to show what happens if inflation were to increase by 1% on costs and revenues, but the budget available for Services inflation rate remains constant. The expectation of this sensitivity is that in a number of periods, across the Reference Case and the Delivery Options, the net expenditure of the Authority may go over the budget available for Services. In these periods, the Authority will ensure there are relevant treasury management practices undertaken to ensure there is a limited impact on Services under the Reference Case and the Delivery Options.

10.54 Based on an increase of 1% to RPI and CPI during the appraisal period, it can be seen that the Reference Case and the Delivery Options incur additional net expenditure compared to the base case. In the Reference Case, over the appraisal period, there is an additional 12.6% net expenditure required to be spent by the Authority, equating to c.£217 million. This is an average of c.£14.5 million per annum. The total net expenditure of the Reference Case increases from £1.7 billion to £1.9 billion of net expenditure across the appraisal period. A similar picture can be seen in the Future Partnership where an increase in inflation leads to a 12.6% increase in net expenditure for the Authority. This equates to c.£217 million of additional expenditure over the appraisal period. Both the Reference Case and the Future Partnership have similar increases in net expenditure due to there being no fundamental changes to the revenue or cost structures. For the Franchising Scheme, there is an increase in net expenditure in totality of c.£214 million (a 12.3% increase in net expenditure over the appraisal period).

10.55 For the Reference Case and the Delivery Options, an increase in inflation of 1% leads to the available budget being breached. However, the level to which there is a breach in the budget is limited and the Authority would seek to manage any additional budget requirements through the optimisation of Services, ring-fencing and then using underspend from previous periods and additional treasury management policies. The output shows that in this sensitivity, there is enough cumulative underspend to support the potential budget breaches across all periods and therefore the option remains affordable.

Sensitivity Conclusion

10.56 Through the sensitivities which have been conducted, the results show that there is no change in the ranking of the Reference Case and the Delivery Options and the Franchising Scheme appears to show the most passenger journeys. The results of the sensitivity analysis shows that the increased level of competition within the Franchising Scheme and the increased level of control the Authority would continue to give more benefits to the Authority's Region.

11 Conclusion

11.1 The financial evaluation presented throughout this Financial Case uses a variety of assumptions to project the varying degrees of affordability of Services that could be made available through two proposed policy changes. These alternatives are compared to a baseline scenario, the Reference Case, with the two alternatives being the Delivery Options.

11.2 The core findings from this Financial Case indicate that both the Delivery Options present improvements over the Reference Case. Further details on the non-quantitative aspects of the Deliver Options can be found in the Strategic Case and the Commercial Case. This is particularly evident in the number of passenger trips that can be achieved within the existing financial constraints that the Authority have at their disposal.

11.3 The Future Partnership provides a number of benefits, mainly on the network interventions that come with it. However, the Future Partnership, as well as the Franchising Scheme, provides an increased level of passenger journeys throughout, with the same level of funding. The main intervention benefits that can be seen through the Future Partnership over the Reference Case are an increased collaboration between the Authority and the Operators through the RTCC, which will help allocate resources and deliver Services in line with the Authority's ambitions. Furthermore, Supported Services would be procured on a gross cost basis, which will provide the Authority with more transparency of Service profitability and VfM, and some of these Services bundled with access to the required depot, which will promote competition and reduce barriers to entry for the Operators. In addition, the Future Partnership gives a simpler and more consistent offer across the Operators, which will improve customer experience and satisfaction, and a reduction in the barriers to market entry for the other Operators, which will increase competition and innovation in the West Midlands Bus Market. However, the Future Partnership shifts a greater degree of risk onto the Authority as there is a movement to gross cost contracts, and depot ownership, however the risk of fleet ownership remains within the private sector.

11.4 The Franchising Scheme is anticipated to yield greater benefits than both the Reference Case and the Future Partnership. It encompasses all the positive outcomes of network interventions, which translates into an increase in both provision of Services and passenger journeys without additional budgetary input. The Franchising Scheme gives greater control and flexibility for the

Authority to shape the West Midlands Bus Network according to its strategic objectives and local needs, without relying on the commercial decisions of the Operators and gives a greater level of coordination of Services and integrated systems, hoping for increased levels of public transport interaction by commuters. However, the Franchising Scheme shifts an even greater degree of risk onto the Authority, encompassing both cost and revenue uncertainties as well as asset-related risks. This is a strategic move to lower the barriers for new market entrants and to foster a more competitive environment for Franchise Contracts

Financial Case Appendix

This Financial Case Appendix shows the income and expenditure / cashflows and extracts of the balance sheet under the Reference Case and the Delivery Options:

Reference Case - Cash Flows	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/2032	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42
Income (£'000)																				
Additional Income	10,186.5	9,879.6	9,357.2	9,507.3	9,665.9	9,856.5	10,053.6	10,254.7	10,459.8	10,669.0	10,882.4	11,100.0	11,322.0	11,548.5	11,779.5	12,015.0	12,255.3	12,500.4	12,750.5	13,005.5
Total income	**10,186.5**	**9,879.6**	**9,357.2**	**9,507.3**	**9,665.9**	**9,856.5**	**10,053.6**	**10,254.7**	**10,459.8**	**10,669.0**	**10,882.4**	**11,100.0**	**11,322.0**	**11,548.5**	**11,779.5**	**12,015.0**	**12,255.3**	**12,500.4**	**12,750.5**	**13,005.5**
Expenditure (£'000)																				
Payments to Operators																				
Net Cost - Supported services	(6,345.8)	(9,186.3)	(16,730.2)	(22,876.7)	(28,573.0)	(29,517.7)	(33,783.2)	(35,120.4)	(39,427.7)	(41,823.7)	(45,050.7)	(48,190.7)	(50,283.8)	(52,594.9)	(55,426.7)	(57,819.1)	(59,430.8)	(61,274.3)	(62,759.3)	(65,262.0)
ENCTS payments	(53,732.3)	(54,039.6)	(54,038.1)	(49,657.0)	(50,457.1)	(49,167.3)	(49,266.0)	(47,881.2)	(46,787.6)	(45,002.7)	(44,380.8)	(44,162.5)	(42,533.1)	(41,956.3)	(41,724.7)	(42,247.7)	(42,777.2)	(43,269.3)	(43,453.8)	(44,208.1)
Total payments to operators	**(60,078.1)**	**(63,225.9)**	**(70,768.4)**	**(72,533.7)**	**(79,030.1)**	**(78,684.9)**	**(83,049.2)**	**(83,001.6)**	**(86,215.4)**	**(86,826.4)**	**(89,431.4)**	**(92,353.3)**	**(92,816.9)**	**(94,551.2)**	**(97,151.4)**	**(100,066.8)**	**(102,208.1)**	**(104,543.6)**	**(106,213.1)**	**(109,470.1)**
Overheads																				
Sundry Operating Costs	(8,711.7)	(11,304.3)	(11,513.8)	(11,761.1)	(11,957.4)	(12,193.2)	(12,437.1)	(12,685.8)	(12,939.5)	(13,198.3)	(13,462.3)	(13,731.5)	(14,006.2)	(14,286.3)	(14,572.0)	(14,863.4)	(15,160.7)	(15,463.9)	(15,773.2)	(16,088.7)
Staff Costs	(10,752.5)	(12,273.9)	(12,083.6)	(12,734.6)	(13,069.7)	(13,458.1)	(13,846.5)	(14,279.0)	(14,564.6)	(14,855.9)	(15,153.0)	(15,456.1)	(15,765.2)	(16,080.5)	(16,402.1)	(16,730.2)	(17,064.8)	(17,406.0)	(17,754.2)	(18,109.3)
Variable Management Costs	-	-	-	-	(2,009.0)	(2,141.4)	(2,329.4)	(2,615.1)	(2,894.2)	(3,053.8)	(3,121.3)	(3,170.7)	(3,268.2)	(3,237.1)	(3,346.3)	(3,367.1)	(3,432.7)	(3,445.9)	(3,439.7)	(3,534.0)
Total overheads	**(19,464.2)**	**(23,578.2)**	**(23,597.5)**	**(24,495.7)**	**(27,036.1)**	**(27,792.7)**	**(28,613.0)**	**(29,580.0)**	**(30,398.3)**	**(31,108.0)**	**(31,736.6)**	**(32,358.3)**	**(33,039.5)**	**(33,603.9)**	**(34,320.4)**	**(34,960.7)**	**(35,658.2)**	**(36,315.9)**	**(36,967.0)**	**(37,731.9)**
GROSS EXPENDITURE	**(79,542.4)**	**(86,804.1)**	**(94,365.8)**	**(97,029.4)**	**(106,066.1)**	**(106,477.7)**	**(111,662.2)**	**(112,581.6)**	**(116,613.7)**	**(117,934.3)**	**(121,168.0)**	**(124,711.6)**	**(125,856.4)**	**(128,155.1)**	**(131,471.8)**	**(135,027.5)**	**(137,866.3)**	**(140,859.4)**	**(143,180.1)**	**(147,202.0)**
NET EXPENDITURE (Levy required)	**(69,355.9)**	**(76,924.5)**	**(85,008.6)**	**(87,522.2)**	**(96,400.2)**	**(96,621.1)**	**(101,608.5)**	**(102,326.9)**	**(106,153.8)**	**(107,265.3)**	**(110,285.6)**	**(113,611.5)**	**(114,534.4)**	**(116,606.6)**	**(119,692.3)**	**(123,012.5)**	**(125,610.9)**	**(128,359.0)**	**(130,429.7)**	**(134,196.6)**

Future Partnership - Cash Flows	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/2032	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42
Income (£'000)																				
Supported / Franchise Services Revenue	5,771.5	7,181.4	19,110.9	70,992.5	81,379.9	87,532.5	91,942.3	107,800.6	120,317.8	123,448.7	128,210.9	126,958.6	129,569.4	132,401.8	130,800.5	131,976.1	131,002.7	133,656.7	131,247.9	130,435.8
Additional Income	10,186.5	9,879.6	9,357.2	9,507.3	9,665.9	9,856.5	10,053.6	10,254.7	10,459.8	10,669.0	10,882.4	11,100.0	11,322.0	11,548.5	11,779.5	12,015.0	12,255.3	12,500.4	12,750.5	13,005.5
Total income	**15,958.1**	**17,060.9**	**28,468.1**	**80,499.7**	**91,045.8**	**97,389.0**	**101,996.0**	**118,055.3**	**130,777.6**	**134,117.7**	**139,093.3**	**138,058.6**	**140,891.4**	**143,950.3**	**142,580.0**	**143,991.1**	**143,258.0**	**146,157.1**	**143,998.3**	**143,441.3**
Expenditure (£'000)																				
Payments to Operators																				
Supported services	(12,117.4)	(16,367.6)	(35,841.2)	(93,869.2)	(109,952.9)	(117,050.2)	(125,317.2)	(142,604.6)	(159,497.1)	(164,805.3)	(172,782.5)	(174,254.6)	(178,985.5)	(183,784.4)	(184,772.4)	(188,837.3)	(189,473.8)	(193,908.7)	(192,483.1)	(193,914.6)
ENCTS payments	(53,732.3)	(54,039.6)	(54,038.1)	(49,657.0)	(50,457.1)	(49,167.3)	(49,408.6)	(47,974.9)	(47,210.2)	(45,445.9)	(44,955.8)	(44,750.7)	(43,264.3)	(42,959.0)	(42,076.8)	(42,659.9)	(43,260.4)	(44,037.4)	(44,220.7)	(44,727.1)
Total payments to operators	**(65,849.7)**	**(70,407.2)**	**(89,879.3)**	**(143,526.2)**	**(160,410.0)**	**(166,217.5)**	**(174,725.8)**	**(190,579.5)**	**(206,707.3)**	**(210,251.2)**	**(217,738.2)**	**(219,005.4)**	**(222,249.8)**	**(226,743.3)**	**(226,849.2)**	**(231,497.2)**	**(232,734.2)**	**(237,946.1)**	**(236,703.8)**	**(238,641.6)**
Financing Costs																				
Depot	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fleet	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Financing Costs	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Overheads																				
Sundry Operating Costs	(8,711.7)	(11,304.3)	(11,513.8)	(11,761.1)	(11,957.4)	(12,193.2)	(12,437.1)	(12,685.8)	(12,939.5)	(13,198.3)	(13,462.3)	(13,731.5)	(14,006.2)	(14,286.3)	(14,572.0)	(14,863.4)	(15,160.7)	(15,463.9)	(15,773.2)	(16,088.7)
Staff Costs	(10,752.5)	(12,273.9)	(12,156.7)	(13,037.3)	(13,380.4)	(13,778.1)	(14,175.7)	(14,618.5)	(14,910.8)	(15,209.1)	(15,513.2)	(15,823.5)	(16,140.0)	(16,462.8)	(16,792.0)	(17,127.9)	(17,470.4)	(17,819.8)	(18,176.2)	(18,539.8)
Variable Management Costs	-	-	-	-	(2,009.0)	(2,141.4)	(2,284.2)	(2,618.2)	(2,924.1)	(3,015.4)	(3,156.8)	(3,173.1)	(3,255.5)	(3,343.8)	(3,358.0)	(3,437.3)	(3,454.8)	(3,545.9)	(3,526.5)	(3,555.1)
Total overheads	**(19,464.2)**	**(23,578.2)**	**(23,670.5)**	**(24,798.4)**	**(27,346.8)**	**(28,112.7)**	**(28,897.0)**	**(29,922.5)**	**(30,774.5)**	**(31,422.8)**	**(32,132.4)**	**(32,728.2)**	**(33,401.6)**	**(34,092.8)**	**(34,722.0)**	**(35,428.6)**	**(36,085.9)**	**(36,829.7)**	**(37,476.0)**	**(38,183.5)**
GROSS EXPENDITURE	**(85,313.9)**	**(93,985.5)**	**(113,549.8)**	**(168,324.6)**	**(187,756.8)**	**(194,330.1)**	**(203,622.8)**	**(220,502.0)**	**(237,481.8)**	**(241,674.0)**	**(249,870.6)**	**(251,733.5)**	**(255,651.4)**	**(260,836.2)**	**(261,571.2)**	**(266,925.8)**	**(268,820.2)**	**(274,775.8)**	**(274,179.8)**	**(276,825.2)**
NET EXPENDITURE (Levy required)	**(69,355.9)**	**(76,924.5)**	**(85,081.7)**	**(87,824.9)**	**(96,711.0)**	**(96,941.1)**	**(101,626.8)**	**(102,446.6)**	**(106,704.2)**	**(107,556.3)**	**(110,777.3)**	**(113,674.9)**	**(114,760.0)**	**(116,885.9)**	**(118,991.3)**	**(122,934.7)**	**(125,562.1)**	**(128,618.7)**	**(130,181.5)**	**(133,383.9)**

Depot Capital Investment & Financing	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/2032	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42
Depot Capital Investment (£'000)																				
Total capital investment requirement	-	-	-	10,000.0	16,394.3	14,372.1	4,834.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulative capital investment requirement	-	-	-	10,000.0	26,394.3	40,766.3	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5	45,600.5
Grant Funding	-	-	-	10,000.0	16,394.3	14,372.1	4,834.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Depot - Balance Sheet Extract																				
Opening Fixed Asset Balance	-	-	-	-	9,750.0	25,484.4	38,837.3	42,531.5	41,391.5	40,251.4	39,111.4	37,971.4	36,831.4	35,691.4	34,551.4	33,411.4	32,271.4	31,131.3	29,991.3	28,851.3
Additions	-	-	-	10,000.0	16,394.3	14,372.1	4,834.2	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation (40 yr Annuity proxy)	-	-	-	(250.0)	(659.9)	(1,019.2)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)	(1,140.0)
Closing balance	**-**	**-**	**-**	**9,750.0**	**25,484.4**	**38,837.3**	**42,531.5**	**41,391.5**	**40,251.4**	**39,111.4**	**37,971.4**	**36,831.4**	**35,691.4**	**34,551.4**	**33,411.4**	**32,271.4**	**31,131.3**	**29,991.3**	**28,851.3**	**27,711.3**
Fixed Asset - Depot Balance Sheet line item	-	-	-	9,750	25,484	38,837	42,531	41,391	40,251	39,111	37,971	36,831	35,691	34,551	33,411	32,271	31,131	29,991	28,851	27,711

Franchising - Cash Flows	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/2032	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42
Income (£'000)																				
Supported / Franchise Services Revenue	5,771.5	7,159.8	16,591.6	68,998.0	81,675.6	109,906.1	150,324.9	171,610.4	163,835.0	159,001.6	155,585.0	151,917.0	148,302.1	145,376.2	143,721.4	142,177.8	140,702.2	139,872.7	138,349.6	138,021.5
Additional Income	10,186.5	9,879.6	9,357.2	9,507.3	9,665.9	9,856.5	10,053.6	10,254.7	10,459.8	10,669.0	10,882.4	11,100.0	11,322.0	11,548.5	11,779.5	12,015.0	12,255.3	12,500.4	12,750.5	13,005.5
Total income	**15,958.1**	**17,039.4**	**25,948.8**	**78,505.3**	**91,341.5**	**119,762.6**	**160,378.6**	**181,865.1**	**174,294.8**	**169,670.6**	**166,467.4**	**163,017.0**	**159,624.1**	**156,924.7**	**155,500.8**	**154,192.8**	**152,957.6**	**152,373.2**	**151,100.1**	**151,027.0**
Expenditure (£'000)																				
Payments to Operators																				
Supported services	(14,412.1)	(18,798.8)	(38,433.5)	(112,144.8)	(133,962.1)	(172,685.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Franchise payments	-	-	-	-	-	-	(225,103.5)	(251,683.3)	(246,667.9)	(243,333.1)	(243,125.4)	(240,708.3)	(237,672.6)	(237,033.3)	(237,966.7)	(238,254.9)	(239,863.0)	(241,220.4)	(241,209.8)	(243,514.4)
ENCTS payments	(51,423.8)	(51,463.3)	(48,795.3)	(29,380.2)	(26,732.9)	(17,691.3)	(6,726.3)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total payments to operators	**(65,835.9)**	**(70,262.1)**	**(87,228.8)**	**(141,525.0)**	**(160,695.1)**	**(190,376.5)**	**(231,829.8)**	**(251,683.3)**	**(246,667.9)**	**(243,333.1)**	**(243,125.4)**	**(240,708.3)**	**(237,672.6)**	**(237,033.3)**	**(237,966.7)**	**(238,254.9)**	**(239,863.0)**	**(241,220.4)**	**(241,209.8)**	**(243,514.4)**
Grant Funding																				
Cost of Depots	-	-	-	(15,000.0)	(24,010.4)	(6,058.3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Grant Funding of Depots	-	-	-	15,000.0	24,010.4	6,058.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Financing Costs																				
Transitional Costs	-	-	-	(315.0)	(843.6)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)	(2,494.2)
Total Financing Costs	**-**	**-**	**-**	**(315.0)**	**(843.6)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**	**(2,494.2)**
Overheads																				
Sundry Operating Costs	(8,711.7)	(11,304.3)	(11,513.8)	(11,761.1)	(11,957.4)	(12,193.2)	(12,437.1)	(12,685.8)	(12,939.5)	(13,198.3)	(13,462.3)	(13,731.5)	(14,006.2)	(14,286.3)	(14,572.0)	(14,863.4)	(15,160.7)	(15,463.9)	(15,773.2)	(16,088.7)
Staff Costs	(10,752.5)	(12,273.9)	(11,960.3)	(12,223.2)	(12,544.9)	(12,917.8)	(17,543.5)	(18,562.5)	(18,933.7)	(19,312.4)	(19,698.7)	(20,092.6)	(20,494.5)	(20,904.4)	(21,322.5)	(21,748.9)	(22,183.9)	(22,627.6)	(23,080.1)	(23,541.7)
Total overheads	**(19,464.2)**	**(23,578.2)**	**(23,474.1)**	**(23,984.4)**	**(24,502.3)**	**(25,111.0)**	**(29,980.6)**	**(31,248.3)**	**(31,873.3)**	**(32,510.7)**	**(33,161.0)**	**(33,824.2)**	**(34,500.7)**	**(35,190.7)**	**(35,894.5)**	**(36,612.4)**	**(37,344.6)**	**(38,091.5)**	**(38,853.3)**	**(39,630.4)**
GROSS EXPENDITURE	**(85,300.1)**	**(93,840.4)**	**(110,702.9)**	**(165,824.4)**	**(186,041.0)**	**(217,981.6)**	**(264,304.5)**	**(285,425.7)**	**(281,035.3)**	**(278,338.0)**	**(278,780.5)**	**(277,026.6)**	**(274,667.4)**	**(274,718.1)**	**(276,355.3)**	**(277,361.5)**	**(279,701.8)**	**(281,806.1)**	**(282,557.3)**	**(285,639.0)**
NET EXPENDITURE (Levy required)	**(69,342.0)**	**(76,801.0)**	**(84,754.1)**	**(87,319.1)**	**(94,699.5)**	**(98,219.1)**	**(103,926.0)**	**(103,560.6)**	**(106,740.4)**	**(108,667.3)**	**(112,313.1)**	**(114,009.5)**	**(115,043.3)**	**(117,793.4)**	**(120,854.5)**	**(123,168.6)**	**(126,744.2)**	**(129,432.9)**	**(131,457.2)**	**(134,612.0)**

Fleet Capital Investment & Financing	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/2032	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42
Fleet acquisition profile																				
Fleet acquired	-	-	-	-	-	1,495	-	107	101	153	96	44	89	81	44	27	75	160	200	-
Cumulative fleet	-	-	-	-	-	1,495	1,495	1,602	1,703	1,856	1,952	1,996	2,085	2,166	2,210	2,237	2,312	2,472	2,672	2,672
Fleet Capital Investment (£'000)																				
Diesel Fleet Investment	-	-	-	-	-	85,094	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ZEV Fleet Investment	-	-	-	-	-	-	-	61,231	58,953	91,092	58,299	27,255	56,231	52,200	28,923	18,103	51,292	111,611	142,305	-
ZEV Fit out Investment	-	-	-	-	-	-	-	7,531	7,250	11,203	7,170	3,352	6,916	6,420	3,557	2,226	6,308	13,727	17,501	-
Cumulative Fleet Investment	**-**	**-**	**-**	**-**	**-**	**85,094**	**85,094**	**153,855**	**220,059**	**322,353**	**387,822**	**418,428**	**481,575**	**540,196**	**572,675**	**593,005**	**650,605**	**775,943**	**935,749**	**935,749**
ZEV Fleet Grant Funding	-	-	-	-	-	-	-	24,273	23,370	36,110	23,111	10,804	22,291	20,693	11,466	7,176	20,333	44,245	56,412	-
ZEV Fleet Financed	-	-	-	-	-	-	-	36,958	35,583	54,981	35,188	16,450	33,940	31,507	17,457	10,927	30,959	67,367	85,893	-
Cumulative Fleet Investment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**61,231**	**120,184**	**211,276**	**269,575**	**296,829**	**353,061**	**405,261**	**434,184**	**452,287**	**503,579**	**615,190**	**757,495**	**757,495**
Financing costs - profiled (£'000)																				
Opening balance	-	-	-	-	-	-	88,509.0	91,455.0	133,094.7	167,078.9	213,265.0	240,501.1	246,789.9	265,107.2	276,962.9	276,666.9	275,308.6	294,760.0	328,379.8	374,101.1
Drawdown	-	-	-	-	-	92,485.2	7,116.6	48,093.1	42,754.6	58,478.1	42,108.4	22,813.7	37,559.3	33,811.0	23,714.7	24,441.1	48,253.9	67,619.9	86,215.4	-
Interest Accrued	-	-	-	-	-	4,522.5	4,676.1	6,823.9	8,599.0	11,029.7	12,487.8	12,876.1	13,904.7	14,617.1	14,703.1	14,724.2	15,822.2	17,720.4	20,273.7	18,293.5
Interest Paid	-	-	-	-	-	(4,522.5)	(4,676.1)	(6,823.9)	(8,599.0)	(11,029.7)	(12,487.8)	(12,876.1)	(13,904.7)	(14,617.1)	(14,703.1)	(14,724.2)	(15,822.2)	(17,720.4)	(20,273.7)	(18,293.5)
Principal	-	-	-	-	-	(3,976.2)	(4,170.6)	(6,453.4)	(8,770.5)	(12,292.0)	(14,872.3)	(16,524.9)	(19,242.0)	(21,955.2)	(24,010.7)	(25,799.5)	(28,802.5)	(34,000.2)	(40,494.1)	(42,474.3)
Closing balance	**-**	**-**	**-**	**-**	**-**	**88,509.0**	**91,455.0**	**133,094.7**	**167,078.9**	**213,265.0**	**240,501.1**	**246,789.9**	**265,107.2**	**276,962.9**	**276,666.9**	**275,308.6**	**294,760.0**	**328,379.8**	**374,101.1**	**331,626.9**
Fleet - Balance Sheet Extract																				
Opening Fixed Asset Balance	-	-	-	-	-	-	79,420.7	73,747.8	132,252.2	183,785.4	264,589.8	304,203.5	306,914.8	337,956.7	360,563.8	354,865.4	335,661.2	349,887.7	423,496.1	520,918.8
Additions	-	-	-	-	-	85,093.6	-	68,761.4	66,203.7	102,294.6	65,468.6	30,606.5	63,146.9	58,620.2	32,479.9	20,329.5	57,600.2	125,338.0	159,805.9	-
Depreciation (15 yr Annuity proxy)	-	-	-	-	-	(5,672.9)	(5,672.9)	(10,257.0)	(14,670.6)	(21,490.2)	(25,854.8)	(27,895.2)	(32,105.0)	(36,013.0)	(38,178.4)	(39,533.7)	(43,373.7)	(51,729.5)	(62,383.3)	(62,383.3)
Closing balance	**-**	**-**	**-**	**-**	**-**	**79,420.7**	**73,747.8**	**132,252.2**	**183,785.4**	**264,589.8**	**304,203.5**	**306,914.8**	**337,956.7**	**360,563.8**	**354,865.4**	**335,661.2**	**349,887.7**	**423,496.1**	**520,918.8**	**458,535.5**
Fixed Asset - Fleet Balance Sheet line item	-	-	-	-	-	79,421	73,748	132,252	183,785	264,590	304,204	306,915	337,957	360,564	354,865	335,661	349,888	423,496	520,919	458,536
Long Term Liability - Long Term Loans Balance S	-	-	-	-	-	88,509	91,455	133,095	167,079	213,265	240,501	246,790	265,107	276,963	276,667	275,309	294,760	328,380	374,101	331,627

Depot Capital Investment & Financing	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/2032	2032/33	2033/34	2034/35	2035/36	2036/37	2037/38	2038/39	2039/40	2040/41	2041/42
Depot Capital Investment (£'000)																				
Total capital investment requirement	-	-	-	15,000.0	24,010.4	6,058.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Accumulative capital investment requirement	-	-	-	15,000.0	39,010.4	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8	45,068.8
Grant Funding	-	-	-	15,000.0	24,010.4	6,058.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depot - Balance Sheet Extract																				
Opening Fixed Asset Balance	-	-	-	-	14,625.0	37,660.2	42,591.8	41,465.1	40,338.3	39,211.6	38,084.9	36,958.2	35,831.5	34,704.7	33,578.0	32,451.3	31,324.6	30,197.9	29,071.2	27,944.4
Additions	-	-	-	15,000.0	24,010.4	6,058.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation (40 yr Annuity proxy)	-	-	-	(375.0)	(975.3)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)	(1,126.7)
Closing balance	**-**	**-**	**-**	**14,625.0**	**37,660.2**	**42,591.8**	**41,465.1**	**40,338.3**	**39,211.6**	**38,084.9**	**36,958.2**	**35,831.5**	**34,704.7**	**33,578.0**	**32,451.3**	**31,324.6**	**30,197.9**	**29,071.2**	**27,944.4**	**26,817.7**
Fixed Asset - Depot Balance Sheet line item	-	-	-	14,625	37,660	42,592	41,465	40,338	39,212	38,085	36,958	35,831	34,705	33,578	32,451	31,325	30,198	29,071	27,944	26,818

WEST MIDLANDS COMBINED AUTHORITY BUS ASSESSMENT BUSINESS CASE: MANAGEMENT CASE

Contents

Figures

Tables

1 Introduction

Purpose

1.1 This Management Case considers:

(a) current mechanisms and models in place within the Authority to deliver the Reference Case;

(b) how the Authority would deliver the Future Partnership and the Franchising Scheme;

(c) factors which may influence the deliverability and robustness of arrangements within the Authority; and

(d) how transition to a Delivery Option, and the associated risks, would be managed.

1.2 This Management Case has been developed on the basis of:

(a) the information provided in the Transport Act, the Franchising Guidance and relevant supporting documentation; and

(b) the data collected from Operators using powers under the Transport Act,

at the time of writing.

Summary of this Management Case

1.3 This Management Case is split into the following paragraphs:

(a) **Paragraph 2 - Operating Model**: the Authority's current operating model and how this would be utilised and amended for each Delivery Option;

(b) **Paragraph 3 - Transitional Change and Mobilisation**: the transitional changes that the Authority would need to implement in respect of each Delivery Option including its approach to cross-boundary Services and mobilisation;

(c) **Paragraph 4 – Benefits Management, Performance Management**: how the Authority would actively manage the chosen Delivery Option to maximise the benefits achieved and how it would vary the West Midlands Bus Network, if required, to respond to change and challenge;

(d) **Paragraph 5 - Stakeholder Engagement**: the engagement activities which will be undertaken by the Authority in conjunction with its selection of its preferred Delivery Option;

(e) **Paragraph 6 - Risk Register and Risk Mitigation**: the arrangements for risk management for the Delivery Options, including a risk register;

(f) **Paragraph 7 – Programme Management and Governance**: the Authority's proposed programme management and governance arrangements under the Delivery Options; and

(g) **Paragraph 8:** summary of this Management Case.

Fulfilment of requirements of the Franchising Guidance

1.4 In producing this Management Case, attention has been given to the requirements of the Franchising Guidance and the relevant sections of the HM Treasury's Green Book Guidance.

1.5 Section 123B of the Transport Act requires authorities to consider, as part of their assessment, how they would make and operate the Franchising Scheme, how it would successfully deliver and manage the Delivery Options, how it would manage and mitigate risk in relation to each Delivery Options, and how it intends to manage the transition process from the current system to the introduction of any of the Delivery Options.

1.6 Table 5-1 highlights how this Management Case meets the Franchising Guidance.

Table 5-1: Fulfilment of the requirements of the Franchising Guidance

Para	Content of Franchising Guidance	How the case meets this requirement
1.68	*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.*	This Management Case considers how the Authority would make and operate the Franchising Scheme. In particular, see paragraph 2 for discussions on the updated operating models required for the Delivery Options; paragraph 3 for the transitional changes that would be required to be implemented for each Delivery Option; and paragraph 4 for how the Authority would manage the Delivery Options.
1.69	*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.*	The operating model sets out how the Authority would manage the Delivery Options on an ongoing basis and can be found in paragraph 2 of this Management Case. Paragraph 4 demonstrates how the Delivery Options would be monitored to ensure benefit realisation. Risk management arrangements including key risks in relation to the Delivery Options, with accompanying mitigations, are discussed in paragraph 6.
1.70	*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*	The management of the transition process in relation to each Delivery Option is detailed in paragraph 3 of this Management Case.

Para	Content of Franchising Guidance	How the case meets this requirement
	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.	Paragraph 6 sets out a risk register, identifying potential risks around transition and how these will be mitigated and managed.
1.71	*In developing the management case of this assessment, an authority or authorities should ensure they have considered for each option:*	-
	• *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;*	Governance and management structures for the design and implementation of each Delivery Option can be found in paragraph 7 of this Management Case.
	• *What procurement and contract management processes, if any, are required for the successfully introduction and ongoing management of the proposal; and*	Paragraph 3 addresses additional staffing requirements and team structures for each Delivery Option. Procurements and contract management processes are further explored in the Commercial Case.
	• *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.*	This Management Case contains a list of key deliverability risks and their mitigations, related to both the transition and ongoing management of the Delivery Options, in paragraph 6.

2 Operating Model

Introduction

2.1 An operating model is the operational design that allows an organisation to deliver its strategic objectives by ensuring appropriate people, processes and systems, with the required capabilities, are in place. Accordingly, the Authority's operating model will be designed to ensure the Authority is able to achieve the objectives for the chosen Delivery Option.

2.2 The extent of change required to the Authority's current operational design will differ depending on the chosen Delivery Option (with a bigger change being required for Franchising). This paragraph 2 considers the structure that the Authority would employ for each Delivery Option, including whether additional specialist staff resource would be required to deliver that Delivery Option. This, in-turn, evidences that the Authority would be able to meet the challenges of implementing the desired Delivery Option from an operational point of view and have a pathway through the development, implementation and in-life stages of the chosen Delivery Option.

Components of the Current Authority Operating Model

2.3 The Reference Case is discussed in the Strategic Case in further detail, but in overview:

(a) the EP under the Reference Case is the current regulatory system for the West Midlands bus market and provides a framework to meet the ambitions of the Authority detailed in the VfB; and

(b) it is a collaborative approach to public transportation (between the Authority, constituent authorities and Operators) that aims to improve the quality, efficiency, and overall experience of using Services.

2.4 Therefore, an existing operating model is in place to deliver the Authority's obligations and responsibilities in the Reference Case. This model encourages collaboration between LTAs and Operators through the setting of joint objectives and actions for all parties. For example, a primary objective is the requirement for Operators to enter a ticketing arrangement (nBus) that should not be priced above Operators' equivalent ticket products. This simplification of ticketing arrangements includes a more consistent suite of ticket products between Operators and offers passengers the ability to travel on all Operators' Services for the same price.

2.5 Governance under the Reference Case is discussed further at paragraph 7 of this Management Case. The EP is primarily governed by a single EP Reference Group (which is accountable to the Bus Alliance Board). The EP Reference Group is comprised of various Operators, LAs and transport leads across the Authority's Region, and is responsible for:

(a) the ongoing development, delivery and management of the EP Scheme;

(b) the enforcement of the Operator standards in the EP Scheme;

(c) delivering bus passenger improvements (in conjunction with Operators) and facilitating and ensuring open, honest, fair and productive discussions in the development, delivery and management of the EP Scheme; and

(d) considering, and making formal decisions on potential variations to, the EP Scheme (subject to requirements to undertake the Operator objection mechanism).

2.6 The EP Reference Group review the EP Scheme at least annually to ascertain performance, success and any required amendments or updates (and, at least every second year, the EP Reference Group will consider the appropriateness of the milestone dates for the implementation of non-diesel vehicles).

2.7 The Authority continue to maintain the RTCC as a hub for effective management of the highway and West Midlands Bus Network and to provide up-to-date information for passengers.

2.8 Under the current operating model, the Authority also engages in the following activities:

(a) **Supported Services**: evaluating the need for the continuation, or the provision of, Supported Services, and subsidising socially necessary Services where they are not provided on a commercial basis. To achieve this, the Authority is required to understand the costs and consider whether they are necessary, provide support (either on a de-minimis basis or through undertaking a competitive procurement process) and thereafter managing the delivery of the Supported Services by contracted Operators;

(b) **Customer Support**: providing help points at bus stations to enhance safety of users, giving a 24-hour response, and operates circa. 1,400 real time information displays at bus stops. The Authority also operates a customer contact centre, providing help and support to passengers in using the public transport network via a range of media (phone, email, social media and live chat). This allows it to maintain an overall view on the quality of bus operations in the Authority's Region. This is in addition to Operators' own customer support activities;

(c) **Network design**: whilst network design is primarily a commercial activity undertaken by Operators, the Authority works with Operators to keep the network under review, facilitating better coordination between an individual Operator's own Services at interchanges or on common corridors, and engaging with the Government to seek additional support where required;

(d) **Network operation**: coordinating network management by bringing together Operators and local highway authorities to ensure highways are managed effectively and network resilience is maintained across the network by providing clear reporting lines to address network management issues;

(e) **Network Performance**: sharing information with the Traffic Commissioner and Driver and Vehicle Standards Agency if it believes an Operator is not adhering to the requirements imposed on Local Qualifying Services under the EP under the Reference Case;

(f) **Fares and Ticketing**: working with Operators to reform ticketing, whereby the nBus multi-Operator tickets and multi-Operator contactless capping become the main form of multi-journey bus tickets, significantly reducing the overall number of tickets on offer. The Authority continue to work with Operators to ensure that concessionary travel is promoted and available to all eligible residents;

(g) **Depot Ownership**: the Authority own a depot in Walsall (which is leased to NX). The Authority are not responsible for the day-to-day maintenance and operation of this depot but do have a team whose responsibilities include managing the lease of the depot to NX;

(h) **Performance Monitoring and Updating:** carrying out performance monitoring of all Services and journey time punctuality and reliability, utilising AVL data feed analysis, backed up by on-street monitoring; working with the Operator(s) concerned to seek to address the identified issues. As agreed in the EP, and using their devolved registration powers, the Authority can seek to cancel registrations for Services not meeting specified punctuality and reliability standards;

(i) **Engagement**: engaging in meaningful stakeholder consultation and engagement with partners and key public and private businesses; and

(j) **Customer Relations**: developing a new bus passenger charter with Operators - to create a step change in expectation and experience, and an associated monitoring regime.

2.9 In addition to the above activities, Table 5-2 provides an overview of the requirements to successfully deliver the Reference Case, and the division of responsibilities of the Authority, its constituent LAs and/or the Operators. The form of this table is repeated at Table 5-3 and 5-4, so that a comparison of responsibilities can be made between the Reference Case and each Delivery Option.

Table 5-2: Division of responsibilities – The Reference Case

Type	Requirements for delivery	The Authority	LAs	Operator
Strategy and Policy	Local governance arrangements	X	X	
	Local transport planning/network management	X	X	
	Commercial and procurement strategy	X		X
	Transport modelling	X	X	X
Planning and Delivery	Define customer requirements	X		X
	Network planning	X	X	X
	Network review and consultation	X	X	X
	Infrastructure design	X	X	
	Fleet and vehicle purchase			X
	Depot management			X
	Procurement and contract management	X		
	Payments to Operators	X		

Type	Requirements for delivery	The Authority	LAs	Operator
	Registration of routes	X		
Operate and Maintain	Home to school transport		X	X
	Commercial Services			X
	Supported Services	X		
	Fares and ticketing	X		X
	Concessionary passes	X		
	Marketing and branding	X	X	X
	Travel information	X		X
	Maintain bus infrastructure	X	X	
	Maintain fleet and vehicles			X
	Maintain depots			X

Extending Responsibilities under the Future Partnership Structure

2.10 Under the Future Partnership, the same operating model as discussed above for the Reference Case would remain in place. However, the Authority's responsibilities would be extended in the following areas:

(a) **Depots**: the Authority would acquire an additional four depots; one large depot in Dudley (with c.200 PVR capacity) and three smaller depots in Coventry, South Birmingham and Wolverhampton (with c.40 PVR capacity), to add to its existing depot at Walsall. These depots would be used as a base for the delivery of Supported Services, with the anticipation that Supported Services running in a particular geography are grouped together so that they all run out of the same depot and the Supported Services Contracts are let at the same time. The Operator who undertakes such a group of Supported Services would occupy the relevant depot (creating a synergistic relationship between the depot and service provision) and therefore the Authority would not be responsible for the day-to-day maintenance and operation at these depots. However, the Authority will have responsibility for, and will need the required competencies to, for example, develop business cases for depot acquisition, shape the acquisition strategy, identify and acquire depots and/or design the construction of new facilities, manage the process for the identification of Operators to occupy depots, and manage the terms of such occupation (whether through Supported Services Contracts, a lease, or otherwise) including activities such as maintenance checks and condition management. The Authority will remain ultimately responsible for the depots;

(b) **Supported Services**: Supported Services Contracts would be let on a gross-cost basis (rather than a net cost basis as per the Reference Case). The Authority will be responsible for mapping the incumbent Supported Services Contracts, re-aligning and redefining these and bundling appropriate Services together to enable packages of Services to be operated out of the same Authority-owned depot and defining a procurement strategy for the re-letting of Supported Services Contracts in a more coordinated manner and changing Supported Services contract forms. This approach is anticipated to lead to more competition; and

(c) **Ticketing**: a centralised and independent sales team would be set up to deliver sales of the multi-operator nBus tickets. This would be delivered through a TiCo which Operators and the Authority would own shares in. TiCo would focus on revenue maximisation for nBus with a particular focus on off-bus sales. This will include "selling" into major employers, attractors and academic organisations. The centralised function would be more efficient than the currently dispersed approach and with scrutiny from its shareholders the TiCo would be more focused on growing revenue overall, rather than growing revenue for an individual Operators.

2.11 In addition to the above activities, Table 5-3 provides an overview of the requirements to successfully deliver the Future Partnership, and the division of responsibilities of the Authority, its constituent LAs and/or the Operators.

Table 5-3: Division of responsibilities – The Future Partnership

Type	Requirements for delivery	The Authority	LAs	Operator
Strategy and Policy	Local governance arrangements	X	X	
	Local transport planning/network management	X	X	
	Commercial and procurement strategy	X		X
	Transport modelling	X	X	X
	Define customer requirements	X		X

Type	Requirements for delivery	The Authority	LAs	Operator
Planning and Delivery	Network planning	X	X	X
	Network review and consultation	X	X	X
	Infrastructure design	X	X	
	Fleet and vehicle purchase			X
	Depot management	X		X
	Procurement and contract management	X		
	Payments to Operators	X		
	Registration of routes	X		
Operate and Maintain	Home to school transport		X	X
	Commercial Services			X
	Supported Services	X		
	Fares and ticketing (including TiCo)	X		X
	Concessionary passes	X		
	Marketing and branding	X	X	X
	Travel information	X		X
	Maintain bus infrastructure	X	X	
	Maintain fleet and vehicles			X

Type	Requirements for delivery	The Authority	LAs	Operator
	Maintain depots (5x depots)	X		X

Components of a Franchising Operating Model

2.12 Franchising would require the Authority to undertake several new responsibilities, and assume accountability for additional activities, to ensure that all the anticipated benefits of Franchising (as set out in the Strategic Case) are realised. As a result, the Authority's current organisation and operating framework would need to be expanded and would require changes and updates to people, skills, technology and governance.

2.13 The main Authority responsibilities that would differ under Franchising (when compared to the Reference Case) include:

(a) **Strategy and Policy**: becoming accountable for the procurement strategy for the entire West Midlands Bus Network. Other than Services subject to Service Permits, much of the network would be tendered by the Authority under Franchise Contracts. This would present opportunity for the Authority to develop an appropriate strategy to meet the needs of bus-users, communities and businesses in the Authority's Region;

(b) **Transition Arrangements:** managing the transition to Franchising, including provisions to ensure continuity of Services in the transition period;

(c) **Network Design:** being responsible for the West Midlands Bus Network (in terms of routes, frequency of service and timings of Services). This could be designed so that it better integrates with other transport modes. The Authority would be able to design a more efficient, less-fragmented network, and ensure that local communities, such as socially disadvantaged groups that have an above-average reliance on public transport, benefit from an updated network design. This will need to consider an uplift in service provision and commercial arrangements to meet peaks in demand from specific events held at venues in the Authority's Region;

(d) **Fleet:** having accountability for fleet, including the standards such as size of vehicle, fuel type and facilities onboard, and the ongoing management of the fleet;

(e) **Depots**: acquiring, operating and maintaining depots, although during the term of Franchise Contracts the operations and maintenance of depots will predominantly sit with the Operator;

(f) **Revenue Risk:** the Authority would take full revenue risk and so require persons with the necessary skills to manage this appropriately, including revenue protection and process assurance. The Authority will be responsible for negotiating the commercial arrangements for the acceptance of rail and metro tickets to offer network resilience at times of disruption;

(g) **Fares and Ticketing**: establishing products, fare structure, and being responsible for setting pricing levels. The Authority would also need to enhance its capabilities for managing revenue protection and commercial acumen;

(h) **Marketing and Brand Management**: the Authority would own, develop, specify and implement branding and marketing initiatives, and commercialise the network (via advertising, intelligence and data);

(i) **Provision of Information**: providing (to a greater extent than under current arrangements) travel information to bus passengers. This would include communicating timetables, maps, disruptions, and enabling journey planning with real-time information;

(j) **Contract Management**: procuring, evaluating and awarding Franchise Contracts, managing contract documentation and service delivery, managing and executing variations to the contract documents, managing dispute escalation procedures, data analysis and service performance requirements;

(k) **Performance Monitoring:** monitoring Operator performance under the Franchise Contracts, assessing whether benefits are being realised, considering actions to be taken where there is underperformance, and (where required) implementing changes to the Franchising Scheme. This would include gathering data and conducting customer consultation;

(l) **Network Updates**: being responsible for reviewing and updating the network on an ongoing basis (as may be required). Data would be collected by the Authority (for example, from the performance monitoring exercises, feedback from Operators, passengers and neighbouring LAs) to inform the Authority of any network updates that may be needed after the implementation of Franchising to ensure it continues to meet the needs of local communities; and

(m) **Customer Relations**: managing the relationship with passengers, including engaging with passengers to improve the customer experience with the aim of managing customer queries and complaints, and to ensure the customer experience (as a whole) is not adversely affected through the transition to Franchising and thereafter such experience is maintained and improved.

2.14 In addition to the above activities, Table 5-4 provides an overview of the requirements to successfully deliver a Franchising Scheme, and the division of responsibilities of the Authority, its constituent LAs and/or the Operators.

Table 5-4: Division of responsibilities – Franchising

	Requirements for delivery	The Authority	LAs	Operator
Strategy and Policy	Local governance arrangements	X	X	
	Local transport planning/network management	X	X	
	Commercial and procurement strategy	X		

	Requirements for delivery	The Authority	LAs	Operator
	Transport modelling	X	X	
Planning and Delivery	Define customer requirements	X		
	Network planning	X	X	O
	Network review and consultation	X	X	O
	Infrastructure design	X	X	
	Fleet and vehicle purchase	X		
	Depot management	X		O
	Procurement and contract management	X		
	Payments to Operators	X		
	Registration of routes	X		
Operate and maintain	Home to school transport	X	X	
	Commercial and Supported Services	X		O
	Fares and ticketing	X		
	Concessionary passes	X		
	Marketing and branding	X	X	
	Travel information	X		
	Maintain bus infrastructure	X	X	

	Requirements for delivery	The Authority	LAs	Operator
	Maintain fleet and vehicles	X		O
	Maintain depots	X		O
	Operation of Service Permits Regime	X		
	Lost Property			O

O = Operators assumes responsibility under Franchise *Contracts/ associated agreements.*

The Authority's Ability to Successfully Manage and Deliver Major Projects

2.15 The Authority has significant experience in successfully managing and delivering large-scale transport projects and schemes within the West Midlands (for example, in relation to West Midlands Metro - a new rail stations programme, and the development and implementation of an integrated transport programme and infrastructure for the Commonwealth Games). It has experience in procuring commercial contracts and their ongoing management over the medium and long-term, which would be important for effective delivery of the Delivery Options, but particularly for Franchising.

2.16 To deliver the chosen Delivery Options, the Authority would:

(a) utilise and develop its existing competencies and experience;

(b) acquire the additional skill sets required to deliver the objectives of the Delivery Option. In some cases, this would be provided through the Authority itself and, in other cases, through the recruitment of additional appropriately skilled staff (whether within the Authority or through the central function within the Authority); and

(c) use its experience of procuring relevant support and external skills to assist its delivery where it considers that specific short-term assistance is also required. This would ensure that the Authority is able to manage and deliver the chosen Delivery Option in a cost-effective and efficient manner.

2.17 Table 5-5 provides an overview of recent large-scale programmes and projects that the Authority has delivered or is in the process of delivering.

Table 5-5: Authority-delivered Projects

Programme Name	Description	Value	Date of Completion	Time/Budget	Key outputs delivered
Integrated Transport Programme, Birmingham Commonwealth Games 2022	Delivery of a multi-modal transport operation and oversight and integration of the delivery of several major capital schemes across the Authority's Region in support of the Birmingham Commonwealth Games 2022.	£52million (Operations)	July 2022	To time and budget.	• Games Transport Plan (Statutory, and Public, Plan for Transport Delivery for the Games) • Spectator and Workforce Transport Operations (Bus Shuttles, Park and Ride, Cycle Hire, Private Hire/Taxi, Spectator Venue Transport operations). • 'Games Family' Transport Operations (VIP, Athletes, Media and Technical Officials transport). • Traffic and Network Management Operations • Travel Demand Management • Transport Communications and Engagement • Readiness and Testing for Operations • B2022 transport operations integration and oversight of capital project delivery.

Programme Name	Description	Value	Date of Completion	Time/Budget	Key outputs delivered
Perry Barr Station and Bus Interchange	New Stations building and improved facilities. New bus interchange and improved public realm.	£30.6 million	May 2022	This project had its timeframe for completion accelerated to meet the Commonwealth Games 2022 requirements. Consequently, it was re-baselined for costs to enable completion within the timeframe.	• Modern, fit for purpose new rail station. • New Bus Interchange with enhanced shelters and improved layout. • Improved public realm. • Increased capacity. (supporting 1.1million passengers per year) • Improved facilities and access. • Critical part of an integrated regeneration programme for Perry Barr.
University Station	New station to improve facilities, access, public realm, future proof capacity and integrate and improve access to nearby educational and health institutions.		February 2024	This project was re-baselined for cost and time due to the requirements to cease work during the Commonwealth Games 2022 and the cumulative impacts of supply chain constraints, Covid-19 and	• The new station buildings have improved facilities (new toilets, space for an NHS facility, new ticket office, seating, customer information screens and CCTV, full length platform canopies). • New entrances and exits with improved accessibility. • New pedestrian bridge over the

Programme Name	Description	Value	Date of Completion	Time/Budget	Key outputs delivered
				hyper-inflation.	canal giving direct access to the University. • Increasing capacity from 4million passengers per year to be able to accommodate up to 7million per year by 2069.

The Authorities Competencies and Required Competencies

2.18 The Authority has the duties/powers and levers necessary to support Services. These include responsibilities for local infrastructure and other related issues, such as the ability to improve bus priority measures (for example, through bus lanes or enforced clearways or, in conjunction with constituent LAs, provide new bus stops and passenger waiting facilities). The Authority drives key Local Government policy that would influence the success of Services and, as outlined in paragraph 7 of this Management Case, has robust governance arrangements.

2.19 The above requires capabilities, in terms of people and skills, to be employed that are relevant to operating a bus system in the desired manner, and reflective of the amount of control and opportunity provided to the Authority. Given the Authority is currently operating the EP under the Reference Case, it already possesses the relevant skills and functions to ensure the successful current delivery of Services. However:

(a) due to the significant pressures that the West Midlands Bus Network is currently under, some additional roles will be needed under the Reference Case as a matter of course. Please see paragraph 2.24 of this Management Case for further information; and

(b) different and additional capabilities would be required for the Future Partnership and Franchising.

2.20 Accordingly:

(a) Table 5-6 provides an overview of the competencies functions and capabilities that would be required by the Authority to deliver and manage the Future Partnership, with a comparison to the competencies and functions delivered by the Authority under the Reference Case; and

(b) Table 5-7 provides an overview of the competencies functions and capabilities that would be required by the Authority to deliver and manage Franchising, with a comparison to the competencies and functions delivered by the Authority under the Reference Case.

Table 5-6: Required Competencies for the Future Partnership

Function	Competencies	Additional capacity or competency	Extent required by the Authority
Management and Strategy	• Setting and implementing overall bus strategy • Governance, assurance and oversight requirements • Partnership management • Forecasting future requirements and reporting • Continuous innovation with the aim of improving overall service and programme delivery	Additional management resource would be needed in relation to sculpting a depot strategy and implementing the acquisition of depots to aid the bus strategy.	Competency exists within the Authority with minimal need to develop.
Commercial Operations	• Market engagement • Contract governance and management, including variations • Developing and monitoring pricing and ticketing strategies • Managing service delivery	Given the TiCo offering, additional skills would be required to operate and run this company, and pro-actively and intelligently manage this. Given the effect depot ownership is anticipated to have on Supported Services (for example, the re-alignment of Services / Services bundled together leading to an anticipated increase in Supported Services), additional competencies will be required to manage this.	Competencies partially in place within the Authority, but with some additional requirements (as detailed).

Function	Competencies	Additional capacity or competency	Extent required by the Authority
	• Managing dispute resolution procedures • Management of data-collected to assess performance and service-offering	Given the move to gross cost Supported Services Contracts, there will be additional responsibilities on the Contract Governance Team (as Supported Services are updated and re-let), and processes required to protect, manage and monitor revenue. Given the Operators will no longer be incentivised to maximise patronage, there may also need to be additional resource required to ensure contract quality adherence and marketing and promotion.	
Operations	• Managing major events and unplanned disruptions • Developing and implementing a network safety regime • Analysis of data • Marketing strategies • Stakeholder relationships	Greater operational capacity would be required to manage the anticipated increase in supported and Supported Services.	Competency exists within the Authority with minimal need to develop.
Strategy and Planning	• Network planning, design and updates • Managing Supported Services	The Authority would be responsible for mapping the incumbent Supported Services Contracts; re-aligning and redefining these and bundling Services together; and defining a procurement strategy for the re-letting of Supported Services	Some additional competencies required, to be resourced through the WMCA central-function. Therefore competency

Function	Competencies	Additional capacity or competency	Extent required by the Authority
		Contracts in a more coordinated manner and changing Supported Services contract forms.	exists within the Authority with minimal need to develop.
Customer Services	• Fares and Ticketing • Customer contact centre. Managing customer complaints and queries • Management of transport information • Concessionary pass management • Management of bus stations (customer support, help points, information displays and so on) • Co-ordinate and monitor customer charter	A Customer Services function required under the Future Partnership will be the same / very similar to that currently employed under the Reference Case.	Competency exists within the Authority with minimal need to develop.
Asset Management	• Land and lease management • Infrastructure planning and development	The Authority would purchase and own four additional depots, with Operators ultimately being in-situ at the depots. This limits the Authority's day to day responsibility for maintenance and operation at these depots, however, overall accountability for these depots would remain with the Authority and therefore additional capabilities are required: to shape the acquisition	Some additional competencies required, in the form of a depot asset management team.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
	• Depot management	strategy, to identify and acquire depots, to manage the process for the identification of suitable Operators to utilise the depots, and managing the leasing of some depots. There will be ongoing requirements given the Authority will be the landlord of the depots (for example, maintenance checks, condition assessments and re-letting etc).	
Function to be delivered through the central team within the Authority			
HR	• Managing workforce and implementing HR strategies • Specifying training required	No additional staffing requirements are anticipated under the Future Partnership.	Competency exists within the Authority with minimal need to develop.
Finance	• Financial control and statutory accounting	No additional capabilities required albeit the anticipated increase in supported and Supported Services and transition to gross cost Supported Services Contracts would likely mean that the Authority will require greater support from this team.	Competency exists within the Authority with minimal need to develop.
Procurement	• Developing and delivering the procurement process	Depots will need to be procured and established, potentially updated, and provided to Operators. It is anticipated that the Authority would therefore require greater support from this team, but no additional capabilities required.	Competency exists within the Authority with minimal need to develop.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
Legal	• Provision of legal advice and support	As above, there will be need for legal assistance in the acquiring and letting of depots, and the transition of Supported Services Contracts. Therefore, the Authority would require greater support from this team.	Competency exists within the Authority with minimal need to develop.
Technical Operations	• Manufacture choices • Energy management • Smart charging	Greater technical and engineering expertise would be required within the Authority in relation to its depot ownership, as it would then be accountable for changes to depots to enable the transition to ZEBs, such as the installation of electric charging points.	Competency exists within the Authority, with minimal need to develop.
Sales, Marketing and Communications	• Working collaboratively with Operators to increase sales and help promote the commercial offering • Public relations	Further input will be required from this function in relation to the TiCo offering and pushing forwards activities performed by TiCo. In addition, given the move to gross cost Supported Services Contracts (with the Authority taking revenue risk), there could be a greater marketing requirement to mitigate this risk. The Authority consider this could all be delivered from providing greater reliance on this central function rather than increasing headcount.	Authority to ascertain whether any additional competencies are required.

Table 5-7: Required Competencies for Franchising

Function	Competencies	Additional capacity or competency	Extent required by the Authority
Management and Strategy	• Setting and implementing overall bus strategy • Governance, assurance and oversight requirements • Programme management • Forecasting future requirements and reporting • Continuous innovation with the aim of improving overall service and programme delivery	There will not be an EP Reference Group under Franchising. The degree of executive oversight would need to be greater in light of the increased risk that would fall on the Authority under Franchising, and the greater scrutiny. Accordingly, new Director appointments would be required by the Authority (across bus and commercial) to help manage such risk and comply with all governance requirements. The Authority's current governance model under the Reference Case contains many management levels and potential duplication of responsibilities. An updated governance regime would also be required to allow the Authority to react to the requirements of Franchising, so that the speed of decision making can be increased when the Authority needs to manage the Franchise Contracts and/or Operator performance, and respond to network updates under Franchising. This would include the appointment of a Governance Manager. Need for additional resource could be mitigated in the long-term by utilising short-term resource to set-up a new forum (or building on existing forums) of Authorities who have or are progressing with a Franchising model. This would be set-up	Additional resource and competencies required.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
		for the sharing of knowledge, providing mutual assistance, and for joint working on procurements, projects, and standards.	
Commercial	• Market engagement • Supply-chain structuring and performance • Procurement (tendering, evaluation, selection and award, contracting (including contract documentation)) • Contract governance and management, including variations • Developing and monitoring pricing and ticketing strategies and analysing fares and setting fares • Implementing and managing temporary uplift in service provision to meet point peaks in demand for planned events in the Authority's Region • Negotiating commercial arrangements with TOCs and Metro providers for ticket acceptance at times of disruption	The Authority would require an increase in capacity and skills to deliver the commercial elements of Franchising. Although various skills to meet many of the detailed competencies exist within the Authority's current Bus Services Team, a substantial amount of additional capacity would be required under Franchising, and thus the creation of a Commercial Management Team for Franchising. The tendering and contracting would be performed by individuals with tendering experience, but additional capacity and capability would be required to design Franchise Contracts and conduct an evaluation of tender bids, and award of Franchise Contracts. Additional legal and regulatory expertise would be provided from the Authority central function. Day to day performance managers would be required to monitor and manage service delivery and ensure benefits are being achieved. Bus commercial managers and specialists would be needed to develop stronger contractual relations with Operators (due to the hands-on, collaborative day to day detailed oversight and management of the Operators required under Franchising).	Additional resource and competencies required.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
	• Managing service delivery (for example, Operator performance against contract requirements / KPIs) • Managing dispute resolution procedures • Replacement of a failing Operator to ensure continuity of Services • Monitoring use and management of the fleet and depots • Management of data-collection to assess performance and service-offering • Managing and monitoring (including termination) of Service Permits • Branding and marketing strategies • Increasing demand and revenue receipts through sales • Stakeholder relationships	Given there would be responsibility for setting fares and developing a ticketing strategy, specialists will be required, from economy specialists to monitor pricing and the market, to analysts who are able to set fares, through to sales specialists to develop and implement ticketing strategies. As part of any analysis, consideration would be given to roles in relation to generating revenue and managing costs, people in such roles could transfer to the Authority from existing Operators under the TUPE regime.	

Function	Competencies	Additional capacity or competency	Extent required by the Authority
Financial Planning and Reporting	• Planning and budgeting • Accounting and reporting • Contract payments, revenue collection, processing and reconciliation • Revenue forecasting and monitoring of revenue risk • Monitoring of demand and revenue for commercial insight and general finance management	The Authority would need to engage specialist financial support during the procurement and transition to Franchising. A central Finance Team within the Authority would be utilised to perform the planning, budgeting, accounting and reporting under Franchising. However, given the additional element of payments, reconciliation, and revenue forecasting that would be required under the revenue-risk Franchising model being considered, there would be a requirement to increase the capacity of the Authority's current finance resource. Revenue protection resource would be needed to check that revenue is being collected correctly by Operators in alignment with financial procedures.	Additional resource and competencies required.
Operations	• Real-time operational management • Managing major events, planned and unplanned disruptions • Control room management • Real-time and planned customer messaging • Developing and implementing a network safety regime	The Authority's Bus Operations and Services Team would migrate into a revised Operations Team and undertake a lot of the additional responsibilities for the day to day running of Franchising. However, there would be a need to increase the capacity in this team, and they would work closely with the new Commercial Management Team to meet expectations for the day to day running of a Franchising bus operating model. The current Authority Data Analysis Team would need architects, analysts and systems specialists to ensure the increase of data from passengers, users and Operators, is analysed in the correct manner and they are able to keep up	Additional resource and competencies required.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
	• Analysis of data • Managing highway performance • Managing process with highways scheme promoters, LAs and utility companies to plan for network disruption and mitigation • Managing transition arrangements from the current system • Managing intelligent transport systems	with "demand". This capability would be required to understand customer requirements following customer consultation, and analysing passenger demand and usage data, and thus feeding this into network planning and review. Additionally, this would include collecting and interpreting data to monitor Operator performance. Therefore, this skillset would sit within a bus specific department, to enable collaboration with the other bus specialists such as procurement and contract management. The Authority has an existing Road Traffic Control Centre and CCTV control room. However, additional capabilities may be required for a 24/7 bus control room, back-up contingencies and revenue protection.	
Transport Strategy and Network Planning	• Network planning, design and updates – the ability to specify routes, first and last buses, bus capacities and frequencies by peak/off-peak period and day and publish timetables • Service specifications for Services under Franchise Contract • Managing planned disruptions	Under its current operations, the Authority uses network performance managers and coordination specialist to manage network requirements alongside Operators. Under Franchising, the Authority would take on the responsibility for the ongoing design of the network, coordinating this and updating and transforming the network as required to ensure a less fragmented and consolidated network, better serving customer needs. This would require the employment of additional planning specialists; infrastructure managers; traffic planners, network design functions and route planners.	Additional resource and competencies required.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
	• Performing Service registration requirements • Issuing Service Permits		
Customer Services	• Ticketing delivery • Shaping and delivery of good "customer experience" (delivering excellence) • Providing a customer engagement service to improve the customer experience • Customer Contact Centre. Managing customer complaints and queries • Management of transport information, including information and technology management • Concessionary pass management	Under Franchising, the Authority would have greater control over, and be accountable for, the customer journey experience across all Services under Franchise Contract. Rather than relying on Operators being the first point of contact for passengers, the Authority would assume this role, and would therefore require additional capability for customer communications. The above would include communications and marketing around the transition to Franchising, managing and developing ticketing options, analysing performance and making improvements. Feedback from ongoing consultation and testing exercises with passengers would subsequently feed into the West Midlands Bus Network planning processes. The Authority already employ an integrated Customer Services and Ticketing Team. However, the additional responsibility under Franchising would result in (i) additional performance managers; and (ii) intelligence specialists being employed to oversee this important function of Franchising. This would include specialists in managing the technological offering (for example skills to enable effective	Additional resource and competencies required

Function	Competencies	Additional capacity or competency	Extent required by the Authority
		management and update of the travel website and mobile application(s)).	
Land and Property / Assets	• Land and lease management • Infrastructure planning and development • Depot management • Fleet management and maintenance • Specifying fleet standards • Maintenance of assets and infrastructure	Under Franchising, the Authority would purchase and own depots, with the intention that Operators would be responsible for ongoing depot management and maintenance under the terms of Franchise Contracts (or separate depot leases). The overall accountability for depots would lie with the Authority, therefore additional capabilities would be required, at a technical level (for example, building design, including structural, mechanical and electrical engineering; civil engineering including drainage; and geotechnical engineering); and for their ongoing management. Skillsets for determining the specification and standards of fleets would be required under Franchising, which currently exist in a limited fashion within the Authority. This would require new commercial leads for fleet (focusing on the design of the operating model and associated strategies), fleet managers, service officers and evolution managers. Given the additional asset ownership and responsibility under Franchising, additional capacity and skills, in the form of heads of asset management, would be required.	Additional resource and competencies required

Function	Competencies	Additional capacity or competency	Extent required by the Authority
Function to be delivered through the central team within the Authority			
HR	• Managing workforce and implementing HR strategies and managing staff to deliver procurement, contract management, sales and marketing, regulatory management and client-side operations • Recruitment • Specifying training required	To deliver the business change for Franchising, organisational development capabilities would be used in the design and implementation of Franchising. This would include developing new organisational and governance structures and processes.	Competency exists within the Authority with minimal need to develop.
Procurement	• Developing and delivering the procurement process • Procuring fleet • Procuring depots	Given the responsibility for: (i) procuring fleet, depots and Operators; and (ii) the requirement for a procurement strategy for the entire West Midlands Bus Network, additional capability and capacity would be required within the central-Authority procurement function. Additional appointments would be needed for specialists to focus on the various procurement work-streams which would be required under Franchising.	Additional resource and competencies required
Legal	• Provision of legal advice and support • Managing and implementing risk and assurance procedures	Additional capacity rather than capabilities required.	Competency exists within the Authority with minimal need to develop.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
	• Providing independent assurance on internal control, risk management and governance		
IT and Systems	• Technology architecture • Selection management • Technology change	The Authority would continue to rely on many of the wider IT corporate systems and skillsets within the Authority but would undertake an assessment of the extent to which additional IT hardware or software would be required under Franchising.	Authority to ascertain whether any additional competencies are required.
Technical Operations	• Manufacture choices • Energy management • Smart charging	Greater technical and engineering expertise would be required under a Delivery Option where the Authority owns depots, as the Authority would then be accountable for changes to depots (for example to enable the transition to ZEBs, the installation of electric charging points, and so on). Limited technical expertise would be required to manage the fleet (on the assumption that the Authority do not manage the fleet on a day-to-day basis), but technical expertise on vehicle procurement would be required.	Additional resource and competencies required
Branding	• Branding • Product and Marketing	Branding of vehicles would be standardised and operated under one Authority brand and therefore a new market offering would need to be devised, communicated, advertised and effectively marketed.	Authority to ascertain whether any additional competencies are required.

Function	Competencies	Additional capacity or competency	Extent required by the Authority
	• Working collaboratively with Operators to increase sales and help promote the commercial offering • Public relations		

Team Structure and Resource

Existing Team Structure

2.21 The required competencies to manage the Reference Case and for general Service delivery in the West Midlands are provided through the personnel that make up the current bus Operations Teams within the Authority, and its associated central support functions. The current teams and operating model contain all relevant expertise that are necessary for these tasks.

2.22 The Authority also manages relationships with Operators who operate Services within the West Midlands, to support the delivery of a good West Midlands Bus Network. This enables the Authority to obtain an early warning of potential difficulties for an Operator and therefore provide sufficient time to put in place a solution to support the affected Services (the Authority has established processes and procedures to manage an Operator ceasing to trade and to ensure the provision of alternative Operators to maintain the Services on the affected routes).

2.23 Appendix 3 to this Management Case shows the organisational roles and teams that are currently involved in managing Services under the Reference Case and Appendix 4 to this Management Case sets out a structure chart in relation to the same, including teams to manage assets, such as bus stations, shelters, flags and information totems, to monitor performance of the West Midlands Bus Network, including supporting existing partnerships and the provision of Supported Services, to facilitate bus transformation, including the move to a ZEB fleet and infrastructure, to provide health and safety assurance and provide customer services, ticketing and the travel information. It excludes corporate support functions such as Finance, Legal and IT teams. It also excludes other transport teams who are involved in optimising the West Midlands Bus Network but are not directly involved in directing or administering elements of Service provision, for example the policy, strategy and network resilience teams.

2.24 Due to the significant pressures that the West Midlands Bus Network is currently under and the continued additional support that the Authority needs to provide, it is estimated that a number of additional roles would be required to continue to provide support under the Reference Case. These additional roles are set out in Table 5-8. These additional roles are set out in Table 5-8 below and would be recruited in line with WMCA's established recruitment policy.

Table 5-8: The Reference Case Additional Resources and Cost

Additional Roles for the Reference Case	Annual Cost including on-costs
Bus Services and Routes Planning Manager	£72,388
Bus Services and Routes Planning Leads x2	£118,580
Future Integrated Network Manager	£72,388
Data Analyst	£59,290
Data Manager	£72,388
Information and Transport Co-ordinator	£64,451
Administrative Support	£40,838
TOTAL	**£500,323**

The Future Partnership Team Structure

2.25 The resourcing requirements for the Future Partnership would need to reflect the extent and content of the Future Partnership (as is agreed with the Operators). The Future Partnership would reflect several of the responsibilities currently assumed by the Authority (through its current operations under the Reference Case). However, given that the Authority would take on some additional responsibility, mainly in relation to depot purchase and management and the change in approach to Supported Services, but also in relation to its role in TiCo and the management of this company, there would be some additional resourcing requirements.

2.26 The Authority has developed a team structure to provide the competencies set out in Table 5-6 for the Future Partnership. This structure is based on the Authority's experience of managing the West Midlands Bus Network, through operating and managing the EP under the Reference Case.

2.27 The structure envisages that the following teams and activities would be required for the delivery and management of the Future Partnership. This broadly aligns with the current Authority bus delivery team structure:

(a) **Strategic and Management Team**: responsible for overall programme management, overall management of the transition arrangements and developing the Future Partnership negotiation strategy, reporting, and driving continuous improvement and innovation.

(b) **Transport Services and Assets, Network and Planning Team:** responsible for continuing to develop and transform the network (in partnership with Operators). This team would also have ultimate control over the depot strategy under the Future Partnership and would work closely with the Bus Operations Team and Central Functions to design and test depot strategy and procure and manage these depots. Given additional depots would be owned under the Future Partnership (four additional depots), additional asset specialist and management resource would be needed to sculpt a depot strategy and implement the acquisition of depots to aid the bus strategy. This required depot resource would sit within the current team structure, rather than the creation of a new "Assets Team" (as per Franchising – paragraph 2.32 onwards). This team would also be responsible for delivery of ZEBs and aligning (as much as possible) the Authority's strategy with that of the Operators under the Future Partnership.

(c) **Bus Operations and Services Team**: responsible for the implementation of the Future Partnership. This team would include various bus specialists who would be responsible for developing and implementing Commercial Objectives, data analysis, performance and network coordination. It would also be responsible for developing and implementing Commercial Objectives and specifications for all depot gross cost contracts.

(d) **TiCo Team**: a management team would be required for the operation of TiCo (alongside Operators), together with a centralised and independent sales team to manage the ticket offering by TiCo.

(e) **Customer Services Team**: responsible for engagement with the wider stakeholder community as well as with the Operators who are party to the Future Partnership. The team would continue the Authority's role in customer engagement and contact, dealing with customer queries, feedback and complaints (by acting as the intermediary with Operators), undertaking and managing consultations and surveys. It would also look to continue to develop and align the ticket offering under the Future Partnership and liaise with the TiCo Team.

(f) **Strategy and Planning Team**: this team would house strategy managers, policy leads, planning managers and insight managers. It would be responsible for the continued evolution of the bus offering within the West Midlands and recommend actions to be taken and improvements and changes to be made to the Future Partnership as time progresses. This team will also be responsible for mapping the incumbent Supported Services; re-aligning and redefining these and bundling services together; and defining a procurement strategy for the re-letting of Supported Services Contracts in a more coordinated manner and changing contract forms.

(g) **Bus Stations Team**: responsible for the management of bus stations within the West Midlands, with responsibilities split of a regional basis within the West Midlands.

2.28 In addition to the teams listed above, several central Authority support functions would be utilised to help it deliver its commitments and obligations under the Future Partnership model. This would include a legal function, procurement function, a sales and marketing function, a finance and accounting function, a technical function, a HR function and an IT function.

2.29 As reflected in the Strategic Case, the current West Midlands Bus Network is made up of a mixture of Supported Services and commercially operated Services. Given the requirement to reduce the subsidies the Authority is providing to Operators (to allow Operators to maintain service provision), there will be a requirement for more Supported Services. Therefore, greater resource from the central team would be required by the Authority (particularly from the procurement and legal functions) to manage the procurement of such tendered and Supported Services, particularly given the change to a gross-cost contract model for Supported Services. This would likely require additional resource for the central functions.

2.30 The procurement and purchase of depots is expected to be managed by the existing resource within the finance, procurement and technical teams (in conjunction with the Transport Services and Assets Team and Network and Planning Team), Given the Authority would be accountable for changes to depots to enable the transition to ZEBs (such as the installation of electric charging points) for depots which it owns, greater technical resource may be required within the technical central function. However, it is not expected that support functions required under the Future Partnership would differ by a significant amount.

2.31 The team structure proposed for the Future Partnership would therefore be aligned to the Authority's current bus delivery team structure under the Reference Case but incorporate those additional roles and resource set-out above. The additional roles reflect the extra resource for the Reference Case together with 2x depot management posts; support for TiCo, and additional procurement support. This is shown at Table 5-9 and is contained within the structure chart in Appendix 4 to this Management Case.

Table 5-9: The Future Partnership Team Structure: Additional Resources and Cost

Additional Roles for the Future Partnership	Annual Cost including on-costs
Bus Services and Routes Planning Manager	£72,388
Bus Services and Routes Planning Leads x2	£118,580
Future Integrated Network Manager	£72,388
Data Analyst	£59,290
Data Manager	£72,388

Additional Roles for the Future Partnership	Annual Cost including on-costs
Information and Transport Coordinator	£64,451
Admin Support	£40,838
Depot Manager	£72,388
Depot Lead	£64,451
TiCo Representative	£86,998
Additional Procurement Officer	£72,388
TOTAL	**£796,547**

Franchising Team Structure

2.32 The Authority's current team structures would require significant change to provide the competencies set out in Table 5-7 for Franchising. In assessing potential changes which would be required to its operations, the Authority has:

(a) identified and used its current teams and structures at the starting point;

(b) identified the additional requirements, capabilities and behaviours which would be required to support Franchising;

(c) identified the areas where the Authority currently has expertise, but where, under Franchising, increased activity would require additional resources and new expertise (with the appropriate level of resource); and

(d) developed a team structure for Franchising, using its experience of managing the current EP under the Reference Case and other modes of transport. An anticipated team structure for Franchising is presented at Appendix 5 to this Management Case. This anticipated structure would be subject to change depending on the needs and requirements as Franchising is implemented and operated.

2.33 The designed Franchising structure envisages that the following teams and activities would be required for the delivery and management of Franchising:

(a) **Strategy Function:** this would be headed by the Transport Executive Director and the Director of Policy, Strategy and Innovation, as per the current arrangements with the Chief Operating Officer, who would lead the Franchising Delivery Team, supporting in the development of strategic opportunities for Services under the Franchising Scheme. The Chief Operating Officer would ensure that the Franchising Leadership Team (being the Director of Customer Experience, the Director of Assets and Environment, the Commercial Director, the Director of Operational Performance and the Director of Bus) also feed into the strategy process;

(b) **Chief Operating Officer:** in recognition of the significant operational challenge that the Authority face in delivering Services under the Franchising Scheme, a Chief Operating Officer would be appointed with full accountability for the provision of Services and responsibility for their performance. They would oversee the day to day administrative and operational functions of the Services under the Franchising Scheme using strong leadership skills to ensure that Franchising is implemented and aligned with wider Authority policy objectives. Furthermore, the Chief Operating Officer would be accountable for the Franchising budget, recruitment, delivering change and ensuring that stretching targets are set and achieved. They would also ensure that the Franchising Scheme is aligned with the wider Authority in terms of its culture and behaviours;

(c) **Customer Experience Team:** led by a Director of Customer Experience and reporting into the COO, the Customer Experience Team would be accountable for the holistic customer experience across Services in the Authority's Region whether that be physical or digital. The remit will include ensuring the specification for new Services (ranging from a website update, through to the ergonomic design layout of a new bus) are written with the passenger at heart. The Director of Customer Experience will also be responsible for the operation and continuous improvement of all customer touch points, whether that be the website or Apps or even the management of interactions between staff and passengers at bus stations. The Customer Experience Team will also provide customer contact services and access to ticketing solutions. The Director of Customer Experience would be supported by a Head of Strategic Customer Experience and a Head of Operational Customer Experience with the former responsible for the development and continuous improvement of the holistic customer experience including acting as sponsor for all projects that impact on the customer experience. This team will also be responsible for ensuring that data and intelligence is collected and converted to insight so that it can continue to exceed customer expectations. The Head of Operational Customer Experience will focus on delivery of operational excellence through current Services in operation. This will include the customer contact centre, bus stations, ticketing and the provision of Ring and Ride Services which could be optimised through the Franchising Scheme. The Head of Operational Customer Experience will work closely with the Head of Strategic Customer Experience under the guidance of the Director of Customer Experience to ensure that a continuous cycle of customer experience improvements are identified, delivered and optimally operated;

(d) **Assets and Environment Team:** led by the Director of Assets and Environment and reporting into the COO, the Assets and Environment Team would be accountable for the acquisition, maintenance, improvement and operation of all assets associated with Franchising including depots, fleet, bus stations and other on-street infrastructure. The Director of Assets and Environment would also be responsible for ensuring that the wider decarbonisation agenda within the Franchising Scheme is aligned to the Authority's policy of achieving Net Zero by 2041. This team would include a Head of Depots and Fleet who would be responsible for the procurement and maintenance (through the Franchise Contracts) of depots and fleet, including the establishment of an inspection programme to ensure that contractual commitments on the Operators are being met. A Head of Operational Assets would also be employed to ensure that all other on-street infrastructure is procured, delivered and well maintained. This would include the current c.12,000 bus stops and poles that are distributed throughout the Authority's Region. The Assets and Environment Team would also include a Head of Information who would be responsible for the information assets distributed throughout the Authority's Region. The Head of Information would also be responsible for ensuring that accurate and up to date timetable information is provided to passengers including real-time passenger information. The Head of Information would work closely with the Head of Strategic Customer Experience to ensure that information provision was delivered in such a way that it exceeded customer expectations. Finally, the Director of

Assets and Environment would be supported by a Compliance and Environment Manager who would be responsible for the collation and dissemination of environmental information associated with the Franchising Scheme. The individual in this role would identify areas for carbon reduction and develop plans to deliver on them. The Compliance and Environment Manager would also play a leading role in the procurement of assets to ensure that environmental considerations are at the forefront of purchasing decisions;

(e) **Commercial Team:** led by the Commercial Director and reporting into the COO, the Commercial Team is accountable for ensuring commercial opportunities associated with Services and bus infrastructure is maximised and revenue targets are met. The Commercial Director will work closely with the Authority's Marketing Team (which would be strengthened to support the Franchising Scheme) with ultimate accountability for marketing spend on the Services. A Head of Retail would be employed to support the Commercial Director with responsibility for all retail touch points from news agents, vending machines, smartcard, websites, through to ETMs used by the Operators. The Head of Retail, supported by an Economist and Commercial Analysts, will also be responsible for price setting and ticketing offers as well as revenue protection. The Commercial Team will also be supported by a Head of Franchise Commercial Management who will ensure that Franchise Contracts have appropriate tensions in place to ensure competitive bids and incentives to encourage optimum commercial operation. Working with the Head of Network Management (see below), the Head of Franchise Commercial Management will also lead negotiations associated with any contract changes under the Franchising Scheme. Furthermore, the Head of Franchise Commercial Management will be responsible for the development of ancillary revenues such as advertising. The Commercial Team would also have a Head of Capital Scheme Development and Sponsorship who would work closely with the Delivery Directorate within the Authority to ensure that capital schemes delivered to support the West Midlands Bus Network are optimised from a commercial perspective. The Head of Capital Schemes Development would also work closely with the Head of Strategic Customer Experience to ensure that scheme sponsorship results in exceptional customer outcomes which in turn encourages greater take up to provide higher levels of revenue. Finally, the Commercial Team would include a Head of Commercial Partnerships and Direct Sales who would engage with corporate, education and third sector organisations to provide access to sales offers to encourage take up and grow the market;

(f) **Operational Performance Team:** led by the Director of Operational Performance and reporting to the COO, the Operational Performance Team would be accountable for the performance regime that ensures the Operators comply with the terms of the Franchise Contracts. The Director of Operational Performance would be supported by a Head of Bus Performance Intelligence whose team would deliver a framework for monitoring the West Midlands Bus Network with analysts to generate insight to enable appropriate network management by a Head of Network Management who would manage the relationship with the Operators. This would include creating performance plans should the Operators repeatedly miss performance targets and enforcing such plans through contract management. The Head of Network Management will also work with the Operators on a day-to-day basis to discuss and negotiate any contract amendments. This activity will be supported by the Head of Franchise Commercial Management. The Operational Performance Team will also have a Head of Bus Service and Route Planning who will develop route specifications for Franchise Contracts and work on a day-to-day basis with the Head of Network Management and the Head of Franchise

Commercial Management to implement small changes to the West Midlands Bus Network to account for things such as road work impacts or changes in demand. Finally, the Operational Performance Team will house the Head of Ring and Ride, Demand Responsive and Community Transport who will be responsible for the on-demand services with the aim of delivering deeper integration with the West Midlands Bus Network; and

(g) **Bus Development Team:** led by the Director of Bus and reporting into the COO, the Bus Development Team's focus will be on the continuous development and improvement of Services within the West Midlands Bus Network. This will include future scanning and investigation and piloting of innovation in collaboration with wider Authority teams which would be led by Head of Bus Development who will also be responsible for exploring future bus networks to support strategic outcomes. The Bus Development Team will also house the Programme Management Team for Franchising through a Head of Programme Management and Corporate Planning and Governance which will ensure that the wider team comply with the Authority's governance arrangements and that the internal and external stakeholder community is kept up to date with developments.

2.34 As well as additional resources and functions, it is recognised that Franchising will introduce a requirement for much greater commercial focus to ensure appropriate consideration of efficient operations and agility to respond to the market. This will require a significant degree of cultural transformation that will be embedded within the new organisational structures as they develop.

2.35 In addition, the Authority would utilise several existing central functions to deliver Franchising. This would include a legal function, a procurement function, an HR function, a branding and marketing function, a technical and operations function, and an IT function. The implementation of Franchising would also require a broad range of specialist skills (including TUPE and pensions expertise), which would need to be sourced externally.

2.36 A proposed team structure under Franchising is shown in Appendix 5 of this Management Case. It includes some teams, such as the Bus Stations Team and a Ring and Ride Team, which will be unaffected by which Delivery Option is chosen but which will continue to be an area of responsibility for the Bus Services team under Franchising. It excludes additional posts in the wider Authority organisation (for example in enabling services, which have been costed as part of Franchising and which are discussed in more detail in the next paragraph).

Franchising Team Structure: Additional Resources and Cost

2.37 As discussed above, team structures would need to be revised for Franchising, with additional resource employed. It is anticipated that there would be an approximate addition of 165.8 new full-time posts, at an additional cost to the Authority of £10.3 million per annum. This includes roles within the Bus Team and support functions and equates to a net increase in headcount of 122.8 in relation to the Authority's Bus Team and 43 roles across the central and other support functions.

2.38 Whilst the 165.8 FTEs will be additional to the current structures, an anticipated 108 of similar roles would no longer be required by the existing Operators as their responsibilities are expected to transfer to the Authority (as they move from fully supported operations to operations under the Franchising Scheme).

2.39 In addition to the roles identified, there would also be transitional posts - required to transition from the Reference Case to Franchising. Those roles are anticipated to reduce to zero by year four post-Franchising.

2.40 Table 5-10 and Table 5-11 and Table 5-12 shows the profile of these resources over the duration of the design and implementation phases of Franchising. Each number within the table represents the FTE resource required per quarter over the lifetime of the need for external support, unless otherwise stated.

Table 5-10: Resourcing Cost of Franchising

		Assumed Recruitment Quarter for Impacted Teams (note that as some of the posts are rebranding of existing roles for which budget exists, not all of these will go through recruitment)																	Assumed Costs per Annum for Impacted Teams*				
New Structure	FTE	Q1 25/26	Q2 25/26	Q3 25/26	Q4 25/26	Q1 26/27	Q2 26/27	Q3 26/27	Q4 26/27	Q1 27/28	Q2 27/28	Q3 27/28	Q4 27/28	Q1 28/29	Q2 28/29	Q3 28/29	Q4 28/29	Q1 29/30	25/26	26/27	27/28	28/29	29/30
Chief Operating Officer (Transport)	1		1																£126,865	£169,154	£169,154	£169,154	£169,154
5 PA.s	5		5																£176,813	£235,751	£235,751	£235,751	£235,751
Director of Customer Experience	1		1																£94,919	£126,559	£126,559	£126,559	£126,559
Head of Strategic Customer Experience	1		1																£69,609	£92,812	£92,812	£92,812	£92,812
Head of Operational Customer Experience	1		1																£69,609	£92,812	£92,812	£92,812	£92,812
Customer Experience Dvpt Manager	1									1											£64,451	£64,451	£64,451
Customer Relations Manager	1									1											£64,451	£64,451	£64,451
Contact Centre Manager	1									1											£64,451	£64,451	£64,451
2 Customer Contact /Customer Exp TLs	2									2											£106,160	£106,160	£106,160
Snr Advisor x1	1									1											£43,866	£43,866	£43,866
Contact Centre Advisor x 17	17									17											£694,250	£694,250	£694,250
Digital Advisors x 3	3									3											£131,597	£131,597	£131,597
Customer Accounts/Ticketing Manager	1									1											£64,451	£64,451	£64,451
Customer Intelligence Team	23.6											12.6				7		4			£181,022	£462,613	£678,116
Director of Operational Performance	1		1																£94,919	£126,559	£126,559	£126,559	£126,559
Head of Network Management	1							1												£46,406	£92,812	£92,812	£92,812
Network Manager x3	3							1								1		1		£36,194	£72,388	£108,582	£217,163
Bus Intelligence Manager	1		1																£54,291	£72,388	£72,388	£72,388	£72,388
Bus Intelligence Specialist	1		1																£48,338	£64,451	£64,451	£64,451	£64,451
Bus Data Analyst	1		1																£44,467	£59,290	£59,290	£59,290	£59,290
Head of Bus Performance Intelligence	1		1																£69,609	£92,812	£92,812	£92,812	£92,812
Bus Performance Managers x3	3						1									1		1		£54,291	£72,388	£108,582	£217,163
Bus Performance Lead x5	5									2				2		1					£128,903	£290,031	£322,257
Head of Bus Service Planning	1		1																£69,609	£92,812	£92,812	£92,812	£92,812
Bus Service& Routes Planning Manager x3	3		3																£162,872	£217,163	£217,163	£217,163	£217,163
Bus Service& Routes Planning Leads x6	6		6																£266,805	£355,739	£355,739	£355,739	£355,739
Commercial Director (Bus and Metro)	1		1																£94,919	£126,559	£126,559	£126,559	£126,559
Commercial Analysis Team (1 Manager/2 Analysts)	3			1			1							1					£43,087	£134,513	£150,626	£236,801	£236,801
Retail team - moved from Operator	3								3										£0	£57,646	£230,582	£230,582	£230,582
Commercial Analysis	3								3										£0	£55,754	£223,017	£223,017	£223,017
Sales and Marketing	5	5																	£355,158	£355,158	£355,158	£355,158	£355,158
Revenue Protection Officers	30											12				12		6	£0	£0	£343,878	£1,031,635	£1,719,391
Head of Franchise Commercial Management	1		1																£69,609	£92,812	£92,812	£92,812	£92,812
Franchise Commercial Leads x3	3		1								1		1						£54,291	£72,388	£144,776	£217,163	£217,163
Director of Bus and Metro	1		1																£94,919	£126,559	£126,559	£126,559	£126,559
Head of Bus Dvpt	1		1																£79,354	£105,805	£105,805	£105,805	£105,805
Strategic Network Planning Manager	1		1																£54,291	£72,388	£72,388	£72,388	£72,388
Strategic Network Planning Lead	1		1																£48,338	£64,451	£64,451	£64,451	£64,451
Stakeholder and District Liaison Manager	1		1																£60,976	£81,301	£81,301	£81,301	£81,301
Stakeholder and District Liaison Lead	1		1																£48,338	£64,451	£64,451	£64,451	£64,451
Bus Corp Planning and Governance Mngr	1	1																	£72,388	£72,388	£72,388	£72,388	£72,388
Bus Corp Planning and Governance Lead	1	1																	£64,451	£64,451	£64,451	£64,451	£64,451
Bus Team Co-ordinator	1		1																£34,112	£45,482	£45,482	£45,482	£45,482
Director of Assets and Environment	1		1																£94,919	£126,559	£126,559	£126,559	£126,559
Compliance & Environment Manager	1									1									£0	£0	£94,114	£94,114	£94,114
Head of Info	1									1											£88,958	£88,958	£88,958
Head of Operational Assets	1		1																£69,609	£92,812	£92,812	£92,812	£92,812
Operational Assets Leads x3	3		3																£145,015	£193,354	£193,354	£193,354	£193,354
Head of Strategic Franchise Assets	1	1																	£92,812	£92,812	£92,812	£92,812	£92,812
Depot Manager	1		1																£54,291	£72,388	£72,388	£72,388	£72,388
Depot Lead	1				1														£16,113	£64,451	£64,451	£64,451	£64,451
Fleet Manager	1	1																	£81,301	£81,301	£81,301	£81,301	£81,301
Fleet Team x4	4	2								2									£103,296	£103,296	£206,591	£206,591	£206,591
Contracts Co-ordinator	1	1																	£54,569	£54,569	£54,569	£54,569	£54,569
Apprentices (4)	4	3								1									£75,528	£75,528	£100,704	£100,704	£100,704
Admin Sppt (5)	5	3								2									£122,515	£122,515	£204,191	£204,191	£204,191
H&S Advisor	1										1								£0	£0	£38,736	£51,648	£51,648
Finance	4					1				3									£0	£60,963	£250,600	£250,600	£250,600
Technical Ops Team	2									2									£0	£0	£149,678	£149,678	£149,678
Data and Digital Developer posts	4			3								1							£111,508	£223,017	£255,242	£287,468	£287,468
IT Support	2	0.5							0.5				0.5			0.5			£28,000	£35,000	£63,000	£105,000	£112,000
M&E Employee and Additional Modeller	2											2									£54,569	£109,139	£109,139
HR	0			2												-2			£65,839	£131,678	£131,678	£65,839	£0
Procurement	2			2															£68,420	£136,839	£136,839	£136,839	£136,839
Marketing / Comms	26									26											£1,521,654	£1,521,654	£1,521,654
STAFF REQ'T FOR ORG BEFORE BUDGET DEDUCTED	**212.6**																		£3,706,693	£5,194,380	£10,018,977	£11,456,270	£12,550,080
EXISTING BUDGETED POSTS	**46.8**																		-£2,268,221	-£2,268,221	-£2,268,221	-£2,268,221	-£2,268,221
ADDITIONAL REQUIREMENT	**165.8**																		£1,438,472	£2,926,159	£7,750,755	£9,188,049	£10,281,859

**Note that the table above does not show the full-year recruitment for FY 2029/2030 as it is currently assumed that all posts will be filled by Q1 2029/2030. The full year's cost of those posts is included.*

*** The table excludes teams which work within Bus whose work will be unaffected by Franchising, eg Bus stations.*

Non-Staffing Costs

2.41 In addition, the change to the Authority's responsibilities will generate some non-staffing costs. These costs will currently be being incurred by Operators, with some costs to the Authority representing a direct corresponding saving to Operators, such as the loss of Information at Bus Stops Systems Income and 'Bus Station Departure Charge Income'. Other costs, such as those relating to software, should reduce for Operators but the potential level of saving to Operators has not been quantified and has been ignored as a result. The non-staffing recurring costs are shown in Table 5-11.

Table 5-11: Ongoing Non-staffing Cost of Franchising

	Costs per Annum				
Overall Non-Staffing Req't by 2029/30	**25/26**	**26/27**	**27/28**	**28/29**	**29/30**
Furniture/Office Equipment	£20,000	£25,000	£45,000	£75,000	£80,000
Loss of IBSS Income			£204,371	£817,483	£817,483
Loss of Bus Station Departure Charge Income			£443,758	£1,775,030	£1,775,030
Marketing Budget			£2,000,000	£2,000,000	£2,000,000
Engagement			£250,000	£250,000	£250,000
Digital Channel Maintenance			£200,000	£200,000	£200,000
Additional Annual Licences for CRM/customer systems			£50,000	£100,000	£100,000
Scheduling Software/other network supporting software			£250,000	£500,000	£500,000
Annual updates to PRISM and Regional Strategic Model			£50,000	£50,000	£50,000
TOTAL	**£20,000**	**£25,000**	**£3,493,128**	**£5,767,513**	**£5,772,513**

2.42 Table 5-12 summarises the ongoing staffing and non-staffing costs by year.

Table 5-12: Ongoing staffing and non-staffing cost of Franchising

	Costs per Annum				
Summary of Overal Staffing Requirement by 2029/30	**25/26**	**26/27**	**27/28**	**28/29**	**29/30**
Additional Staffing Requirement for Bus	£1,164,705	£2,338,663	£5,148,760	£6,510,185	£7,662,834
Additional Staffing Requirement for Non-Bus	£273,767	£587,496	£2,601,996	£2,677,864	£2,619,025
Non-Staffing Requirement	£20,000	£25,000	£3,493,128	£5,767,513	£5,772,513
TOTAL	**£1,458,472**	**£2,951,159**	**£11,243,883**	**£14,955,562**	**£16,054,372**

2.43 In addition to the additional revenue costs to the Authority resulting from a change in responsibilities, the Authority will also incur one-off transitional costs to acquire the systems and change processes to enable Franchising. These one-off costs are expected to be incurred over three FYs as the Authority prepares for the change and are outlined in Table 5-13. Paragraph 3 provides further detail about the transition required and the mobilisation plan.

Table 5-13: Resourcing Cost of Franchising – Transitional Costs

	WMCA Data				
	FTE	Cost (£)	2025/26	2026/27	2027/28
Branding		1,500,000	£0	£0	£1,500,000
Commercial Dvpt and Network Planning		2,500,000	£0	£2,500,000	£0
Franchise Management		2,000,000	£2,000,000	£0	£0
Business Intelligence		150,000	£60,000	£90,000	£0
IT and Office Equipment/Furniture		576,800	£132,664	£155,736	£288,400
Digital Channels		500,000	£0	£250,000	£250,000
Advisory/Assurance		760,000	£304,000	£304,000	£152,000
PMO		896,000	£358,400	£358,400	£179,200
Modelling		500,000	£100,000	£300,000	£100,000
Launch Campaign		2,500,000	£0	£1,000,000	£1,500,000
Operational Continuity and Mobilisation		5,000,000	£1,000,000	£1,500,000	£2,500,000
Assets		500,000	£125,000	£250,000	£125,000
Specification		1,000,000	£500,000	£500,000	£0
Procurement			£0	£0	£0
Legal Advisors		1,519,000	£455,700	£911,400	£151,900
Operating Model		2,400,000	£1,200,000	£960,000	£240,000
Model enhancements (MBM or RSM)		90,000	£0	£90,000	£0
Development/Onboarding		150,000	£34,500	£40,500	£75,000
TOTAL TRANSITIONAL COSTS		**22,541,800**	**£6,270,264**	**£9,210,036**	**£7,061,500**

3 Transitional Change and Mobilisation

Establishing New Schemes

3.1 During any transition from the Reference Case (to either of the Delivery Options), additional resources would be required by the Authority (throughout transition) to facilitate that change. In addition to changes to staffing levels and roles (as identified in paragraph 2 of this Management Case), new operating schemes will also need to be established (for example through a Service Permit Regime for Franchising).

3.2 For Franchising, the current EP under the Reference Case would need to be wound down in a managed way so that Services continue to be provided, and mitigation measures established so that Services can be maintained if an Operator decides to cease running a commercial service before the start of the relevant Service under a Franchise Contract. An element of this process will also be needed for the Future Partnership, but with a much smoother transition expected between the Reference Case and the Future Partnership (with them both being a form of EP), and a reduced risk of Operators ceasing to run Services.

Transition – The Future Partnership

Authority Personnel

3.3 It is not anticipated that there would be a significant difference in the number of staff required if the Future Partnership was adopted by the Authority. As outlined above, some additional specialist support would likely be required as (i) depots are purchased and the Authority partially transition away from an Operator-owned depot model to the Authority owning some depots (albeit, over time, as the number of Supported Services increases, this team may need to increase in size); (ii) to operate and pro-actively and intelligently manage TiCo; and (iii) to operate Supported Services contracts on a gross cost basis (which would require greater procurement, finance and contract management support as Supported Services contracts are amended and/or re-let).

Contingency Planning

3.4 The Transport Services and Assets Team, Network and Planning Team and Strategy and Planning Team would work together to consider whether any additional resources would be required to support the negotiation and consultation on the Future Partnership. This is expected to be influenced by the negotiating stance taken by the Operators.

3.5 It is not clear how many of the Operators may ultimately object to the Future Partnership, particularly when the final levels of the Authority funding are confirmed post March 2025. The Authority would consider the risk of Operators withdrawing Services (due to a change to the Future Partnership model) at the relevant time and put in place any contingency measures which may be required.

Transition – Franchising

Transition Process

3.6 To implement Franchising, the Authority would award Franchise Contracts in Rounds (see paragraphs 6.6 to 6.13 of the Commercial Case for further information).

3.7 The Round 1 procurement would commence 12 months after the decision to Franchise. Round 1 Franchise Contracts, together with the remaining Franchise Contracts (across Round 2 and Round 3), would be let as follows (as set out at paragraph 6.10 of the Commercial Case):

(a) there would be a nine-month procurement period for Round 1, and Round 1 Services under Franchise Contracts would commence within nine months after the finalisation of the Round 1 procurement;

(b) procurement of Round 2 Franchise Contracts would occur five months after finalisation of Round 1 procurement. There would be a nine-month procurement period for Round 2 and Round 2 Franchise Contracts would commence six months after the finalisation of the Round 2 procurement;

(c) procurement of the Round 3 Franchise Contracts would occur 1 month after finalisation of the Round 2 procurement. There would be a nine-month procurement period for Round 3, and Round 3 Franchise Contracts would commence six months after the finalisation of the Round 3 procurement.

3.8 There would be a substantial period between any announcement of the Mayor's decision to implement a Franchising Scheme in the West Midlands, and all Services across the West Midlands being included within the Franchising Scheme. This would be imperative for the Authority, to enable them to engage with incumbent Operators, to recruit additional required resource, and to develop the content of the Franchise Contracts. As described above, the periods between Rounds will allow the Authority to take feedback from the procurement and mobilisation of Round 1 Franchise Contracts, enabling the processes to be updated if required for later procurement Rounds.

3.9 Accordingly, the Authority has considered, and will develop robust arrangements to support the transition from the Reference Case to a fully operational Franchising model. Key elements of this transition plan include:

(a) how to ensure continuity of Services and avoid customer confusion in the transition phase when there would be a mixture of Services under Franchise Contracts and unregulated Services;

(b) how to enable/ensure that Operators could mobilise their drivers, fleet and maintenance arrangements in time to deliver an effective service, and how to ensure that the Authority's approach to transition would not disadvantage certain Operators (new market entrants who may take longer to mobilise); and

(c) how to ensure that the Authority would have all the required staff and processes in place to manage the Franchise Contracts and to undertake other activities required under the Franchising Scheme (for example, network planning and timetabling) as well as ensuring consideration is given to how resource and processes are adapted to reflect the increasing number of Services under Franchise Contracts being rolled out by the Authority and managing Service Permits.

The Authority Personnel

3.10 To manage all proposed Franchise Contracts, the Authority would need to revise their team structures and employ additional resource. Some of these roles would be transitional roles only, with some staff employed to support the transition period but such resource not being required for the life of the operation of a Franchising Scheme.

3.11 The timing of the recruitment would be important, particularly as some of the positions would require specialist skills for which there may be a limited supply in the market. However, it is anticipated that some of the additional resource required would transfer from the existing Operators to the Authority (via TUPE) as the Services being undertaken by such personnel would be undertaken by the Authority under Franchising.

3.12 The Authority would implement their recruitment strategy for Franchising in accordance with paragraph 2 of this Management Case.

Establishing a Service Permit Regime

3.13 As set out above, the Authority would implement Franchising across the whole of the West Midlands and would let Franchise Contracts in three separate procurement Rounds. The Authority would not utilise 'sub-areas' to implement Franchising. This would mean that all non-franchised Services, including those proposed for Franchising, but not yet under Franchise Contracts (for example, Services across Sandwell, Dudley and Wolverhampton (for Round 2) and East Birmingham, South Birmingham and Solihull (for Round 3)) would need to operate under a Service Permit Regime.

3.14 Cross-boundary and certain other types of Service (for example, rail replacement services) may be considered as not suitable for Franchising and would also need to operate under a Service Permit Regime. This regime would contain requirements for Operators running Services within the area (for example, the West Midlands), ensuring that Services are of comparable standards. Other Services (for example: school Services (to a school or schools outside the West Midlands area); special event or "one-off" Services and tourist Services etc) would be excluded from Franchising requirements, meaning that those services could operate in the West Midlands without a Franchise Contract or Service Permits.

3.15 To set up a Service Permit Regime, the Authority would consult on the detail of the form of the Service Permit Regime and any conditions to be attached to Service Permits. The exact scope of the Service Permit Regime would be subject to formal consultation with Operators and other relevant parties. However, legislation sets out those areas where the Authority could propose certain types of condition to be attached to the Service Permits. This would significantly limit both legal and commercial risk associated with implementing a Service Permit Regime. This includes conditions such as:

(a) enabling tickets to be purchased or fares to be paid in particular ways;

(b) stipulating that Operators must accept or issue tickets of a specified description and to comply with requirements as to the price to be charged for such tickets;

(c) requiring vehicles to comply with specified standards, including as to age and emissions;

(d) setting customer service standards;

(e) setting operational standards;

(f) stipulating that Operators offer discounted travel for specified groups;

(g) stipulating that Operators publish specified information about the local Services provided by them and about other local Services in the area; and

(h) stipulating that Operators publish specified information about their fares, the fares of other Operators of local Services and ticketing arrangements applying in the area.

3.16 The Authority would be permitted to propose different conditions for the different types of Service that would be operated under the Service Permit Regime. Therefore, the conditions that would apply (for example) to cross-boundary Services do not need to match exactly those which would apply to other service types (such as pre-franchised Services). This may be structured so that cross-boundary Services are allowed a longer period to meet certain service requirements or vehicle standards. However, the intention would be to align the requirements of each Service Permit Regime as much as possible with those of the Franchising Scheme to ensure a consistency of service across the West Midlands, reduce confusion for passengers, and to facilitate the smooth running of cross-boundary Services.

3.17 The Authority have engaged with neighbouring LAs in relation to such potential service standards for different routes and the benefits and drawbacks of each – and all such input would be considered by the Authority when establishing a Service Permit Regime (considering each LA has its own priorities and the Authority would therefore consider an LA-by-LA approach to service standards).

3.18 The length of a specific type of Service Permit being issued under a Service Permit Regime would be clear before the Operator applied for the Service Permits (albeit the stated duration of Service Permits could be different for different types of service).

3.19 Once conditions are finalised, the Authority would need to consult on the conditions (per Section 123R(5) of the Transport Act). This consultation would be separate to the Franchising Scheme consultation but would need to be completed in sufficient time before the commencement of the first Services under Franchise Contracts to allow the Service Permit Regime to be established; Operators to submit applications for Service Permits; the applications to be considered; and Service Permits to be issued. The Authority would therefore need to engage the appropriate internal team (which is currently its Bus Services Team) at the start of the Franchising implementation process to ensure that the consultation on the Service Permit Regime occurs at the correct time. Service Permits which related to future Services under Franchise Contracts would need to expire on the date on which the Service recommences as a Service under a Franchise Contract, to ensure that there is only one Operator for each route. The Authority would also need to coordinate the publication of its Service Permit policy statement, as such publication could not be any earlier than the date of the publication of the Franchising Scheme.

3.20 As part of the application by an Operator to obtain a Service Permit to operate non-franchised Services, the Authority would be able to consider the Service and its effect on the Services under Franchise Contract (within the prescribed 21-day period). The Authority would have the right to reject any Services which fulfil the Service Permits requirements but which, in the Authority's view, are partly or wholly specified to abstract revenue from Services under Franchise Contract or other established permitted Services.

Cross-boundary Fares and Ticketing Services

3.21 The Operations Team would have the responsibility of working closely with the Operators of cross-boundary Services and would set the principles for establishing the fare structure, in order to ensure that those parts of the cross-boundary Services which operate in the West Midlands do not set fares at a rate which would conflict with fares set for the Services under Franchise Contracts.

3.22 Where the Service Permit Regime required cross-boundary Services to accept other Operators' tickets, the Authority would be responsible for managing the payment of the appropriate fare to/from the Operator of the cross-boundary service.

Services Operating with Financial Support

3.23 The Authority would continue to manage the provision of those Services which can only operate with financial support from the Authority.

3.24 The anticipation is that the volume of Services operating with financial support would gradually reduce throughout the transition phase as the West Midlands Bus Network is subject to Franchising, given the Authority will devise a lotting strategy so that it is unlikely that the Services would be withdrawn from Operators. Residual Supported Services contracts would continue to be carefully managed to ensure that capacity and quality of service is maintained before Services are transferred to Franchise Contracts. The Authority would ensure that the expiry date of any Supported Services Contracts let on behalf of the Authority during the transition phase are coterminous with commencement of the relevant Franchise Contracts where appropriate and handover requirements specified where necessary.

3.25 The Authority would actively engage with neighbouring authorities regarding cross-boundary Services operating with financial support to understand and agree renewal dates (if appropriate) and/or to ensure that the existing contract specifications meet the requirements of the Service Permit Regime in the same way commercial Services would be expected to.

Contingency Planning

3.26 The Commercial Team would draw up and manage contingency plans for providing replacement Services if an Operator decides to withdraw any of its commercial Services before the Franchise Contracts commence.

3.27 These teams would also work together to consider whether any additional resources would potentially be required to support the procurement or management of the Franchise Contracts, or where bid support is required to obtain external funding. Where it is determined that additional resource is required, the procurement and integration of these resources would be managed by the Commercial Management Team.

Implementation Programme

3.28 The implementation programme to deliver the required outcomes will differ depending on which Delivery Option is implemented. Some activities will be similar for the Delivery Options while others will be specific to a particular Delivery Option.

3.29 The Authority will be responsible for obtaining comprehensive information about the existing West Midlands Bus Network under the Bus Services Act and its associated provision of information regulations in relation to each Delivery Option (in the same way as the Authority is required to do under the EP Scheme under the Reference Case).

3.30 In doing so, the Authority will be required to engage proactively with Operators of local Services, both before and throughout the information request process, to understand the ways in which all the Operators hold the relevant information as well as dealing with concerns from any Operator. Such obligations need to be properly managed and the requests fully documented. The information must be securely stored, and appropriate protection measures put in place and managed throughout the implementation period and beyond as the information may be commercially sensitive and can only be used for the purposes for which it was obtained.

3.31 In relation to Franchising more specifically, it is anticipated that the Authority will receive more information than it currently does under the EP Scheme under the Reference Case or would do in relation to the Future Partnership, and the Authority will therefore need to ensure that adequate processes are put in place to manage the increased volume of information.

Implementing the Future Partnership

3.32 To implement the Future Partnership, the Authority would need to undergo several activities, which starts with the requirement to gain agreement from all Operators to the change in form from the current EP Scheme under the Reference Case, or the change to gross cost Supported Services Contracts.

3.33 The key elements of the Authority's implementation activities for the Future Partnership are set out in paragraph 5 of the Commercial Case, but include:

(a) **Depot acquisition**: the development of detailed business cases for expenditure approval and, following such approval, undertaking the development of depots and readiness for operation;

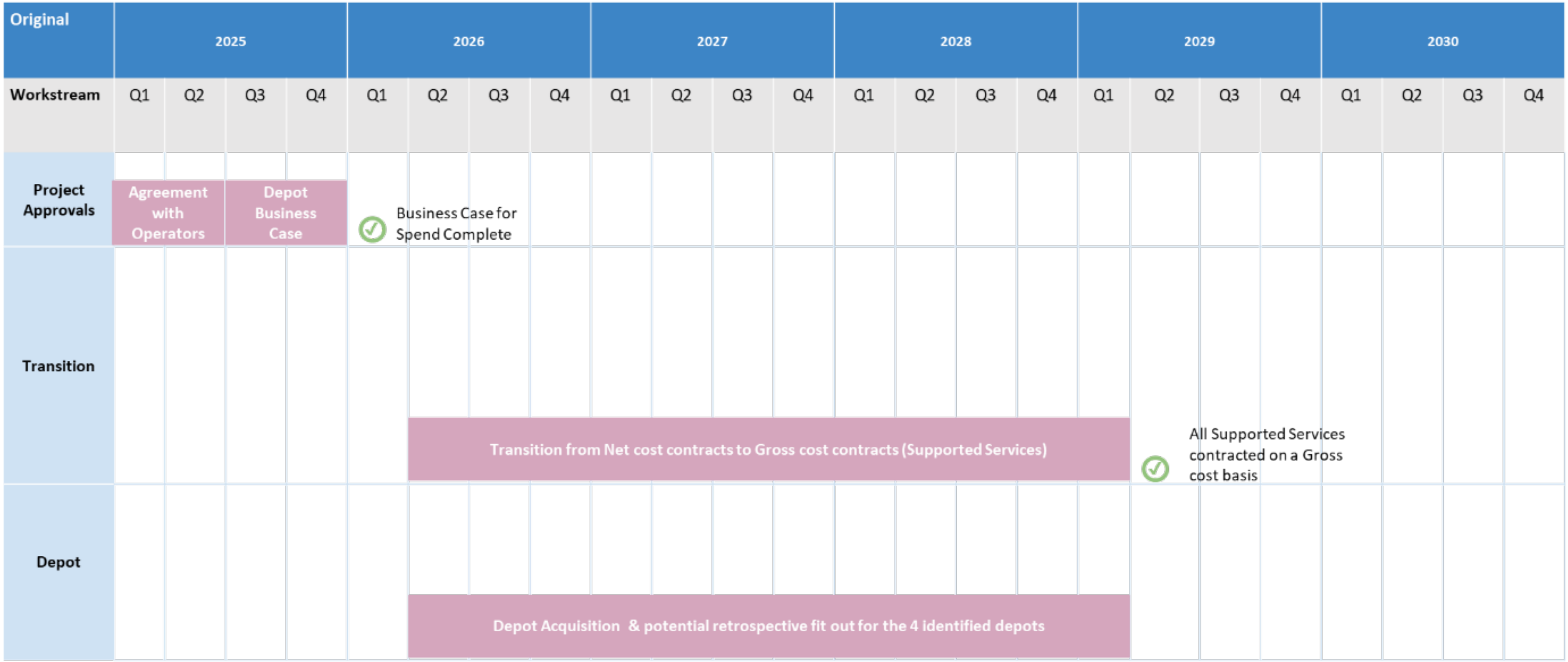
(b) **Supported Services Contracts**: undertaking a contracting strategy (including a mapping exercise to understand the expiry of current Supported Services and tendered contracts, and alignment of contract dates for an effective procurement of Supported Services Contracts). This will include the transition to gross cost Supported Services Contracts and the bundling together of Services to allow the operation from the same depot (to increase competition amongst Operators); and

(c) **TiCo**: operate and managing this Company (with Operators) and allocating resource accordingly.

3.34 If a decision to implement the Future Partnership was taken, the Authority would need to implement a process to monitor the delivery of the Future Partnership. This would include regular engagement with, and observance of, the incoming Operators.

3.35 Figure 5-1 shows a high-level plan setting out how the Authority would manage the implementation of the Future Partnership, which is set out in further detail at paragraph 5.34 to 5.35 of the Commercial Case.

Figure 5-1: Implementation Plan for the Future Partnership



3.36 The key foundations of the high-level implementation plan set out in Figure 5-1 are:

(a) the Authority demonstrating how the interventions might contribute to achieving the objectives set out in the EP Plan under the Future Partnership and current local transport policies;

(b) the detailed design, implementation and phasing in of the staffing resources required to manage the Future Partnership;

(c) the detailed design and implementation of the systems required to support the management of the Future Partnership; and

(d) additional costs and resources required to transition from the current operating regime to the Future Partnership.

3.37 Within the Future Partnership, all activities are indicative as the actual details will need to be negotiated and agreed with the Operators and other relevant parties. The length of time taken to agree the Future Partnership will depend on the ability of the Authority to purchase the relevant depots and transition the net-cost Supported Services Contracts to gross cost Supported Services Contracts (which is anticipated to be undertaken when the relevant Supported Services are reprocured).

Organisational Change to Support the Operation of the Future Partnership

3.38 The Authority would need to manage the transition to the Future Partnership. The Authority's existing Bus Operations and Services Team would manage the transition to and the day-to-day operation of the Future Partnership, including developing and implementing Commercial Objectives, data analysis, performance of the Future Partnership and network coordination. The Authority would also utilise a number of its existing central functions to help deliver the Future Partnership (including its legal, procurement and HR functions).

3.39 It is not therefore anticipated that a large amount of additional resource would be required under the Future Partnership (see paragraph 2 of this Management Case for further detail); however, the size and roles undertaken by the wider Bus Team would need to be kept under review. Monitoring the compliance of and delivery against the Future Partnership would be key to successful partnering arrangements and the level of resource required for the Future Partnership may need to increase in subsequent years beyond that assumed for the Future Partnership in this Assessment. Any recruitment required would be in line with WMCA's established recruitment policy.

Implementing Franchising

3.40 To implement Franchising, an effective transition plan would be required to prevent disruption to passenger services. The Authority will put in place measures to manage the risk of service reductions during transition in the mobilisation period.

3.41 The key elements of the Authority's implementation programme would be:

(a) the mobilisation and expansion of the Bus Operations and Services Team, into a wider Commercial Team, to support the move to the letting of Franchise Contracts (with support from the Authority's internal risk functions). These teams would be tasked with evaluating the risk of any Services being withdrawn by Operators prior to the commencement of Services under a Franchising Scheme and putting in place procedures to ensure that replacement Services can be provided so that there is no loss, or minimal loss, to the West Midlands Bus Network;

(b) the establishment of the Franchising Scheme and the design of the Franchise Contracts to provide for large, medium and small Franchise Contracts so that there are entry points for local as well as regional Operators;

(c) the creation of the procurement process (including relevant documentation to support the process) and the phased procurement of Operators for those Franchising opportunities;

(d) the establishment of the Service Permit Regime and the management of applications for Service Permits alongside the introduction of the new Franchise Contracts;

(e) the acquisition of a fleet of vehicles and depots in order to allow the Authority to provide the same to Operators as part of the Franchise Contracts; and

(f) the mobilisation of the Franchise Contracts.

3.42 In order to provide effective management and governance of the Franchising of Services and the associated issuing of Service Permits for non-franchised Services, the Authority would need to allocate appropriate staff and resources from an early point in the process. Accordingly, the Commercial Team would be sufficiently bolstered, and there would be the creation of a new Commercial Management Team, to manage consultations on both the Franchising Scheme itself and the Service Permit Regime, reviewing and assimilating the responses to the consultations and to ensure that the resulting Franchising Scheme and associated Service Permit Regime had met all relevant statutory requirements. Full details of expected organisation change, and additional team requirements are contained in paragraph 2 of this Management Case.

3.43 The implementation programme would be designed so that the Authority has all relevant management systems in place to meet its obligations under the Franchising Scheme and Service Permit Regime. It would be particularly important for the Authority to ensure that there are sufficient resources available to manage the letting of the Round 1 Franchise Contracts and the issue of Service Permits for all other Services operating in the West Midlands (given, under the Bus Services Act, services operating within a Franchising Scheme area must either be Services under Franchise Contract or operate under a Service Permit Regime). The Authority has an active 'bus registration system' as part of its registration powers and will therefore be well placed to update this system to ensure it has a streamlined process for dealing with requests for Service Permits from Operators.

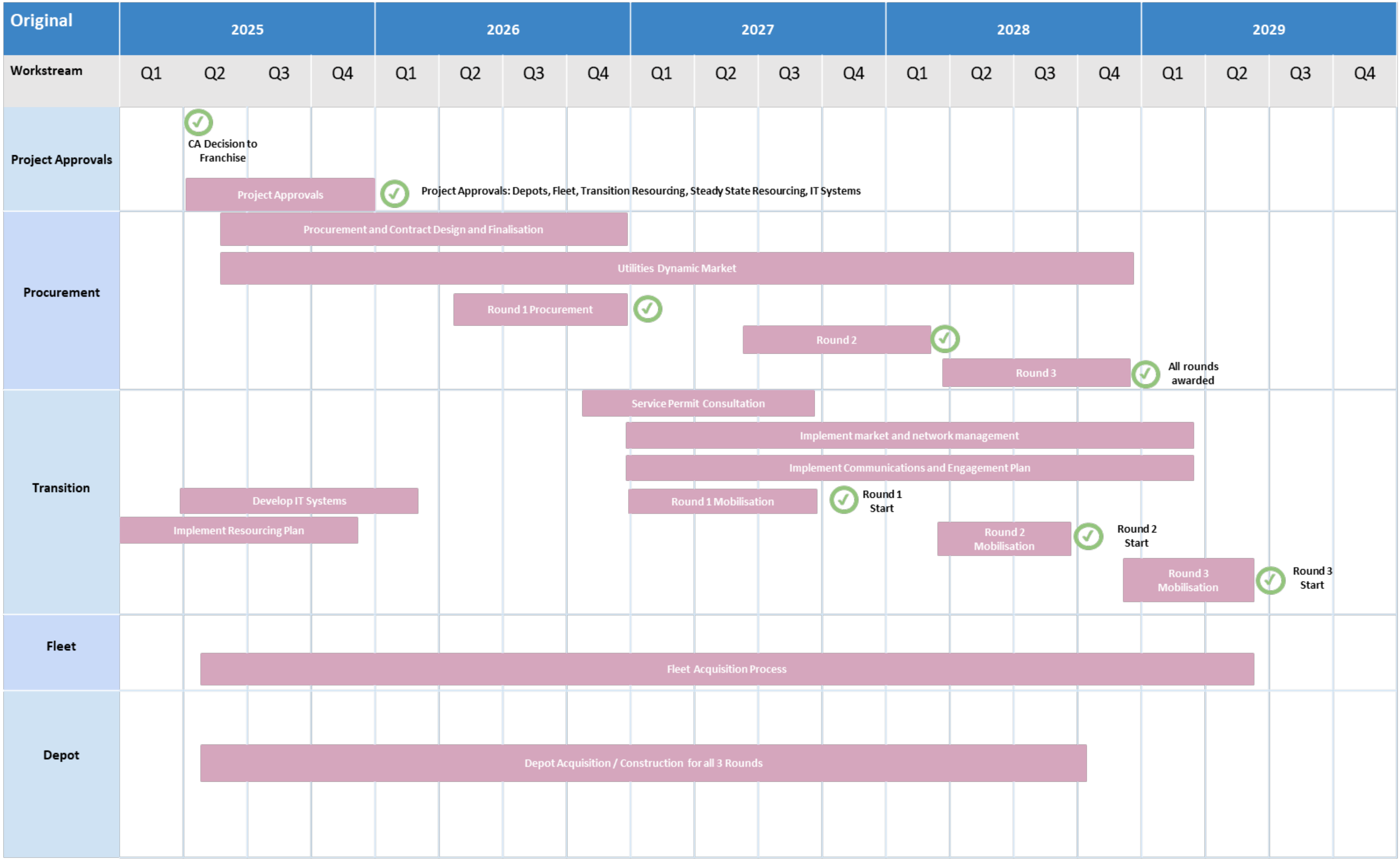
3.44 The Authority's resources would also need to be at a sufficient level to manage the high number of applications for Service Permits arriving at around the same time as the Round 1 Franchise Contracts are let. The relevant application information would need to be checked, and the correct type of Service Permit issued prior to the start of Services under the Franchise Contract to allow the continuation of those types of Service not included in Round 1.

3.45 The Authority would also need to implement a plan to enable successive Franchise Contracts to be let and managed. This would include putting in place a framework of Service Permits to support the existing Services until the relevant Franchise Contracts could commence.

3.46 The intended approach of awarding Franchise Contracts in separate Rounds would enable the Authority to achieve the benefits of Franchising relatively quickly, whilst ensuring that the procurement process is manageable. It would also allow the Authority to refine its contract and procurement processes based on experience gained in letting the earlier Rounds of Franchise Contracts.

3.47 Figure 5-2 shows a high-level plan setting out how the Authority would manage the implementation of the Franchising Scheme, and the key foundations of the implementation plan are described at paragraphs 6.90 to 6.96 of the Commercial Case.

Figure 5-2: Implementation Plan for Franchising


Original
2025
2026
2027
2028
2029
Workstream
Q1
Q2
Q3
Q4
Project Approvals
CA Decision to Franchise
Project Approvals
Project Approvals: Depots, Fleet, Transition Resourcing, Steady State Resourcing, IT Systems
Procurement
Procurement and Contract Design and Finalisation
Utilities Dynamic Market
Round 1 Procurement
Round 2
Round 3
All rounds awarded
Transition
Service Permit Consultation
Implement market and network management
Implement Communications and Engagement Plan
Develop IT Systems
Round 1 Mobilisation
Round 1 Start
Implement Resourcing Plan
Round 2 Mobilisation
Round 2 Start
Round 3 Mobilisation
Round 3 Start
Fleet
Fleet Acquisition Process
Depot
Depot Acquisition / Construction for all 3 Rounds

Organisational Change to Support the Operation of Franchising

3.48 The Authority have considered the organisational change that will be required to its functions should Franchising be implemented. This is discussed in paragraph 2 of this Management Case. The below paragraphs discuss how such expanded teams and resources would be used to manage the implementation to Franchising.

Personnel

3.49 The Authority would need to manage the implementation of the Franchising Scheme and the Service Permit Regime, including communicating with all relevant parties and dealing with changes in requirements during the transition phase as the Franchise Contracts are let on a Round-by-Round basis.

3.50 The size of the operations function would be extended from the Authority's current Operations and Transport Services Team in order to account for the additional responsibilities/workload that this team would be expected to fulfil in respect of Franchising. Depending on the outcome of such real-time operational management and general day-to-day management of Franchising, the level of resources required for Franchising may need to increase beyond that assumed for Franchising in this Assessment.

3.51 The Authority's existing Bus Operations and Services Team would form the core of the Commercial Team (to include a Commercial Management Team; a Contract Management Team and a Franchising Delivery Team) that would manage the day-to-day operation of the Franchise Contracts and routes operating under Service Permits. During the Franchising process, the Strategy and Planning Team (within the Commercial Team) would be expanded to take over the additional obligations that arise as part of the issuing of Service Permits and responding to queries of the same, alongside the development of the Franchising Scheme. It is expected that a significant number of Service Permits would be required alongside the letting of the Round 1 Franchise Contracts. A Contract Management Team would be expanded to deal with the substantial uplift in responsibilities, such as undertaking Operator performance review meetings in accordance with the Franchise Contracts, monitoring performance and operation of Services under the Service Permit Regime and enforcement of Service Permit conditions as well as any suspension or termination of such Service Permits. While the phased introduction of Franchising takes place, the Operations Team would continue to deliver its existing role in supporting and monitoring operations, including Supported Services, in those parts of the West Midlands where Franchise Contracts have not yet been introduced.

3.52 The team that the Authority would require to manage the Franchise Contracts and operation of the Service Permit Regime will be significantly larger than the team that currently manage the EP under the Reference Case and provides relevant oversight of Services within the West Midlands. Some additional skill sets would be required (see paragraph 2 of this Management Case), which in some cases can be provided through existing staff undertaking relevant training.

3.53 The increase in resourcing headcount would continue during any transition to Franchising to reflect the increased workloads of the Commercial Team (importantly, the Strategy and Planning Team, the Contract Management Team and the new Commercial Management Team) in order to set up, implement and operate the initial Franchise Contracts and to monitor the operation of the Service Permit Regime. Other teams, such as the Operations Function (currently the Operations and Transport Services Team) and the Customer Experience Team (currently the Customer Services and Ticketing Team), would also continue to grow during the transition phase in line with the increased support required as more Franchise Contracts are let. In both instances, the increase in headcount is likely to include individuals that have transferred via TUPE from the current Operators (as applicable).

3.54 In addition to this, the Authority would utilise a number of existing central functions within the Authority to deliver Franchising (such as a legal function, procurement function and HR function) and, where specialist skills are required specifically during the transition phase, these would be undertaken by external consultants or internal secondments from the Authority's central function (for example, TUPE and pensions specialists).

3.55 At the conclusion of the transition to Franchising, these constitute an increase of headcount by 126.8 in relation to the bus functions and 38 full time roles in relation to the Authority's central support team, resulting in an increased cost of circa £10.3 million per annum. Please see Tables 5-11 to 5-13 of this Management Case for further detail.

Authority Personnel Recruitment Strategy

3.56 In order to meet an increased need for personnel to support and manage the Services under Franchise Contracts, the Authority would need to recruit such personnel (to populate the proposed team structure shown in Appendix 5 of this Management Case) in accordance with its recruitment strategy for Franchising. This strategy involves the Authority utilising WMCA's current recruitment policy and process, and tailoring this as required to take account of the development of existing staff, certain staff being TUPE'ed from existing Operators and the external recruitment of additional staff. In addition, the Authority's recruitment strategy calls for the Authority would take account of the demand for specialist roles, particularly in the light of proposals for Franchising by other CAs in the UK.

3.57 The Authority's recruitment strategy described above will be developed into a detailed recruitment plan, but such detailed evaluation would only be able to occur once relevant information is obtained from incumbent Operators following the Franchising Scheme and the Authority forms a better understanding of while roles will likely transfer to them, under TUPE, from incumbent Operators. In addition:

(a) the Authority would undertake a skills audit, mapped against the requirements of the new operating model, to establish the level of training or additional resource required. Where the need for further capabilities is identified, the Authority would provide existing team members with additional training and development by way of internal and external training courses, coaching, mentoring and shadowing;

(b) where resource does not exist within the Authority, and re-training or upskilling existing team members is not practicable, the Authority would recruit additional staff - either directly, using specialist search, agency staff, consultancy and/or secondments (as appropriate); and

(c) the Authority would develop role descriptions and person specifications to facilitate the completion of job evaluations for each role prior to mobilisation and recruitment. In the event of any material change to an existing role's function or responsibility, such roles will also be subject to job evaluation.

Systems changes to Support the Operation of Franchising

3.58 The Authority recognise the potential to improve efficiency and customer experience by consolidating and better integrating existing IT systems. A transition to Franchising would provide opportunity to do this and it is therefore the Authority's expectation that its existing IT hardware and software will be updated to support both the transition to, and the operation of, Franchising. This would be explored further at the relevant time by the Authority, including an evaluation of its current systems and identifying improvements can be made.

Mobilisation - The Future Partnership

Mobilisation Plans

3.59 It is envisaged that the responsibilities undertaken by the Authority under the Future Partnership would be broadly similar to the responsibilities currently assumed by the Authority for managing the EP Scheme under the Reference Case, but will expand in some areas (such as an increased role that the RTCC plays in managing the West Midlands Bus Network). This would be particularly so if the Future Partnership is implemented by the Authority, and negotiations with Operators secured the maximum level of benefits set out in the Commercial Case.

3.60 The Authority would implement a process to monitor the delivery of the Future Partnership, which would include regular engagement and observance of the Future Partnership by the relevant Operators.

3.61 As part of mobilisation to the Future Partnership, the Authority will have the following roles:

(a) buying a further four depots from the incumbent Operators;

(b) analysing the current Supported Services Contracts and efficiently "bundling" Services together and allocating and organising the letting of (now the Authority-owned) depots to relevant Operators;

(c) once the relevant Supported Services Contracts need to be reprocured, changing the terms of such Supported Services Contracts so that Supported Services will be operated on a gross cost rather than a net cost basis; and

(d) implementing TiCo.

Operational Continuity

3.62 During transition to the Future Partnership, it is expected that the existing Operators would continue to operate their current commercial Services. There is a possibility of Operators reducing their commercial Services; however, the Authority does not consider this risk to be any higher than under the Reference Case. Where an Operator does decide to withdraw a service, it is expected that it would withdraw a service which was either loss making or had a marginal profitability.

3.63 The Bus Operations and Services Team would be required to establish an operational continuity plan to manage such risk and a specific sub-team will be identified within the Operations and Services Team with the relevant skills to manage such support if it is needed at any point during the operation of the Future Partnership.

Fares and Ticketing

3.64 The Future Partnership would continue to have a common fares policy and multi-Operator tickets will be issued by Operators providing Services included within the Future Partnership (as is the case under the existing EP Scheme under the Reference Case).

3.65 Given multi-Operator tickets are already in existence under the EP Scheme under the Reference Case, the Authority anticipates that it will continue to manage the multi-Operator ticketing scheme in the same way as it currently does under the Reference Case.

Mobilisation - Franchising

Mobilisation Plans

3.66 The transition from the Reference Case to Franchising would be a critical risk period for the Authority. To successfully deliver its objectives (including the VfB), it would be vital that the transition runs smoothly, and that the customer experience of Services is not negatively affected during mobilisation.

3.67 As part of the Franchising procurement process, Operators would be required to submit comprehensive mobilisation plans to detail how the Authority and the Operator would work together to efficiently transition to Franchising.

3.68 The Authority would implement a process to monitor the delivery of the Franchising Scheme, which would include regular engagement and observance of the incoming Operator(s). The role the Authority would play during mobilisation is set out in the Table 5-14.

Table 5-14: The Authority's role during mobilisation of Franchising Scheme

Role	Detail
Mobilisation Plan	Review and agree changes to the Mobilisation Plan with the incoming Operator.
Employees	Assist with delivering TUPE and pensions related information to the incoming Operator and monitor compliance with the Franchising obligations.
Fares and ticketing	Determine fares and ticketing strategy and monitor delivery of the same.
Network	Review and agree changes required to the West Midlands Bus Network, prior to and during operation of the Franchising operating model.
Assets	Secure Franchising assets to ensure that Franchising assets can be made available to the incoming Operator in the relevant Franchise Contract.

Operational Continuity

3.69 During transition to and the commencement of Franchising, there is a risk that incumbent Operators would cease running some of the current commercial Services, resulting in reduced commercial Services during transition to Franchising. This could range from a limited withdrawal of Services which are either loss making or have marginal profitability, to a significant deregistration and withdrawal of Services by one or more Operators. There would be no specific restriction on an Operator withdrawing a commercial Service, subject to giving the statutory amount of notice to deregister its Services.

3.70 It is therefore possible that the impact of Franchising the West Midlands Bus Network over a period may lead to Operators withdrawing Services from the West Midlands, which would result in reduced commercial Services during the transition to Franchising. To combat this, the

Authority may consider whether to extend the deregistration notice period to 112 days, as permitted by The Public Service (Registration of Local Services) (Franchising Schemes Transitional Provisions and Amendments) (England) Regulations 2018, during the transition phase.

3.71 Alternatively, incumbent Operators could maintain Services but reduce the quality of service offered to passengers (punctuality, cleanliness, etc.) or reduce cooperation between themselves and the Authority.

3.72 It would be important for the Authority to manage an effective and efficient transfer of Services from the Reference Case to the Franchising Scheme, with little or no drop in service availability or quality, to maintain customer confidence. In such circumstances, the Authority may need to subsidise additional Services to ensure that the overall West Midlands Bus Network is not adversely affected, and public support of Services is not damaged. For example:

(a) the Operations Function would also establish an operational continuity plan to manage such risks and a specific sub-team will be identified within the Operations Function with the relevant skills to manage such support if it is needed at any point during the transition and mobilisation phases; and

(b) the Authority already maintain a dialogue with the bus companies that operate within the West Midlands to understand the issues relating to bus service operations and to obtain early warning of where issues may occur.

Please see paragraph 6 of this Management Case for detail as to how the Authority would manage this risk.

Fares and Ticketing

3.73 From the commencement of the first Franchise Contracts, the Authority would introduce fares for Services under Franchise Contracts, which will ultimately be designed to eventually cover all Services within the West Midlands. As Services come under Franchise Contract, the multi-Operator tickets would be withdrawn, and the Authority's tickets introduced. Although the current multi-Operator ticket range is facilitated by the Authority, the prices are set by the Operators whereas the fares under Franchise Contracts would be wholly controlled by the Authority, which represents the key difference to fares and ticketing under Franchising when compared to the Reference Case, and also provides the Authority with a political influence over the Operators.

3.74 During transition to full Franchising operations, Services that are not subject to Franchising, and those Services which would become Services under Franchise Contracts, would operate under a Service Permit Regime. As part of the consultation for the Service Permit Regime, the Authority is able to propose conditions relating to fares and ticketing to:

(a) enable tickets to be purchased or fares to be paid in particular ways;

(b) ensure Operators accept or issue tickets of a specified description and comply with requirements as to the price to be charged for such tickets; and

(c) offer Operators discounted travel for specified groups of persons.

3.75 Such conditions would allow the Authority to create a uniform set of fares and tickets which would correspond with those which would be offered under Franchising. This would ensure that the ticket types, and how they can be used, change at the same time (on commencement of the first Franchise Contracts.) This would limit complexity and confusion to passengers over ticket types.

3.76 The requirements of the ticketing regime, which would apply to Services operating under the Service Permit Regime, would be set out in the conditions to the Service Permits which are subject to consultation. This means that all Operators of Services requiring a Service Permit would have sufficient time to understand the ticketing requirements and ensure that their ticketing systems are compliant with the new ticketing requirements. To facilitate an effective and efficient transition to the Service Permit Regime, it is expected that an appropriate form of Service Permit would be proposed for those Services which would later be let as Services under Franchise Contracts in the appropriate Round.

3.77 During the mobilisation period, but before commencement of the Services for the first Franchise Contracts, the Authority would need to provide passengers with sufficient information to help them understand the differences between ticket types and which ticket is the correct one for the Services that they wish to use. The Authority's Customer Experience Team, in conjunction with the relevant Operators, would manage an information campaign on the change to ticketing. It is intended that each Operator operating under a Franchise Contract would be required to participate in the public awareness campaign so that a common message can be provided to all passengers and potential passengers.

3.78 Where Services are already supported by the Authority, it would align the changes in ticketing type to align with the introduction of any Services under Franchise Contract in the area where the Supported Services operate.

3.79 Services which operate cross-boundary into a Franchising zone would be subject to the new ticketing regime as one of the conditions set out within the Service Permit Regime. This would ensure that there is a single ticket offering within the Franchising zone from the commencement of the first Services under Franchise Contract. For those parts of its service operating outside of the West Midlands, the cross-boundary Operator may apply its own ticketing schemes. The Authority would also look to implement the same fare structures along the same cross-boundary route (as far as possible depending on the specific route or Service).

Managing Service Permit Applications

3.80 This Service Permit process would require the Operator to provide detailed information to the Authority as to the Services it intended to run, including stopping points and fare arrangements. The Authority would need to process the information to fully assess the impact of any individual application and decide whether a Service Permit should be granted, granted with conditions or rejected. In making that decision, the Authority would need to properly record its reasons for doing so.

3.81 The Authority would establish additional capability and capacity in the Commercial Team early in the transition process to manage the applications process and to deal with any questions or complaints from applicants.

3.82 At the same time as managing applications for cross-boundary Services, the Authority would also manage the applications process and issuing of Service Permits to those Operators continuing to operate Services identified as being future routes.

3.83 It would be important for the Authority to set conditions in the Service Permit Regime which support the smooth integration between Services run under the Service Permit Regime and those provided within the larger Franchising offering, whether that is in a pre-Franchising phase or to provide positive relationships with cross-boundary Services. The final form of these conditions will be established following the consultation process which is required under the Transport Act and the relevant regulations pertaining to the Service Permit Regime. Consultation on all relevant Service Permit Regimes would be carried out at the same time to ensure consistency in the outcomes both between each regime and the Services under Franchise Contracts. This also has the benefit of mitigating the legal and commercial risk of different regimes being in place, particularly during the transition period.

4 Benefits Management, Performance Management

The Future Partnership

Introduction

4.1 Implementing the Future Partnership in the West Midlands will aim to provide benefits for passengers. However, benefits can only be fully realised if they are monitored and managed, and continually referenced against the Authority's bus objectives, the VfB, and the other objectives of the Future Partnership, and the strategic objectives in the Strategic Case (around network, customer experience, fares and ticketing, environment, stability, and transformation and change).

4.2 Accordingly, it would be key for the Authority to continually monitor the achievements of the Future Partnership and other bus operations within the West Midlands and track these against the requirements identified in the VfB and the objectives of the Future Partnership.

Current Activities

4.3 The Authority currently manage and assesses the EP under the Reference Case. Accordingly, the process for realising benefits in the Future Partnership would be similar to current activities currently undertaken by the Authority.

4.4 Well established processes are in place which govern the management of the EP under the Reference Case, with partners able to raise delivery issues either informally through long established relationships or more formally through the established governance channels. These consider the deliverables within the EP under the Reference Case and matters relating to the effective delivery of Services more generally, such as punctuality and reliability, passenger satisfaction and patronage trends, and identify where interventions may be required.

Identifying Additional Benefits under the Future Partnership

4.5 Under the Future Partnership, the Authority will own one additional large depot and three additional smaller depots. There will be the implementation of TiCo, and Supported Services Contracts will be operated on a gross cost rather than net cost basis. Therefore, the benefits that would derive from this Delivery Option will need to be identified and monitored to ensure the Future Partnership is delivering more (for passengers and the wider geographical area) when compared to the Reference Case.

4.6 Table 5-15 sets out those potential additional benefits achieved through the Future Partnership when compared to the Reference Case:

Table 5-15: Potential Benefits of the Future Partnership

<table>
<tr><th>Summary</th><th colspan="2">Benefits potentially achieved through the Future Partnership</th><th>Potential way of measuring benefit*</th><th>Entity receiving a benefit</th></tr>
<tr><td rowspan="6">Bus Service Improvements / Direct Travel Benefits</td><td colspan="2">Supported Services being grouped together and operated from the same depot, leading to a reduction in operating costs and an increase in competition – ultimately leading to a reduction in the financial cost of travel.</td><td>Operating cost data

Records of number of operators in market</td><td rowspan="6">• All bus users. This includes current, or traditional users; and potential new users once the benefits have been realised

• Operators</td></tr>
<tr><td colspan="2">Gross cost Supported Services Contracts – leading to better Operator participation and engagement and therefore to a better Service in general.</td><td>Records of numbers of bids

BSIP Monitoring Subject 4: Average Passenger Satisfaction with overall service</td></tr>
<tr><td rowspan="4">Depot ownership providing opportunity for smaller Operators to grow, potentially meaning:</td><td>(i) improved routes, to include, for example, additional coverage across evenings and Sundays</td><td>Records of bus miles operated during evenings / Sundays</td></tr>
<tr><td>(ii) increased reliability</td><td>BSIP Monitoring Subject 3 Reliability: Punctuality metrics for overall network (MF 0700-1100)</td></tr>
<tr><td>(iii) reduction in the financial cost of travel</td><td>WMCA Travel Trends and Behaviours Tracking Study

BSIP Monitoring Subject 5 Affordability: Average fare p/km</td></tr>
<tr><td>(iv) better on-board experience</td><td>WMCA Travel Trends and Behaviours Tracking Study</td></tr>
</table>

Summary	Benefits potentially achieved through the Future Partnership		Potential way of measuring benefit*	Entity receiving a benefit
		simpler, integrated fares and ticketing / ticketless travel from the implementation of joint ticket sales function	Audit of ticketing options available to passengers	
Environmental Benefits	Clean growth / reduction in car mileage from a better supported bus network.		BSIP Monitoring Subject 8: Car mode share to strategic centres	• The local community • Visitors to the West Midlands
	Improved local air quality from a cleaner fleet with the Authority continuing to support Operators to transition to a ZEB fleet.		BSIP Monitoring Subject 7: Carbon and other bus emissions	
	Removal of mileage from over-bussed routes.		Records of bus mileages (including fleet characteristics)	
Economic Benefits	Increased opportunities for residents from further afield due to better Supported Services offering, meaning more competition, leading to opportunity for an improved bus offering and network.		Before & after survey to understand user perceptions of access to employment, education, healthcare etc. TRACC accessibility analysis of travel horizons	• The local community / workers / businesses

**It should be noted that most measures would not seek to measure a direct increase / decrease relative to the position under the Reference Case. Instead, measures would need to be considered relative to the Reference Case.*

Benchmarking of Objectives and Benefits

4.7 Once each benefit has been identified, and the Future Partnership has been implemented (including a process evaluation to track any lessons learnt) key metrics would need to be assessed and developed to allow for the appropriate benchmarking of each benefit (essentially to effectively measure whether the Future Partnership fulfils its objectives).

4.8 The outcomes linked to these objectives in the logic map in the Strategic Case (at Figure 1-11) would be more amenable to measurement in some cases than the objectives themselves – and progress on these would be considered evidence (via the 'Theory of Change' in the map) of progress on objectives. Outcomes in the map include increased opportunities for new Operators to join the market, reduced costs (for passengers and the Authority), improved network planning with a reduction in frequency of timetable changes (making it easier for passengers to plan journeys), addressing over-bussing to reach more places 'in need', reducing emissions from busses (with better-quality, cleaner vehicles) and improved access to jobs and services and increased confidence in the attractiveness of bus travel.

4.9 Whilst the benchmarks and measurement of outputs would need to be established prior to the implementation of the Future Partnership, they would be actively monitored and managed and, where appropriate, adjusted to ensure each benefit is optimised.

Roles and Responsibilities

4.10 As detailed at paragraph 2 of this Management Case, the Authority already has an identified team and individual roles and responsibilities for benefits realisation monitoring and review under its current operations. Under the Future Partnership, this Benefits Management Team would remain to assess benefits realised against the benchmarks discussed above.

Realisation: Assessment and Monitoring

4.11 The Authority has developed and currently operates a performance monitoring regime in the West Midlands. Existing bus passenger satisfaction surveys are undertaken on a regular basis. The Authority also monitors and evaluates Services against the outcomes set out in the Authority's BSIP (faster, more reliable, affordable, better quality, cleaner, more efficient Services, with better security and health and safety perceptions and fewer events, higher satisfaction and fewer complaints, more demand, and positive mode shift) and the LTP and SSF outcomes (for example, mode share, accessibility, traffic miles, vehicle fleet composition and emissions, road safety, road maintenance, journey time reliability, and user satisfaction).

4.12 The performance monitoring regime currently employed for the Reference Case would continue to be used for the Future Partnership. As the number of Supported Services operated increases over time, the Authority would enhance its performance monitoring regime, through including additional information requirements and auditing rights within the Supported Services Contracts.

4.13 In addition to the performance monitoring regime, Partnership review meetings would be held on a quarterly basis to discuss performance and Operator plans to improve or mitigate underperformance.

Managing Underperformance

4.14 If there is underperformance under the Future Partnership, the Authority could seek to take action, including:

(a) making changes to the Future Partnership. However, where this requires changes to the EP, this could require the agreement of the Operators under the terms of the scheme; and

(b) withdrawing the non-compliant Operator's service registration. However, in practice, this is drastic option that is only likely to be used in the most severe circumstances.

4.15 Therefore, the Authority's enforcement ability under the Future Partnership would be lower than under Franchising.

Ongoing Engagement

4.16 While there is no requirement under the Transport Act for the Authority to set out its plans for consultation with bodies who represent users of local Services in order to seek out their views on how well the EP (and therefore the Future Partnership) is working, it is the Authority's intention to undertake such engagement during the life of the Future Partnership.

4.17 The Authority would have access to information in respect of market views on the overall level of service under the Future Partnership from the engagement methods described above, which would provide a base level of engagement with users of the Services.

Timing and Scope of Consultations

4.18 Under the Future Partnership, the Authority would also supplement the ongoing engagement described above with regular, in-depth consultations to provide a more holistic view of the performance of the Future Partnership. These in-depth consultations would be run at regular intervals to assess user views on the successes and weaknesses of the partnership. The results of the consultations would be used to decide whether changes need to be made to the Future Partnership.

Consultation Parties

4.19 The Authority would, in the lead up to each consultation process, look at which groups are the most relevant to the Future Partnership to ensure that it engages with the most appropriate and relevant groups existing at the time.

Consultation Areas

4.20 Ongoing consultations would focus on the same performance indicators and benchmarks devised above as well as utilising a more granular set of criteria in order to build a view of the Future Partnership from an end-user viewpoint. This would include consultation on the general view of Services within the user's local area.

Results and Impact of Consultation

4.21 Once the results of each round of consultation have been received and analysed, these would form the basis of a report to the Authority providing an overview of how successfully the Future Partnership is operating, alongside suggestions for improvements to the Future Partnership in order to address any issues raised during the consultation. The Authority would review and approve any suggestions. These improvements would be made through: (i) negotiating changes to the Future Partnership with the Operators (which may need the consent of all Operators) and (ii) implementing changes to Supported Services Contracts to incorporate the relevant changes.

Franchising

Introduction

4.22 As is summarised in the Commercial Case, implementing Franchising in the West Midlands will aim to provide benefits, primarily for passengers and residents, but also for businesses and the wider geographical area.

4.23 Benefits can only be fully realised if they are monitored and managed, and continually referenced against the Authority's objectives discussed above and set out in paragraph 6 of the Strategic Case. Such objectives derive from the bus-specific transport strategy developed by the Authority, namely the VfB detailed in paragraphs 3.50 to 3.51 of the Strategic Case and the additional policies detailed at paragraph 3 of the Strategic Case. Ultimately, given the realisation of the strategic objectives would be the reason for a transition to Franchising, a Franchising Scheme would need to achieve the strategic objectives for it to be considered a success.

4.24 Therefore, a benefit realisation and management programme would need to be established to ensure that the Authority: (i) achieves the strategic objectives (and indeed the linked benefits and outcomes which the Authority sets-out to achieve); and (ii) maximises the benefits.

4.25 This paragraph 4 discusses how the Authority would manage Franchising to realise benefits, and to monitor performance and success.

Process Overview

4.26 The monitoring of performance and the realisation of benefits would be achieved through a five-step process:

(a) **Step 1: Identification of Benefits**

The identification and mapping of benefits to strategic objectives and any other objectives of the Authority (which will have been achieved by the Authority through the undertaking of this Assessment);

(b) **Step 2: Development of Benefits and Benchmarking**

Key metrics of each benefit identified would be developed (for example, the rationale, dependencies, baseline, outputs, and how progress is measured). Once these metrics are identified, key milestones can be set for each benefit to allow for the benchmarking and the ongoing assessment of all benefits;

(c) **Step 3: Roles and Responsibilities**

Roles and responsibilities would be allocated for benefits monitoring and review;

(d) **Step 4: Realisation; Assessment and Monitoring**

Activities for the realisation of the benefits (for example, implementation of processes, behavioural change, training etc). The design of an assessment and testing programme to ensure benefits are being realised; and

(e) **Step 5: Managing Underperformance**

Actions to be taken when the assessment and testing programme detailed above reveal that objectives are not being achieved or benefits are not being fully realised.

Step 1: Identification of Benefits

4.27 A high-level identification and mapping of the expected benefits of Franchising has been completed in the Strategic Case. These are summarised in Table 5-16 but refer to the Figure 1-11 of the Strategic Case for further information.

4.28 The benefits identified would undergo detailed mapping and would be updated throughout the lifecycle of the Franchising Scheme, to ensure they remain relevant and accurate in a changing market.

Table 5-16: Franchising: expected benefits

Summary	Benefits potentially achieved through Franchising	Potential way of measuring benefit*	Entity receiving a benefit
Bus Service Improvements / Direct Travel Benefits	Services being grouped together and operated from the same depot, leading to a reduction in operating costs and an increase in competition – ultimately leading to a reduction in the financial cost of travel.	Operating cost data Records of number of Operators in market	• All bus users. This includes current, or traditional users; and potential new users once the benefits have been realised • Operators
	Gross cost contracts – leading to better Operator participation and engagement and therefore to a better Service in general.	Records of numbers of bids BSIP Monitoring Subject 4: Average Passenger Satisfaction with overall service	
	Depot ownership providing opportunity for smaller Operators to grow / join market, leading to increased competition / better value	Records of number of operators in market Overall analysis of revenue / costs	
	Faster Services.	WMCA Travel Trends and Behaviours Tracking Study BSIP Monitoring Subject 2 Journey time and network access: bus speeds	
	Reduction of waiting times.	Bus miles operated (will decline more slowly than in Future Partnership and	

Summary	Benefits potentially achieved through Franchising	Potential way of measuring benefit*	Entity receiving a benefit
		Reference Case projections)	
	New / improved routes, to include, for example, more frequent, 'turn-up-and-go' services; additional coverage across evenings and Sundays; re-allocation of bus mileage from over-bussed routes etc.	Records of bus miles operated TRACC accessibility analysis of travel horizons	
	Increased reliability.	BSIP Monitoring Subject 3 Reliability: Punctuality metrics for overall network (MF 0700-1100)	
	Simpler, integrated fares and ticketing / ticketless travel.	Audit of ticketing options available to passengers	
	Reduction in financial cost of travel. Prioritisation of discounted travel offers. Allows less privileged groups to travel by bus more often / better social mobility.	WMCA Travel Trends and Behaviours Tracking Study BSIP Monitoring Subject 5 Affordability: Average fare p/km	
	Safer and more secure transport.	WMCA Travel Trends and Behaviours Tracking Study BSIP Monitoring Subject 6 Safety and personal security: Slips, trips and falls / crime rate	
	Better on-board experience.	WMCA Travel Trends and Behaviours Tracking Study	
	Increased access to information / accessibility improvements – a single definitive source of information.	User perception surveys	
	Improved transport connectivity and integration (for example, between other rail, light rail or DRT services).	TRACC accessibility analysis	

Summary	Benefits potentially achieved through Franchising	Potential way of measuring benefit*	Entity receiving a benefit
	Reduction in frequency of timetable changes.	Records of timetable changes before / after franchising	
Environmental Benefits	Clean growth / reduce car milage from a better bus network.	Measured in line with BSIP Monitoring Subject 8: Car mode share to strategic centres	• The local community • Visitors to the West Midlands
	Improved local air quality from a cleaner fleet. Introduction / expansion of a ZEB fleet.	Measured in line with BSIP Monitoring Subject 7: Carbon and other bus emissions	
	Removal of mileage from over-bussed routes.	Records of bus mileages (including fleet characteristics)	
	Reduce the authority's 'contribution' to climate change. Fewer carbon emissions.	Measured in line with BSIP Monitoring Subject 7: Carbon and other bus emissions	
Economic Benefits	Increased opportunities for residents from further afield – opportunity to travel to urban areas due to an improved bus offering and network.	Before & after survey to understand user perceptions of access to employment, education, healthcare and so on TRACC accessibility analysis of travel horizons	• The local community / workers / businesses
	Continued growth of urban areas.	Jobs / population metrics	
	Agglomeration – improving connection to urban areas enables knowledge sharing and access to a larger labour market.	TRACC accessibility analysis	
Wider social benefits	Limit risk of social exclusion for residents without cars.	Increased bus mileage TRACC accessibility analysis to key destinations combined with demographic / deprivation data	• Residents • Commuters / visitors / tourists to
	Reduction in unemployment.		
	Improve the equality of access to employment, education, and		

Summary	Benefits potentially achieved through Franchising	Potential way of measuring benefit*	Entity receiving a benefit
	healthcare / improve social mobility.		the West Midlands
	Reduced commuting times (for non-bus users).	BSIP measure 8 Mode Shift: Car mode share to strategic centres	
	Increased physical activity (for bus users).	Inferred from bus demand vs projections in other options	

**It should be noted that most measures would not seek to measure a direct increase / decrease relative to the position under the Reference Case. Instead, measures would need to be considered relative to the Reference Case. As demonstrated in the Economic Case, the expectation is that Franchising would deliver a slower decline in bus patronage versus the Reference Case, rather than a net increase in demand.*

Step 2: Development of Benefits and Benchmarking

4.29 Once each benefit has been identified, and Franchising implemented (a process evaluation could track this to learn any lessons), key metrics would need to be devised to allow for the appropriate benchmarking of each benefit (to effectively measure whether Franchising fulfils its objectives). This would include:

(a) the rationale for the benefit and aims;

(b) the expected output from the benefit;

(c) how the output will be achieved (where intervention or positive actions are required);

(d) the key milestones for each benefit; and

(e) the risks and dependencies that may affect levels of realisation.

4.30 The outcomes linked to the objectives in the logic map in the Strategic Case (Figure 1-11) would be more amenable to measurement in some cases than the objectives themselves – but progress on the outcomes would be considered evidence (via the 'Theory of Change' in the map) of progress on the objectives. Key outcomes in the map cover increased competition and opportunities for new Operators, greater network investment, reduced Authority's costs and management time, improved network planning with fewer timetable changes (making it easier for passengers to plan journeys too), better value, and better-integrated Services, addressing 'over-bussing' to reach more places 'in need', with better-quality, cleaner, vehicles, all improving access to jobs and Services, and increasing bus use.

4.31 Whilst the benchmarks and outputs would need to be established prior to the implementation of Franchising, they would be actively monitored and managed and, where appropriate, adjusted to ensure each benefit is optimised (for example, to address any emerging trends during the implementation of Franchising).

Step 3: Roles and Responsibilities

4.32 The Authority would identify individuals, and assign roles and responsibilities for benefits realisation, monitoring and review. This would mainly be conducted by Performance Managers, with interaction with the Commercial Management Team (specifically, benefits management personnel) who would be responsible for assessing benefits realised against the benchmarks and outputs discussed at Step 2 above.

4.33 The Authority would require an increase in project delivery capability to allow the benefits management personnel to operate. Please see paragraph 2 of this Management Case for team structures in a Franchising Scheme.

Step 4: Realisation; Assessment and Monitoring

4.34 Once Franchising has been implemented and benefits are being realised, then an ongoing assessment and testing regime would be conducted by the benefits management personnel. To enable this to be successfully operated, the following would need to be considered:

(a) how outputs and success are measured. A scoring metric would be developed, focussing on criteria important to the Authority, but also to passengers;

(b) what data needs to be collected to allow for benefit testing and monitoring;

(c) how often will benefits be measured and tested;

(d) escalation procedures; and

(e) a plan/timescale for the review (and potential rebasing) of the benefits to ensure they are still relevant.

Testing and Assessment

4.35 The Authority currently operates a performance monitoring regime in the West Midlands as part of the Reference Case. This includes performance measures relating to Supported Services Contracts, existing bus passenger satisfaction surveys and evaluation and monitoring of outcomes in respect of the BSIP, the LTP and the SSF. These seek to encourage continuous improvements in setting service quality standards and providing service quality for passengers. This would be the starting point for a benefit monitoring regime and is scalable for Franchising.

Data Requirements

4.36 The Authority would require access to a sufficient level of data to ultimately test whether benefits are being achieved. The data would include:

(a) operational or service performance;

(b) "Total lost mileage";

(c) "Late running of mileage";

(d) route breaches and/or deviations;

(e) driver breaches;

(f) punctuality;

(g) reliability;

(h) number of improvement or warning notices issued;

(i) driver fraud;

(j) customer service;

(k) customer complaints - responses to complaints / quality of response;

(l) vehicle non-compliance;

(m) driver training (including safety and disability training) programme compliance;

(n) driver standards compliance (for example, uniform);

(o) cleanliness;

(p) RTI reliability;

(q) provision of Operator route and service information;

(r) patronage numbers (and whether marketing is increasing patronage);

(s) contract data quality;

(t) Operator returns received on time;

(u) contract management system data accuracy;

(v) missing trip data accuracy;

(w) emergency ticket data accuracy;

(x) ticketing data;

(y) policies and procedures;

(z) compliance with drug and alcohol policies (including evidence of random testing undertaken);

(aa) evidence of driver eyesight testing;

(bb) evidence of driver metrics (speed / eco driving);

(cc) own revenue protection protocols;

(dd) accident reporting policy;

(ee) near-miss reporting policy;

(ff) satisfactory completion of engineering inspection programme; and

(gg) evidence of safeguarding policy / driver DBS assessment.

Access to Data and Testing

4.37 The above detailed data would be collected or provided through three main avenues:

(a) Operator collected data:

(i) Operators running the Services would be required to provide data (both through a monthly reporting regime to the Authority, and other mandated review procedures as part of any Franchise Contract). The Operator reports would contain the Operator's review of operations under the Franchise Contracts and its own performance against benefit metrics. Where there is underperformance, the Operators would be obliged to report on the reasons for the underperformance; any extenuating circumstances or excusing events (for example, development in the area meant increased traffic congestion and consequently on-time running could not be maintained; damage to infrastructure; strikes etc); any remediation actions to be taken by the Operator; and ultimately their justification as to why they should still be paid all amounts provided for under the Franchise Contracts; and

(ii) Operator performance meetings would be held on a monthly basis to monitor the moving performance average and discuss Operator plans to improve performance or mitigate underperformance.

(b) Authority collected data:

(i) The Authority would utilise its IT based contract management systems and real time data (for example patronage information and mileage data) to collect data from its transport system;

(ii) The Authority would implement service planning software to ensure that efficiencies are created, and all data collected is able to be appropriately reviewed and tested. Whether this can be developed "in-house" by the Authority will be assessed at the relevant time; and

(iii) The Authority would also undertake mandated consultation. Please see paragraphs 4.45 to 4.47 for further information.

(c) Customer Data:

(i) Passenger surveys would be conducted to ascertain performance levels; and

(ii) An annual transport focus group, where the general performance of the Franchising Scheme would be discussed.

Step 5: Managing Underperformance

4.38 Outlined above is how the Authority would collate data to assess performance around the achievement of benefits. Where the data and reports indicate that benefits are not being fully realised, or that the objectives are not being fully achieved, the Authority would seek to take action to rectify the underperformance.

4.39 The Franchise Contracts would contain a performance regime with KPIs that the relevant Operator would be measured against. To encourage compliance with the KPIs and to drive best possible performance, where Operator performance exceeds the required standards, the Operator would receive bonus payments. Where Operator performance does not meet requirements, the Franchise Contracts would contain a performance management regime which would include meetings between the Authority and the relevant Operator to discuss ways to improve performance, the implementation and delivery of a remedial plan and, ultimately, termination of the Franchise Contracts.

Managing Underperformance

4.40 The benefits management personnel would be responsible for monitoring service delivery and KPIs against the Franchise Contract requirements and spotting early warning signs where an Operator is having difficulties in performance.

4.41 Underperformance would be managed in different ways depending on severity, and would be assessed on a case-by-case basis:

(a) where the underperformance is below a set threshold (such threshold to be set as part of Step 2 above), the benefit managers would take responsibility for engineering a rectification of the underperformance. The benefit managers would submit monthly reports to confirm the actions being, or to be, undertaken to rectify underperformance;

(b) where underperformance breaches the set threshold, the Benefit Owners or Senior Owners would analyse the issues and assess whether further, or different actions may be taken, or processes implemented to address the issues; and

(c) where underperformance breaches a higher threshold, the benefits management personnel would make suggestions to the Authority as to how to rectify underperformance and would make adjustments in line with any Authority direction.

4.42 Once an issue is identified, corrective action may be undertaken in a number of ways, for example:

(a) For lower levels of underperformance:

(i) corrective actions to be imposed on Operators;

(ii) remediation plans;

(iii) heightened reporting requirements and re-testing periods; and

(iv) the utilisation of performance mechanisms within Franchise Contracts.

(b) For more material levels of underperformance:

(i) variations of current Franchise Contracts, or, ultimately, termination of the Franchise Contracts; and

(ii) amended specifications for subsequent Franchising Rounds of letting of Franchise Contracts.

4.43 Where a Franchise Contract is terminated, the Commercial Management Team would be responsible for the replacing the failing Operator. A replacement Operator could take over the running of the Franchise Contract or could "take-on" Services on a short-term, interim basis, until a new tender is concluded for the Services under the "failed" Franchise Contract. The risk of finding a suitable replacement Operator at short notice may be mitigated by including provisions in Franchise Contracts requiring Operators to assist with the short-term delivery of Services where another Operator under a Franchise Contract has been terminated.

4.44 Alternatively, there may need to be a rebasing of the objectives and benefits if underperformance is indicative of terminal issues with a particular benefit which only became apparent during the operation of Franchising, or, for example, which occurred due to a changed bus landscape. This is considered low risk by the Authority.

Additional Engagement and Consultation

4.45 As well as the steps outlined above, the Authority must also be mindful of statutory requirements imposed on it.

4.46 Section 123A(9) of the Transport Act requires the Authority to set out its plans for consultation with bodies who represent users of local Services to seek their views on how well a scheme is working. Under the Franchising Guidance this is required to be an ongoing engagement throughout the life of a Franchising Scheme.

4.47 The Authority will have access to information in respect of market views on the performance of Franchising from the engagement methods described above (for example, market testing, benchmark modelling etc.) which will provide a base level of engagement with passengers of the Services.

Timing and Scope of Consultations

4.48 If the Authority considers that additional engagement is required to ensure compliance with Section 123A(9) of the Transport Act, the Authority could undertake additional consultations to provide a more holistic view of Franchising operating both within the designated Franchising zones as well as over the Services under Franchise Contract within the West Midlands Bus Network.

4.49 Consultations would initially run in line with the expiry of each initial lot, in order to assess user views on Services in the user's local area. The results of the consultations would be used to shape the lotting/re-lotting of subsequent Lots, allowing the Authority to make improvements during the roll out of Franchising. Eventually, once Franchising is fully established, these consultations would take place on a regular basis covering the whole of the Franchising zone with the results used by the Authority as a means of continual improvement across the Franchising Scheme.

Consultation Parties

4.50 Section 123A(9) of the Transport Act requires authorities to consult with "*organisations appearing to the authority or authorities to be representative of local services as they think fit*".

The Authority would look at which groups are the most relevant within the particular Franchising area to ensure that the Authority engages with the most appropriate and relevant groups existing at the time.

Consultation Areas

4.51 Ongoing consultations would focus on the same performance indicators and benchmarks devised and described at Step 2 above, as well as utilising a more granular set of criteria in order to build a view of Franchising from a passenger viewpoint. This would include consultation on the general view of Services within the passenger's local area in relation to the wider Franchising Scheme.

Results and Impact of Consultation

4.52 Once the results of each round of consultation have been received and analysed by the benefits management personnel, these would then form the basis of a report to the Authority providing an overview of how successfully Franchising is operating, alongside suggestions for improvements to Franchising to address any issues raised during the consultation.

4.53 After decisions have been made as to how to implement any changes following the current consultation, the Authority would publish a report on the current consultation, highlighting the key findings from the consultation as well as the changes and improvements to be made.

Fares and Ticketing

4.54 If a decision is made to proceed with Franchising, the Authority would have the right to set bus fares and determine the ticketing solution. This could give the Authority the opportunity to introduce more instrumental changes to fare structures, or changes to concessionary fares without needing to negotiate with Operators. Similarly, the Authority would also be able to introduce Project Coral more easily which in turn would enable a simpler ticket offering to be implemented. Additional changes to fares and ticketing (when compared to the Reference Case) would not be implemented should the Authority proceed with the Future Partnership.

4.55 If the conclusion of the engagement and evaluation process in respect of the relevant Delivery Option indicates that fares and/or ticketing solutions should be amended, the Authority will consider whether it would be beneficial to either amend the Franchising Scheme or the Future Partnership to implement changes. Under Franchising, the Authority would be able to implement changes to fares either through the change mechanism in Franchise Contracts (requiring the Operator to charge certain fares), or through the Service Permit Regime. Changes to fares and/or payment methods (for example, through ticketing) are classed as changes which do not change what is specified within the Franchising Scheme and therefore can be made without having to vary the Franchising Scheme.

4.56 Under the Future Partnership, changes would only be able to be made to fares and/or ticketing with the cooperation of Operators.

Network

4.57 If a decision is made to proceed with Franchising or the Future Partnership, the Authority would make a number of changes to the West Midlands Bus Network. The Authority may also need to vary the West Midlands Bus Network, if required, once a Franchising Scheme has been made or the Future Partnership implemented, to take account of customer feedback, bus usage needs, new housing or industrial developments, new traffic management arrangements, and to improve journey times and reliability, and so on.

Additional Resource Requirements – The Future Partnership

4.58 The West Midlands Bus Network would not undergo substantial redesign through the Future Partnership, although without additional funding, the West Midlands Bus Network will reduce after March 2025.

4.59 The Future Partnership would involve joint accountability for various activities between the Authority and Operators. An example is the planning of socially necessary routes, whereby the Authority procures routes not fulfilled by the existing commercial network and subsidises extensions of existing Services when there is lower customer demand. As bus network planning is predominantly done by the Operators, the Authority would be reliant on the Operators continuing to provide these Services to result in a suitable network. However, as the number of Supported Services increases over time, the Authority will have control of a greater proportion of the network (and therefore the design of that network). Although it should be noted that in a deregulated market, even if the Authority redesigned elements of the network to make it more efficient (for example changing the frequency of Services, or reducing the number of bus stops), an Operator could register a service that effectively undermines the network redesign.

4.60 The Authority would bundle various Supported Services Contracts together under the Future Partnership, so that these can be operated from the same depot by an Operator or Operators. Whilst this may allow for some natural assimilation of network routes (for example, Operators running Services near to each other may naturally lead to a less fragmented network; a reduction in lost miles etc), given the nature of these Supported Services Contracts (their being tendered by the Authority and not Operator designated routes) then impact on the wider network may be minimal.

Network Planning and Design - Franchising

4.61 The Authority would become accountable for defining and reviewing the whole West Midlands Bus Network.

4.62 Planning a West Midlands Bus Network which better meets strategic objectives will be critical to achieving the ambitions for the West Midlands Bus Network. This would include devising the areas for each Franchising Lot and the Services and routes contained in each, based on the existing network.

4.63 Prior to proceeding with Franchising, the Authority would undertake a detailed review of the network to ascertain suitability and to assess whether changes to the West Midlands Bus Network are needed or indeed preferable, the objective of this review being to establish an efficient and integrated system which optimises revenues, drives demand and improves the customer experience. In addition, the design of the network would ensure that local communities, such as socially disadvantaged groups, that may have an above-average reliance on public transport, benefit from the network. Although a full-scale redesign of the network is not planned as part of the initial Franchising process, there would be a need to streamline the network and create network integration.

4.64 Operators would no longer be accountable for planning the West Midlands Bus Network for their commercial operations. However, they would still be consulted by the Authority on network planning through market engagement and the network review process as they would maintain a close interface with passengers.

4.65 The Authority would implement a Franchising Scheme through sequential tendered Rounds, allowing network changes to be made on an area or phase-wide basis. This would ensure (as much as possible) that any conflict between Services under Franchise Contracts and routes not subject to Franchising would be reduced minimising disruption to passengers.

4.66 The Authority would also consider cross-boundary Services integral to the West Midlands Bus Network in its network design proposals.

Network Changes

The Future Partnership

4.67 How network changes are implemented in the Future Partnership will depend upon the change that is required. If the network changes relate to the Supported Services network, the Authority will be able to implement these changes (i) as part of the tendering of Supported Services Contracts; (ii) through the change mechanism in Supported Services Contracts; and (iii) by awarding de minimis payments to incumbent Operators for small changes to existing Services. Where changes are to be made to the commercial network, changes may be required to the EP Plan and EP Scheme underpinning the Future Partnership.

4.68 Section 138K of the Transport Act sets out the process by which the Authority and/or the Operators must follow to vary the EP Plan and/or relevant EP Scheme under the Future Partnership.

4.69 The Authority and/or the Operators can only make network changes to the EP Plan under the Future Partnership where it is satisfied:

(a) that the EP Plan and associated EP Scheme under the Future Partnership, as varied, would contribute to the implementation of the policies set out in the related Future Partnership EP Plan (or the revised EP Plan if this is being varied at the same time as the relevant EP Scheme), and the Authority's policies; and

(b) the variations would benefit passengers by improving quality or attractiveness of Services in the scheme area.

4.70 As opposed to a Franchising Scheme, variations to an EP Scheme under the Future Partnership will not be required for a review of, or amendments to, the routes operated or the day to day activities of Operators. However, in a similar manner to a Franchising Scheme, if network changes are required, the Authority and/or the Operators would be required to follow a formal statutory variation process set out in the Transport Act. Section 138K(3) requires the Authority to provide notice to Operators, and any other stakeholders that were involved in the preparation of the EP Plan or EP Scheme under the Future Partnership, of its intention to vary it. Once these stakeholders had been consulted, and the draft variation had been prepared, the Authority (on behalf of the Authority) and/or the Operators would be required to undertake a formal consultation exercise, allowing the opportunity for individual Operators to object and air any concerns. The statutory objection process, as set out in the EP Plans and Schemes (Objections) Regulations 2017, would apply here unless the EP Scheme for the Future Partnership, as drafted, required the parties to comply with an alternative objection mechanism.

4.71 Section 138E of the Transport Act also allows for a bespoke variation mechanism to be incorporated into EP Schemes, which can be used to allow changes or additions to be made more quickly than through the statutory variation procedure and without the need to follow the

Operator objection mechanism. Such bespoke variation mechanism would need to be agreed when the EP Scheme for the Future Partnership was made.

4.72 The date on which the network change and variation would occur would need to take into account the 70-day rule for changing registrations.

Franchising

4.73 The Authority would be accountable for reviewing and updating the network on an ongoing basis to ensure it continues to meet the needs of users and local communities. The Authority would undertake research and customer consultation exercises with passengers and rely on the data collected by the Commercial Management Team (as described above), and modelling data, to monitor the ongoing suitability of the West Midlands Bus Network. This feedback gathered would then be used to ascertain:

(a) whether changes to the network are required for future Rounds of letting Franchise Contracts; and/or

(b) whether network changes are required during the life of a Franchise Contract.

4.74 If, through the above monitoring exercise, it transpires that changes are required, the Authority may vary the network or routes specified in the Franchising Scheme by following the formal variation process set out in the Transport Act. Minor variations, such as day-to-day service requirements, can be implemented without use of this statutory process.

4.75 For example, if the Authority wishes to introduce new Services operating on the existing network (as specified in the Franchising Scheme), the Franchise Contracts would provide the Authority with the right to include the new service within a particular Franchise Contract through a clear and unambiguous change mechanism, without this constituting a formal variation to the Franchising Scheme and having to follow the statutory process. This means that the Authority could, for example, introduce an express service on an existing route.

Formal Variation

4.76 Section 123M of the Transport Act sets out the process that the Authority will be required to follow if it wishes to formally vary the Franchising Scheme once it has been made. Section 123M(6) is clear that the Metro Mayor must take the final decision as to whether to vary a Franchising Scheme or not.

4.77 If it wishes to vary the Services under the Franchising Scheme, the Authority must publish a notice stating the date on which the variations are to have effect and give notice of its decision to a Traffic Commissioner within 14 days of publishing the notice. The variation cannot take effect until six months after the date on which the variation notice was published.

4.78 The Authority would be required to consult on its proposals and ensure that all local stakeholders and local communities were consulted on the nature of the network or service change. The consultation exercise would ensure that the impacts, benefits and risks associated with the proposed network changes are fully explored and assessed before being implemented. Once the Authority has consulted on the proposed variation, it must publish a response document, which sets out the decision on whether or not the variation will be made.

4.79 In the event that the Authority intends to vary the Franchising Scheme to add routes or Services from a new area or areas (for example, bringing a new town within the scope of the Franchising

Scheme), it would be required to follow the same statutory process as utilised when making the Franchising Scheme (and as set out in Section 123H of the Transport Act).

5 Stakeholder Engagement

Introduction

5.1 Stakeholder engagement is a key element of determining the Delivery Options, to ensure alignment with policies and objectives and to engender collaboration. The continuing involvement of these stakeholders, should a decision be made to Franchise, would be integral to the successful delivery of Franchising. There are five main categories of stakeholder that the Authority has engaged with as part of the development of this Assessment:

(a) **Internal stakeholders**: the SRO and Executive Director have been actively involved in the development of this Assessment - including participating in weekly updates and monthly Bus Delivery Options Programme Board meetings. The project delivery team includes representatives from the legal and financial teams, ensuring that the Authority's wider corporate functions have visibility and have had input into the project. Teams from HR, Assurance, Governance, Finance, Marketing/Branding, Public Transport Information, Ticketing, Transport Policy and Strategy, Innovation, Security/Policing, Network Management, Health and Safety, Assets and Customer Services have contributed to this Assessment, recognising and inputting into the business change that would be required should a decision be made to Franchise. The Mayor included the Franchising of Services as part of his manifesto and has been involved in the process since his election, including attending briefing sessions with the SRO and Executive Director and advisory team. The Mayor will also need to be engaged when key milestones are met;

(b) **Constituent LAs**: key decisions relating to this Assessment will need to be made by the Authority's constituent LAs. Therefore, ensuring that the constituent LAs are actively engaged in the development of this Assessment and that their views can be incorporated has been an important element of stakeholder engagement. Briefing sessions have been delivered to the transport directors of the constituent LAs on key Franchising topics, such as lotting, roles and responsibilities of the Authority and Operators, and funding and financing. These sessions have afforded the attendees the opportunities to ask questions and to propose alternative approaches;

(c) **Operators:** the Authority has frequent engagement with its incumbent Operators, as part of the West Midlands Bus Alliance, the EP Reference Group and in relation to the delivery of Services following the impact on the market of the Covid-19 pandemic. As part of this Assessment, a market engagement exercise has been undertaken where both incumbent Operators and potential new Operators were asked to complete the market engagement questionnaire. The conclusions of that exercise are set out at **Appendix 1** of this Management Case and have been considered in the development of this Assessment;

(d) **Neighbouring LAs:** the Authority has engaged with various neighbouring LAs to firstly understand whether Franchising would contribute to the neighbouring authority's LTP and any other policies that have been introduced by the neighbouring authority, as required by Section 123B(3) of the Act. The neighbouring LAs that the Authority has engaged with are: Warwickshire, Worcestershire, Staffordshire, Shropshire, Telford and Wrekin, Leicester City and Leicestershire. The Authority also engaged with these neighbouring authorities to understand the importance of cross-boundary Services on that neighbouring authority's West Midlands Bus Network and how implementing Franchising could impact that network. Details of engagement with neighbouring authorities are set out in the Strategic Case (see Table 1-2 of the Strategic Case); and

(e) **Other External Stakeholders:** engagement with groups such as passengers and businesses (specifically, the groups who should receive a benefit from a change to Franchising) will be critical to ensuring that, if implemented, Franchising is a success. As required by Section 123E(3) of the Transport Act and paragraphs 1.75 and 1.76 of the Franchising Guidance and Section 11 of the 2024 Franchising Guidance, if the Authority wished to proceed with Franchising, it would need to consult with organisations representing local passengers such as Bus Users UK, West Midlands Pensioner Convention, groups representing employees of Operators such as Unite, the Office of the Traffic Commissioner, the Chief of Police for the West Midlands, the Competitions and Markets Authority and Transport Focus.

5.2 Each of the Delivery Options would require the Authority to identify relevant stakeholders and to engage in consultations or discussions with them (the Transport Act specifies for each option the statutory engagement that must be undertaken if the Authority selects that option as its chosen Delivery Option). However, as the Authority has already introduced the EP, for the purposes of this Assessment, statutory engagement is primarily related to the establishing of the Franchising Scheme or making significant changes to either the Franchising Scheme or the Reference Case. There is no restriction on the Authority carrying out additional engagement with stakeholders during Delivery Option development and it is expected that the Authority will do so as it continues to evaluate its progress in delivering the VfB.

Changes to a Delivery Option

5.3 Where the Authority decides that, following the implementation of a Delivery Option, it wishes to make significant changes to parts of that Delivery Option (to reflect experience that it gains through the operation), it may do so. However, before changes can be made, the Authority will be required to engage with stakeholders as specified in the Act. For example, to vary the EP Scheme under the Reference Case only the affected Operators need to be consulted, but, if the EP Plan under the Reference Case is being varied, consultation should extend to those stakeholders involved in the development of the original plan. Conversely, to vary a Franchising Scheme, the same local stakeholders involved in the consultation for the making of the Franchising Scheme should also be consulted on the variation.

Service Permit Regime

5.4 Alongside the consultation on the Franchising Scheme, if a decision was made to Franchise, the Authority would need to engage with external stakeholders as part of the consultation required for the Service Permit Regime. Paragraph 1.122 of the Franchising Guidance allows the Authority to consult with "*any other people or organisations that [it] thinks fit*" in addition to the consultees that are specified.

5.5 As the Service Permit Regime includes cross-boundary Services, the consultation process would need to extend to relevant parties in an area outside of the West Midlands, to include Operators running cross-boundary Services and the LAs within whose area those cross-boundary Services operate.

5.6 The Authority would establish a sub-team to deal with Service Permits within its Commercial Team to manage the drafting of the consultation and the collating of the results and comments which are received on the proposed Service Permit Regime. They would then be responsible for proposing and implementing the Service Permit Regime as well as managing any subsequent consultation in the event of proposed changes to Service Permits.

6 Risk Register and Risk Mitigation

Approach to, and Implementation of, Risk Management

6.1 Risk management is a fundamental part of any scheme delivery, managing the negative impacts of the uncertainty that is inherent in any project. It is also about recognising and capitalising upon opportunities arising from uncertainty. Effective management of risk is an integral part of good corporate governance and internal control arrangements and should be a part of regular management processes. The requirement for management of risk in CAs is set out in the Accounts and Audit Regulations 2015. These regulations are applicable to the Authority and contain provisions on financial management, annual accounts, internal control and audit procedures, which require a comprehensive system of internal control to be maintained.

6.2 In addition, the Authority has a RMF setting out the broad overall approach to risk management across the Authority, this will be applied to the management of risk associated with the transition to the Future Partnership and Franchising.

Risk Management

6.3 The Authority has identified the risks associated with the management and delivery of the Delivery Options, capturing that information in a Risk Register. Please see **Appendix 1** of this Management Case for the Risk Register. The Risk Register is maintained and tracked through the risk management process to ensure all probable risks are identified and understood, with mitigating action clearly identified, along with information for escalation in the management of the risk where necessary. This information is presented to the Bus Delivery Options Programme Board for monthly review, in the form of a highlights report.

6.4 The key risks associated with the Reference Case, and the Delivery Options have been captured in the Risk Register. This is based on the Authority's standard risk register template and uses the risk management criteria set out in the RMF. It identifies the relevant risks and the likely consequences of each risk materialising. It also provides an estimate of the likelihood of each risk arising, the impact each risk could have and the actions that have been, or will be, taken by the Authority to mitigate and manage each risk to an agreed target level.

6.5 The principal risks associated with retaining the Reference Case and the implementation and transition risks for the Delivery Options are set out in Tables 5-17 to 5-19.

Table 5-17: Principal risks relating to the Reference Case

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
1	Existing Operator(s) suffer financial difficulties and cease to operate Services, either as a result of increased costs or reduced revenues.	Loss of Services. Passengers have difficulty getting to work / school / shops, etc.	• Where incumbent Operators withdraw Services, the Authority would: • Liaise with other incumbent Operators to step-in and run Services commercially • Let short-term Supported Services Contracts if no Operator will run a Service on a commercial basis, the Service is still required to meet the Authority's Access Standards (subject to VfM standards) • Take no further action if it is decided that the Service does not need to be replaced • The Authority to continue to work with Operators, Stakeholders and the CMA to develop contingency plans to mitigate the chance of this risk materialising.	

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			• The Authority to continue to work with incumbent Operators to ensure Services continue and the network is reviewed in anticipation of planned service cuts.	
2	There are funding issues for the Authority meaning that less investment can be directed to the West Midlands Bus Network.	Potential loss of Services if Services no longer viable for Operators. Delivery of network becomes less affordable.	• Clear mitigation planning and strategies. Consider alternative financial sources.	If investment is not sufficient, and there are no alternate available financial sources, then this risk means that not all Services will be able to be delivered, with resultant economic and social consequences.
3	Operators reintroduce single-Operator multi-journey tickets (undermining the 'Bonfire of Bus Tickets') – whilst the EP under the Reference Case provides a mechanism limiting the cost of the multi-Operator nBus ticket, it does not and cannot prevent Operators having their own ticket ranges.	Confusion for passengers, and a potential barrier to entry for competition if the major Operator NX was to implement and prioritise sales of a competing ticket range.	• Ongoing dialogue with Operators to address concerns. • Associating Terms Conditions around any future grant funding to avoid this.	Risk still remains.

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
4	Subsidy control requirements restrict the level of subsidy that the Authority can inject into the West Midlands Bus Network.	Potential for loss of Services as the Authority is required to contract for Supported Services through tendering which is likely to provide worse VfM than grant funding, due to inherent inefficiencies in how Supported Services can be designed and a lack of competition.	Assessment of legal tools available to the Authority through bus reform – greater ability to offer network subsidy if steps being taken to increase competitiveness within the market.	Subsidy control principles mean that subsidy cannot continue to be used to correct the same market failure. Without intervention, the trend is for bus patronage to decline, meaning additional public funds will be required to maintain the West Midlands Bus Network. Under the deregulated market, the Authority will become increasingly reliant upon using Supported Services to inject funding into the West Midlands Bus Network.
5	Lack of control over how additional funding injected into West Midlands Bus Network and Supported Services is utilised (for example, subsidy control requirements restrict how funding can be provided and Operators are able to determine whether they deregister Services).	Potential for loss of Services as funding is required to be utilised differently.	Assessment of legal tools available to the Authority through bus reform – greater ability to offer network subsidy if steps being taken to increase competitiveness within the market	Subsidy control principles mean that subsidy cannot continue to be used to correct the same market failure. Without intervention, the trend is for bus patronage to decline, meaning additional public funds will be required to maintain the West Midlands Bus Network. Under the deregulated market, the Authority will be injecting increasing levels of funding, but

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
				with limited control over how the funding is utilised.
6	Operators withdraw from the EP under the Reference Case or seek to negotiate out of elements of it.	Agreed outcomes not met. The Authority ineligible for future BSIP or other bus funding, which is dependent on having the EP under the Reference Case or one of the Delivery Options in place.	Whilst Operators are unable to unilaterally withdraw from the EP under the Reference Case, there are mechanisms if enough Operators wish to do this. Governance mechanisms in place for partners to voice concerns to seek resolution.	Ultimately, Operators can cease (or be required to cease) operating Services if they do not wish to comply with the EP under the Reference Case (see risks 1 and 2)
7	The Authority and/or LA's do not keep commitments within the EP under the Reference Case.	Agreed outcomes not met. Operators may seek to negotiate out of commitments as a result. The Authority ineligible for future BSIP or other bus funding, which is dependent on having the EP under the Reference Case or one of the Delivery Options in place.	Governance mechanisms in place for partners to voice concerns to seek resolution. Possible threat of legal consequences given that the EP under the Reference Case is a statutory document.	Operators may cease to operate Services (see risks 1 and 2).

Table 5-18: Principal Implementation and Transition Risks for the Future Partnership

The operating risks for the Future Partnership are principally the same as for the Reference Case (Table 5-17), with the additional implementation risks as follows:

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
Implementation risk				
1	Insufficient Authority staff, or insufficient capability, to implement change in delivery structure. Failure to recruit an adequate number of additional people to manage transition and/or staffing costs are higher than anticipated.	Delay to implementation and additional costs, may potentially lead to transition challenges if delays in introducing new Services.	• Implementation programme allows for recruitment of staff to commence well in advance of resource being required.	The skills required to operate the Future Partnership already exist within the Authority. Although additional capacity is required, this could be built up over time as Supported Services Contracts transition to gross cost Supported Services contracts and the authority purchases depots, meaning the residual risk is low.
2	Transition to gross contract Supported Services Contracts with use of authority owned depot does not stimulate competition.	Benefits of reduced costs for Supported Services Contracts does not materialise. Delivery of network becomes less affordable.	• Engagement with Operators (outlined at Appendix 2 of this Management Case) has indicated that the majority of Operators would prefer Supported Services Contracts to be gross cost rather than net cost and that investment in depots where there is not the long-term	Residual risk is low as market engagement has indicated that depot ownership and net cost Supported Services Contracts are two of the main reasons that inhibit Operators bidding for Supported Services Contracts.

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			guarantee of Services is not attractive.	
3	Existing Operators suffer financial difficulties and cease to operate Services before the Future Partnership Supported Services are due to begin.	Loss of Services before the Future Partnership can be implemented. Passengers have difficulty getting to work / school / shops, etc.	• Where incumbent Operators withdraw Services the Authority would: • liaise with incumbent Operators to step-in and run Services commercially • let short-term Supported Services Contracts if no Operator will run the Service on a commercial basis and the Service is still required from public service perspective • take no further action if decided that Service does	

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			not need to be replaced • The Authority to continue to work with Operators, Stakeholders and the Traffic Commissioner and develop contingency plans to mitigate the chance of this risk materialising. • The Authority to continue to work with incumbent Operators to ensure Services continue and the network is reviewed in anticipation of planned Service cuts.	
4	The Authority is unable to purchase suitable depot sites for the anticipated costs in accordance with the Implementation Plan for the Future Partnership.	The Authority is forced to purchase less suitable sites, either not in ideal positions, or with under or over PVR provision. Benefits of reduced costs for Supported Services Contracts does not materialise.	• The Authority is working with external experts to identify suitable depot sites throughout the West Midlands. • Strong and robust programme management and governance, highlighting risks and issues where appropriate. Robust	Following strong programme management, governance and contingency planning, this risk still remains high. The Authority should allocate contingency budget to address occurring risks and issues to further mitigate this risk.

#	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
		Delivery of network becomes less affordable. The West Midlands is more susceptible to Services disappearing due to lack of Operators that could run Services in certain areas of the West Midlands.	contingency plans to be implemented should delays occur. Robust commercial plans to acquire depots.	
5	Operators fail to reach an agreement with the Authority with regards to the set-up of TiCo / unsuccessful implementation of TiCo.	The benefits anticipated to be realised through TiCo (a centralised function combining retail and sales, maximising efficiencies with focus on growing overall revenue) are not realised. The potential benefits are many, including TiCo enabling a more efficient delivery of the retail function, particularly given, following the Bonfire of Bus Tickets, any ticket sold is valid on all Operators' Services.	• The Authority will engage with Operators to ensure the benefits of TiCo are fully understood by Operators, and encourage Operators to engage and progress the set-up of TiCo. • The Authority will also, through this engagement exercise with Operators, point to the alternative to TiCo - where some Operators take on the cost burden of retail for the benefit of all Operators – to encourage progression of TiCo.	Residual risk is low / confidence Operators will engage with TiCo.

Table 5-19: Principal Implementation and Transition Risks for Franchising

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
Implementation risk				
1	Existing Operators do not accept the risks associated with Franchising which leads them to simply withdraw from the area.	Loss of Services before Franchise Contracts can be implemented. Passengers have difficulty getting to work / school / shops, etc. Additional costs to replace Services in the short-term, potential for reputational damage; short-term service quality reductions.	• Lotting strategy developed to mitigate this risk. • Early engagement with local stakeholders to provide clarity on the long-term benefits of Franchising. • Early engagement with incumbent Operators during transition, so that incumbent Operators have the ability to plan for the change in Delivery Option. • Extension of deregistration period permitted under the Transport Act. • Where incumbent Operators withdraw from the area the Authority would:	If the Authority is required to let short-term Supported Services Contracts to cover for potential withdrawn Services, then the impact on passengers should be minimal, as the routes will still be covered. However, the risk post-mitigation may still exist if there is no financial allowance set aside to cover this risk.

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			• liaise with incumbent Operators to step-in and run Services commercially • prior to the commencement of Franchising, let short-term Supported Services Contracts • following the commencement of Franchising, let Franchise Contracts • no further action as service not replaced • Contingency sum included within Economic Case and Financial Case to cover this risk.	

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			• The Authority can also draw on the experience and strategies of other authorities implementing Franchising, for example GMCA.	
2	Implementation more complex than envisaged, such as procurement process, delivery of new assets (for example, depots, fleet), negotiations with incumbent Operators, challenge risk, recruitment of the Authority staff.	Delay to implementation, additional costs, potentially may lead to transition challenges if delays in introducing new Services and political/reputational risk.	• Development of Implementation Programme, highlighting critical path items. • Development of a Plan B for actions that require the agreement of a third party, such as depot. • Resourcing estimates undertaken and introduction of new Commercial Bus Team who will have the requisite experience in delivering Services. • Implementation programme allows for recruitment of staff to commence in	Notwithstanding the detailed programme management, governance and contingency planning, this risk still remains. The Authority should allocate contingency budget to address occurring risks and issues to further mitigate this risk.

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			advance of resource being required. • Additional budget allowed for external consultants where resource is not available within the Authority. • Robust procurement process for each Round with a gap of at least six months between the commencement of the procurement of Franchising Services for each Round to allow the procurement process to be updated with changing circumstances. • Procurement framework identified to procure fleet with suitable incentives to mitigate delays around fleet procurement. • Depot location feasibility study completed.	

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			• Risk allowance included within the Economic Case and the Financial Case to cover this risk.	
3	Poor communication strategy, both with Operators and passengers, at the start of, and during, transition period. Risk of the public misperceiving that the entire Franchising Scheme will be fully operational during the transition period, or deliver outcomes that are out of scope.	Public confusion surrounding Franchising, and what is being implemented and when, could cause reputational damage to the Authority, disruption to Services, and resulting loss of revenue.	• Regular updates from the Authority's Bus Team to relevant politicians and to minimise the risk of high expectations on what Franchising can achieve by when and associated timescales for implementation. • A publicity and engagement plan is being developed. This will set out the engagement required with stakeholders and local MPs as well as with the public to allow passengers to see any planned changes in advance, and provide a mechanism to ask questions.	Stakeholder buy-in and clear communication strategy will be key to ensuring that all parties understand what the implementation of a Franchising Scheme would mean in the West Midlands. However, there is still a risk that passengers and Operators will confuse the requirements and outputs of Franchising with those being implemented within other CAs.

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			• Regular updates, via various media channels on the status and progress on the roll out of Franchising would be made to passengers, the general public and all other stakeholders.	
4	Incumbent Operator suffers financial difficulties and ceases to operate Services before Services under Franchise Contract are due to begin. Incumbent Operator is unsuccessful in its bid for Franchise Contracts and: (i) ceases to operate Services which will be under a Franchise Contract to another Operator; and/or (ii) acts in an uncooperative manner leading to disruption of Franchising implementation. Operators implement changes to their service offerings during the transitional period to maximise profits (for example, fare	Loss of Services before Franchise Contracts can be implemented. Passengers have difficulty getting to work / school / shops, etc. Reputational damage resulting in a potential reduction in usage and revenue post-transition.	• Extension of deregistration period permitted under the Transport Act. • Where incumbent Operators withdraw from the area the Authority would: • liaise with other incumbent Operators to step-in and run Services commercially • prior to the commencement of Franchising, let short-term	Monitoring and management of existing services will be key when implementing the Lots. However, there may still be some misalignment due to Operator capacity and commerciality, as they bid for the new Services. Therefore, strong stakeholder engagement with Operators during the transition could also help to minimise the impact on passengers.

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
	increases through fear of not running any routes post-transition).		Supported Services Contracts • following the commencement of Franchising, let Franchise Contracts • no further action as service not replaced • The Implementation Plan for Franchising allows for negotiations with incumbent Operators at the start of the transition process to understand and mitigate transition risk. The Authority to continue to work with Operators, Stakeholders and the Traffic Commissioner and develop contingency plans to mitigate the chance of this risk materialising.	

10-85366187-3\360717-17

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			• Risk allowance included within the Economic Case and the Financial Case to cover this risk. • Further consultation with Operators to be undertaken prior to implementing Franchising, to understand their views on the proposed approach. • Depot and fleet strategy seeks to engage with, but does not wholly rely on, the availability of existing assets (depot or the fleet) to support Franchising.	
5	Service Permit Regime consultation out of step with Franchising consultation or delayed so that Service Permits are not available when Franchise Contracts are intended to begin, preventing non-franchised and cross-boundary Services from	Inability to launch first Rounds of Franchising to meet initial timetable, delaying the start of Franchising operations until relevant Service Permits are available. Loss of Services which require Service Permits. Passengers have	• The Implementation Plan for Franchising allows for engagement and consultation on a Service Permit Regime to occur early in implementation process to maximise the time available for Operators to comment on and shape the Service Permits and	Early development and consultation on the Service Permit Regime and proactive management with affected Operators will increase the likelihood that the regime can be implemented at the same time as Franchising Services commence. However, there is still some risk that not all Operators engage with the scheme and the Authority has to decide whether to allow Services to operate without

10-85366187-3\360717-17

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
	operating at the start of Franchising operations. Cross-boundary service providers do not accept terms for Service Permits (including Service Permit costs) and cease to operate Services as they have no Service Permit to operate.	difficulty getting to work / school / shops, etc.	thereafter to obtain Service Permits. Franchising allows for additional roles to be responsible for the Service Permits Scheme. • The Authority to actively engage with incumbent Operators operating services within the West Midlands (including cross-boundary Services) to ensure all local Services within the Franchising Scheme that will not be Services under Franchise Contracts, will be operated under Service Permits. • Obtain feedback from other CAs that have implemented Franchising to assist with the development of a Service Permit Regime. • Franchise Contract mobilisation period of at least six months will provide the Authority with flexibility	Service Permits, or to lose those Services.

10-85366187-3\360717-17

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			and certainty to ensure additional Service Permits are issued if the Service Permits Regime and Franchise Contracts become out of step. • Recruitment of additional staff to assist with development and issuing of Service Permits.	
6	New Operators under Franchising fail to mobilise smoothly, (for example, challenges around transfer/recruitment of sufficient staff, accessing fleet and depot).	Disruption to Services. The Authority incurs additional costs. Reputational damage to Franchising, which must be managed by the Authority, puts pressure on resource and adds cost.	• Franchising tender documents to set clear requirements for bidders' mobilisation plans. • Bidders' mobilisation plans to be tested during the bid evaluation process, by people with the requisite technical experience. • Early engagement between the Authority and incumbent Operators to agree the TUPE allocation process.	There remains a residual risk that insufficient staff will TUPE to a new Operator and that a new Operator is unable to mitigate this due to the statutory timeframes under which employees are required to confirm whether they will transfer under TUPE or remain with the incumbent Operator (under a different role if offered). This risk has materialised during the mobilisation of the GMCA Franchised Services.

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
Revenue risk				
1	Operators fail to collect all fares from passengers, leading to reduced revenue. Patronage levels lower than anticipated. Operating costs are higher than anticipated.	Funding gap, leading to need to request for more funding from the Authority or cut Services.	• Nominal margin introduced to allow modelling of ticket revenue. Model allows flexibility to assess varying revenue scenarios. • Franchise Contract performance and payment model to be designed to incentivise Operators to collect all fare revenue and increase patronage. • Obtaining feedback from other CAs that have implemented Franchising to understand how revenue collection and patronage can be incentivised and operating costs reduced. • As set out in paragraph 3 of the Financial Case, as a CA, the Authority has a variety of funding sources available which could be	The Authority will need to proactively manage Franchise Contracts and Operators to ensure that revenue collection and patronage are incentivised and operating costs kept at an affordable level. However, there remains a risk that revenue collection and operating costs diverge leading to the Authority needing to decide whether to request more funding or reduce Services.

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			utilised to mitigate any gap in funding. • The Franchise Contracts will include a Change mechanism which will enable Services to be varied and costs reduced if required.	
Procurement risk				
1	Insufficient bidders participate to encourage competition. Bidders' prices are higher than anticipated. Inexperience of bidders or promoter in exercise of the required scale affects quality of bids or determination. Risk of legal challenge.	Procurement cancelled or delayed; may need to restart or switch approach. Bids received are more expensive than modelled, leading to a funding deficit. Adverse financial and reputational impacts resulting from defending a legal challenge.	• The Authority has undertaken Market Engagement during the development of this Assessment to ensure that Franchising is attractive to the market. During transition, the Authority will continue to engage with the market to ensure that the relevant Franchise Contracts are attractive to the market and therefore will receive sufficient bids. • 'Lessons learned' processes to be undertaken	Additional market engagement with potential bidders during transition will be important to ensure that there is sufficient competition for Franchising procurements from suitably experienced bidders. However, there remains a risk that the procurement exercise does not result in the benefits envisaged as part of this Assessment.

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			after each procurement Round, and procurement process / Franchise Contracts to be refined as successive Rounds are tendered. • Introduction of a team to undertake the procurement that has the requisite experience of running similarly complex procurements. Need to ensure that staff are employed earlier in the process to ensure they embed within the team and practice tender evaluations and dummy awards on old tender Rounds. • Obtaining feedback from other CAs that have implemented Franchising to understand how competition can be achieved in Franchising procurements.	

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
			• Contingency planning to be undertaken to provide for the eventuality that fewer bids are received than anticipated.	
Operating risk				
1	Poorly calibrated performance regime. Operators are no longer incentivised to maximise revenue.	Delivery of network requires more resource than previously thought. Service quality is reduced leading to reputational damage.	• The Authority will develop the performance regime based on market engagement with Operators, feedback from CAs that have already implemented Franchising, external expert advice and best practice commercial principles. • Performance regime to be designed to reward good performance, such as punctuality, and revenue recovery, rather than penalise poor performance.	The mitigation measures to be implemented should reduce this risk. Nevertheless, there remains a residual risk that incentivising one element of the service over another could cause adverse behaviours (for example, if running late, incentivising punctuality could cause a driver to prioritise punctuality over the collection of fares).

	Risk Description	Consequences of risk materialising	Mitigation	Commentary on residual risk
2	Franchise Contracts are not managed appropriately.	Increased risk of contractual disputes and poor VfM for the Authority.	• Introduction of additional experienced staff to manage the Franchise Contracts. • The Authority will develop a detailed management strategy, which sets out the arrangements for contract management and how disputes will be resolved.	The mitigation measures should ensure that the residual risk is low.

7 Programme Management and Governance

Introduction

7.1 The business of managing the EP under the Reference Case, and proposals for managing a revised operating model under an alternative Delivery Option, all rely on robust management across various business areas - particularly finance, commercial, governance, assurance, programme, and project management.

7.2 This paragraph 7 defines the importance of programme management and governance and demonstrates how it is currently being applied in the Reference Case, how it supports the progress of this Assessment, and illustrates the intended governance structure for the Delivery Options.

Current Strategic Framework

7.3 The Authority applies a strategic framework for programme, governance and assurance to the transport directorate. Multiple teams across the Authority directorates provide support on the progress of projects and programmes across the Authority to ensure it achieves: (i) its principal vision: *'to be a better connected, more prosperous, fairer, greener and healthier regi*on'; and (ii) its core objectives to:

(a) promote inclusive economic growth in every corner of the Authority's Region;

(b) ensure everyone can benefit;

(c) connect communities by delivering transport and unlocking housing and regeneration schemes;

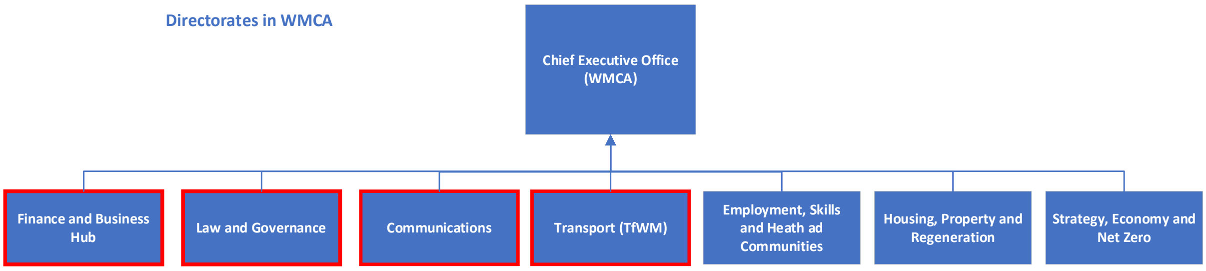
(d) reduce carbon emissions to Net Zero and enhance the environment;

(e) secure new powers and resources from the Government; and

(f) develop the organisation and be a good regional partner.

Several teams support, assure and enable the Authority to compliantly manage and progress programmes/projects, setting the strategic framework for governance, assurance, and governance, as shown in Figure 5-3.

Figure 5-3: Directorates in the Authority



Directorates with a red outline are directly involved in supporting the EP under the Reference Case and would equally be required to support planning and implementation of an alternative Delivery Option.

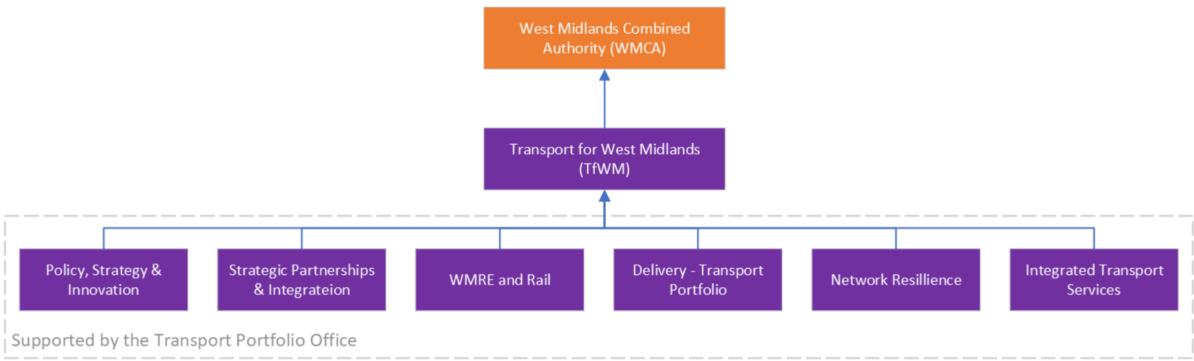
Transport for West Midlands

7.4 The Authority manages a portfolio of programmes, each one enabling the Authority to deliver on its core objectives. These objectives work across themes to: Plan, Deliver and Operate, which enables the Authority's strategic Growth Plan and in turn deliver on the West Midlands Strategic Transport Plan, '*Movement for Growth*'.

7.5 Movement for Growth aims to greatly improve the transport system to support economic growth and regeneration, underpin new development and housing, and to improve air quality, the environment and social inclusion.

7.6 The Authority is comprised of several directorates as set out in Figure 5-4.

Figure 5-4: Directorates in the Authority



Programme Management

Programme Management under the Reference Case

7.7 Transport is generally managed on a three-tier basis:

(a) **Portfolio Management** organises the balance of programmes and projects to best meet the needs of the organisation, working within capacity and capability constraints. The portfolio level is strategic and creates a multi-modal view;

(b) **Programme Management** is defined as a group of related projects managed in a coordinated way to maximise benefits and control, not available when managing them individually. Programmes are delivery outcome focused and look to establish a framework of standards, processes, and behaviours for success; and

(c) **Project Management** involves managing a project to deliver the outputs defined in its business case. Projects are discrete and time bound and work within the framework of best practice set by programme management.

7.8 The Authority plays a strategic role in supporting programme and project management. The Authority's Finance and Business directorate lends their support, guidance, and oversight to the Authority as follows:

(a) the Authority's Programme Assurance and Appraisal Team have established a 'Single Assurance Framework' that ensures all the programmes and projects have a compliant lifecycle to work through in line with the HM Treasury's Green Book Guidance methodology;

(b) each business case in the Authority progresses through this process and is appraised to give the Authority oversight and assurance of that business case as the overall accountable authority; and

(c) the Authority's Business Improvement Team has established the strategic framework for oversight of organisational performance in the corporate portfolio. In terms of supporting the Delivery Options they provide the strategic framework for risk and corporate performance.

7.9 Programme and project management functions across the Authority are both centralised and embedded. The Authority's Delivery–Transport Portfolio directorate houses a TPO, which centralises the establishment, implementation, and management of best practice programme and project management across the Authority's portfolio. This team was implemented as part of the Authority's 'Reimagined' change programme with an objective to establish best practice across the Authority and support its maturity as a major delivery mechanism for the Authority's Region. It is comprised of several centralised functions, as set out in Figure 5-5.

Figure 5-5: TPO structure

- These teams provide a framework for use across all the Authority's programmes and projects.
- This office manages the escalation into the Authority's executive level governance and assurance.
- This office provides centralised best practice and resources (both shared service and matrix managed) into different delivery and operational teams.
- The TPO supports a longer-term change management programme for the Authority, which is progressively supporting the Authority's maturity for delivery of infrastructure and operations.

7.10 This team is currently maturing the programme and project management function and would inform and support any transition to a new operating model for bus as required.

7.11 The Programme Assurance and Appraisal Team, the Business Improvement Team, and the Authority's TPO, will provide the programme and project management framework for oversight, progression, and delivery in support of this Assessment, and implementation of an agreed/preferred Delivery Option.

7.12 These teams house critical resources in support of any transition and implementation of a Delivery Option and would work (as they do currently) collaboratively with teams that sit within the different directorates of the Authority (for example, within Finance, Procurement, Law and

Governance, Audit, Human Resources) to facilitate progress and provide support to the Integrated Transport Services Bus Operations Team.

7.13 There are three discrete activities that the ITS Bus Operations Team could require support from different directorates of the Authority for:

(a) enacting the commitments for the Authority within the EP Scheme under the Reference Case. Essentially supporting business-as-usual, where the Authority has little control over Services outside of the Supported Services Contracts;

(b) the transition programme planning and implementation work. Under a Delivery Option, there would be a requirement to increase capability and capacity across these teams for a transition project. The scope of this change, as detailed in paragraph 2 of this Management Case, will be relatively minor for the Future Partnership but more extensive for Franchising (which would also require change to Governance to accommodate the new responsibilities as set out in paragraph 2). Transition would run in parallel to business-as-usual until a controlled transition could be effected; and

(c) a new operating model. As with the transition programme, the level of support required would be determined by the Delivery Option selected; with the Future Partnership being an extension of business-as-usual and Franchising being more extensive. Please see paragraph 2 of this Management Case for further detail.

Programme Management for the Future Partnership

7.14 Under the Future Partnership, the Authority would take on some additional responsibility in relation to depot ownership, the change in financial risk relating to Supported Services, and also in relation to its role in TiCo. The Authority would need to establish a dedicated programme team (within the Strategic and Management Team) to support transition and implementation.

7.15 This team would ensure that a transition was adequately supported and progressed, and that the Authority was able to balance its business-as-usual responsibilities with the potential risk and disruption that a transition would entail.

7.16 Programme management resource may also be required by the Authority after implementation of the Future Partnership for future transitions. This would be assessed at the relevant time but is likely to be managed from the central Authority functions. These transition resources would be accurately scoped at the time and would be scaled up as needed dependent on the scope of the transition.

Programme Management for Franchising

7.17 Under Franchising, the Authority would take on significant additional responsibility. The Authority would need to establish a dedicated programme team (within the Strategic and Management Team) to support transition and implementation.

7.18 This team would ensure that a transition was adequately supported and progressed, and that the Authority was able to balance its business-as-usual responsibilities with the potential risk and disruption that a transition would entail.

7.19 Programme management resource may also be required by the Authority after implementation of Franchising. This would be assessed at the relevant time but is likely to be managed from the central Authority functions. These transition resources would be accurately scoped at the time and would be scaled up as needed dependant on the scope of the transition.

Governance

Governance under the Reference Case

7.20 Governance plays an important role in the planning, delivery, and implementation of any preferred Delivery Option, and, as before, this works as part of an integrated hierarchical framework applied by the Authority.

7.21 The role of Governance is to provide a framework for compliant decision-making and direction, ensuring adequate oversight and successful outcomes are achieved. A robust governance framework is a key requirement for driving efficiency and improvement in the Authority's processes, preserving stakeholder confidence, and ensuring that it is well placed to respond to an ever-changing external environment.

7.22 The current governance framework can be understood as a three-tier hierarchical architecture:

(a) **Strategic**: governance groups and activities at this level are established to ensure executive level oversight and assurance of the full portfolio of work and management of executive stakeholders;

(b) **Programme**: governance groups and activities at this level are established to manage the programme of work, managing oversight, assurance, and decision-making in line with the programme. Monitoring and managing its performance, implementing consistent best practice, compliant decision-making, and dependency management between projects in the programme to manage risk, maximise opportunities and ensure benefits and outcomes are achieved. When the programme requires decisions, actions or support that is outside their delegated authority, they escalate into the strategic governance groups as required; and

(c) **Project**: governance groups and activities at this level are established to manage project activities, predominantly planning, coordination and delivery of the project work. Projects requiring decisions, actions or support that is outside their delegated authority, escalate into programme level governance groups as required.

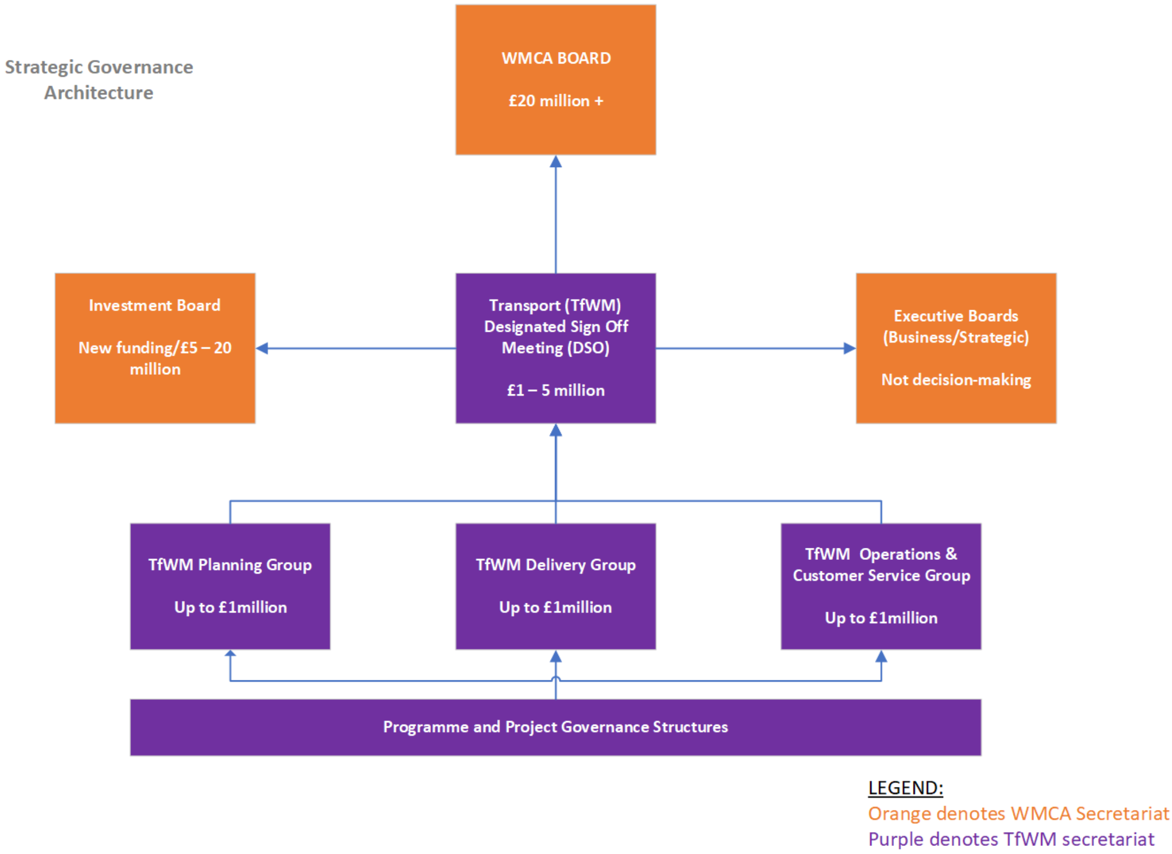
7.23 The Authority has established a governance framework that aligns with the requirements of its constitution and Corporate Code of Governance.

7.24 The Authority has established governance for the Delivery Options and integrates with its strategic/executive governance framework to ensure the Authority's statutory obligations are met. TfWM cannot enter contractual arrangements in its own right as it is not a body corporate. However, TfWM is be treated by WMCA in arrangements for the discharge of functions as if it were an officer of WMCA and the functions and responsibilities as exercised by TfWM are to be interpreted accordingly.

Strategic/Executive Governance

7.25 The Authority's current strategic/executive governance for the delivery of Supported Services and for oversight of business-as-usual is demonstrated in Figure 5-6.

Figure 5-6: Strategic/Executive Governance Organigram



7.26 Figure 5-6 demonstrates the high-level governance structure for a decision or for approval, from the programme and project level, through a thematic leadership group for Operations and Customer Service, and into executive level via the Authority's parent governance group (Designated Sign Off group).

7.27 The Constitution sets out a list of decisions that are categorised as "Key Decisions". A Key Decision means a decision of the Mayor or Officer which is likely:

(a) to result in the Authority incurring expenditure, the making of savings or the generation of income amounting to £1 million or more; or

(b) to be significant in terms of its effects on communities living or working in an area comprising two or more wards in the area of the Authority.

Where a decision maker intends to make a Key Decision, that decision would not be made until the Authority has published a notice for inspection by the public at the Authority's offices and on its website.

7.28 The main purpose, membership and decision-making of these key governance groups is summarised at Table 5-20. If Franchising is chosen, then a review would be required to ensure that decision-making is delegated effectively, so as to maintain agility in an operational environment.

Table 5-20: Governance Groups Remit

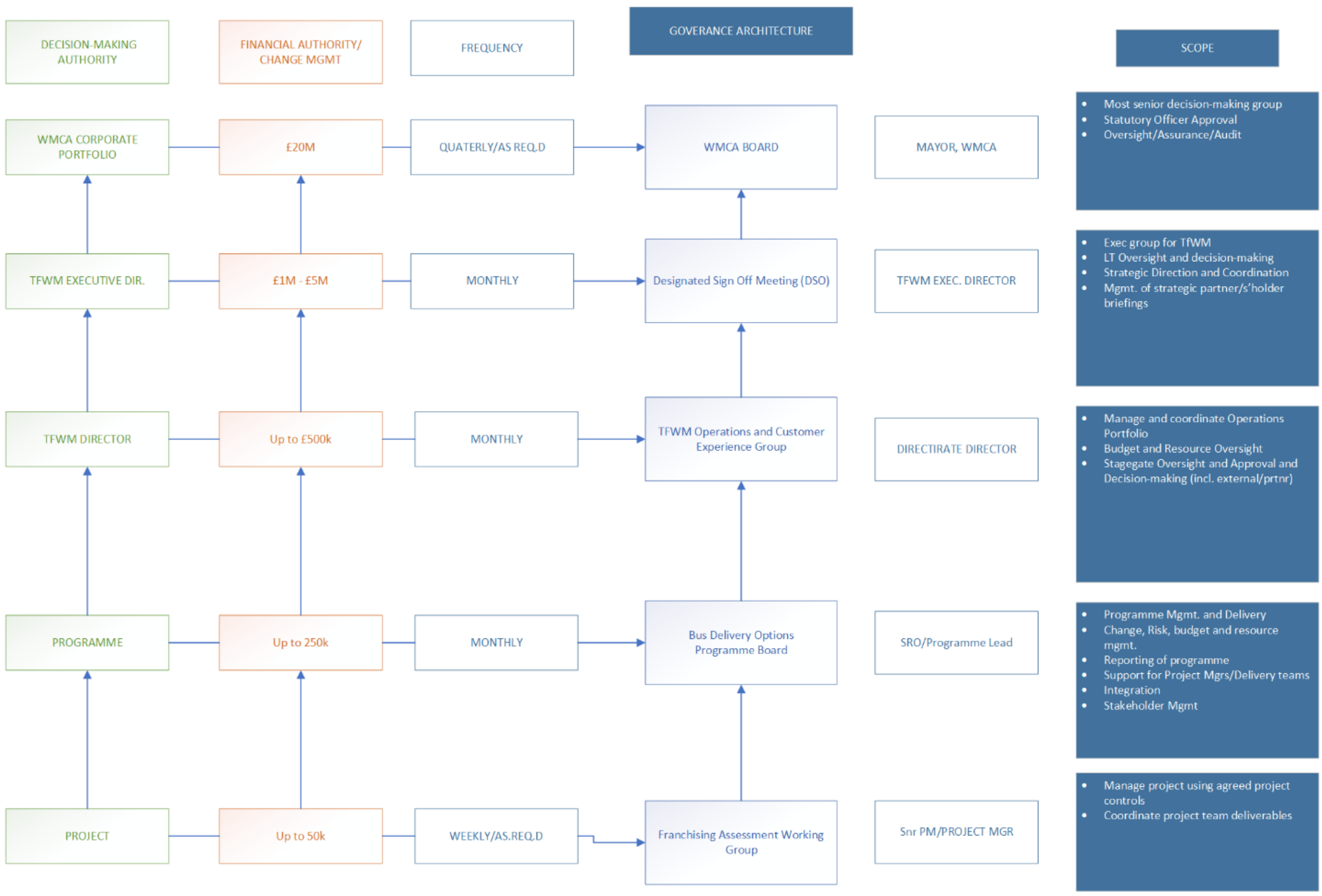
WMCA Governance	WMCA Board (mod.gov – Public - Webcast) Key Decisions and Forward Plan	Investment Board (mod.gov) Key Decisions	Investment Panel (Officer meeting - mod.gov Private)	Designated Sign Off Meetings (mod.gov) Key Decisions	Transport Delivery Group
Membership	Constituent Authority Members (2 each) Non-Constituent Members (1 each) Observers	Portfolio Lead for Finance & Investments. Constituent Authority Member (1 each) Business Representatives GBSLEP WMDC	WMCA Partners, Officers and Directors Partner Organisations Companies (WMDC)	Executive Director Monitoring Officer Section 151 Officer TfWM Leadership Team (when appropriate) HR BP Head of Comms TPO (secretariat)	TfWM Executive Director TfWM Leadership Team Deputy 151 Legal Rep Comms Rep Others by exception/agenda req.
Financial Threshold	Over £20 million	£5 million to £20 million	Advisory (Private)	£1 million to £5 Million	Up to £1 million
Purpose	• Overall responsibility for developing and delivering the Strategic Economic Plan (SEP) • Overall responsibility for developing the strategy and delivering Public Service Reform (PSR) • Deliver the current devolution deal • To negotiate and deliver further devolution deals • Approval of future devolution deal development, to determine strategy on investment decisions • Allocating resources through the Combined Authority budget & income streams such as devolution deals • Determination of Transport strategy and spending priorities • To operate a Cabinet model with Constituent Member Leaders 'sponsoring' a portfolio • To consider and determine applications for Constituent, Non-Constituent and observer status • To work with partners to develop the Midlands Engine • To work with Government to develop and influence national policy To set up the fees for membership	• To make investment decisions • To make any financial decisions that are not investment decisions or already delegated elsewhere between £5 million and £20 million. • To make recommendations to the WMCA Board as appropriate, relating to applications made in accordance with the Investment Program that underpin devolution agreements and any other investment proposals, including the Collective Investment Fund, Brownfield Land & Property Fund, Land & Property Investment Fund, Land Remediation Fund and any other funds that the WMCA appoints West Midlands Development Capital to fund manage on its behalf.	• The Investment Panel will support the Investment Board in undertaking its full functions as detailed in their terms of reference and as they relate to the Investment Programme and the following investment funds: • Collective Investment Fund • Brownfield Land & Property Fund • Land Remediation Fund • Other funds that WMCA appoints West Midlands Development Capital to fund manage on its behalf.	• Delegated Decision Making • Ongoing improvements /new initiatives – this would be the SRO for TfWM Reimagined (change) • People & Culture • Health and Safety • Strategic Stakeholder and Partnership Mgmt. • Transport Portfolio performance and pipeline monitoring. • Setting the strategic direction for TfWM. • Clearing papers/comms for Exec Board. • APB monitoring for Transport • Strategic risk/audit & assurance oversight/commissioning for Transport.	• Delegated Decision Making • For TfWM, this authority would be executed in one of three Leadership Groups (Plan, Deliver, Operate)

10-85366187-3\360717-17

Governance of the Franchising Assessment

7.29 The strategic governance described above houses the framework for governing this Assessment and would also house the governance framework for any Delivery Option. Figure 5-7 illustrates how decisions are escalated and made in accordance with financial delegated authorities:

Figure 5-7: Decisions Organigram



7.30 External to the governance model illustrated above is the TDOSC. This is a political governance group whose purpose is to advise the Authority board on major decision-making for Transport.

7.31 The TDOSC is made up of councillors from across the seven constituent district authorities within the West Midlands and four members from each of the non-constituent councils (being Shropshire, Staffordshire, Warwickshire and Worcestershire) whose remit is to provide pre-decision scrutiny as well as being an advocate for the residents of the West Midlands.

7.32 As demonstrated above, the governance framework at a strategy and leadership level is consistent across the Authority. For programmes and projects, governance and team structures are determined at the start by the SRO as part of early planning work.

7.33 The governance framework set out in paragraphs 7.20 to 7.24 houses the progress of the work for this Assessment as it would any other programme or project in the Authority.

7.34 A project level working group, 'Franchising Assessment Working Group' was established to govern the work of this Assessment. Its key objectives are:

(a) the development and delivery of this Assessment;

(b) the development of strategy papers for specific issues (for example, depot, lotting and so on);

(c) the development of key assumptions to be included in this Assessment;

(d) the detailed transformational plans for each Delivery Option;

(e) ensuring that this Assessment is delivered in accordance with the agreed budget and objectives.

This governance drives the project forward and ensures compliant decision-making within the delegated authorities and decision-making criteria set out by the Authority. In terms of escalation, it is accountable to the programme level, 'Bus Delivery Options Programme Board'.

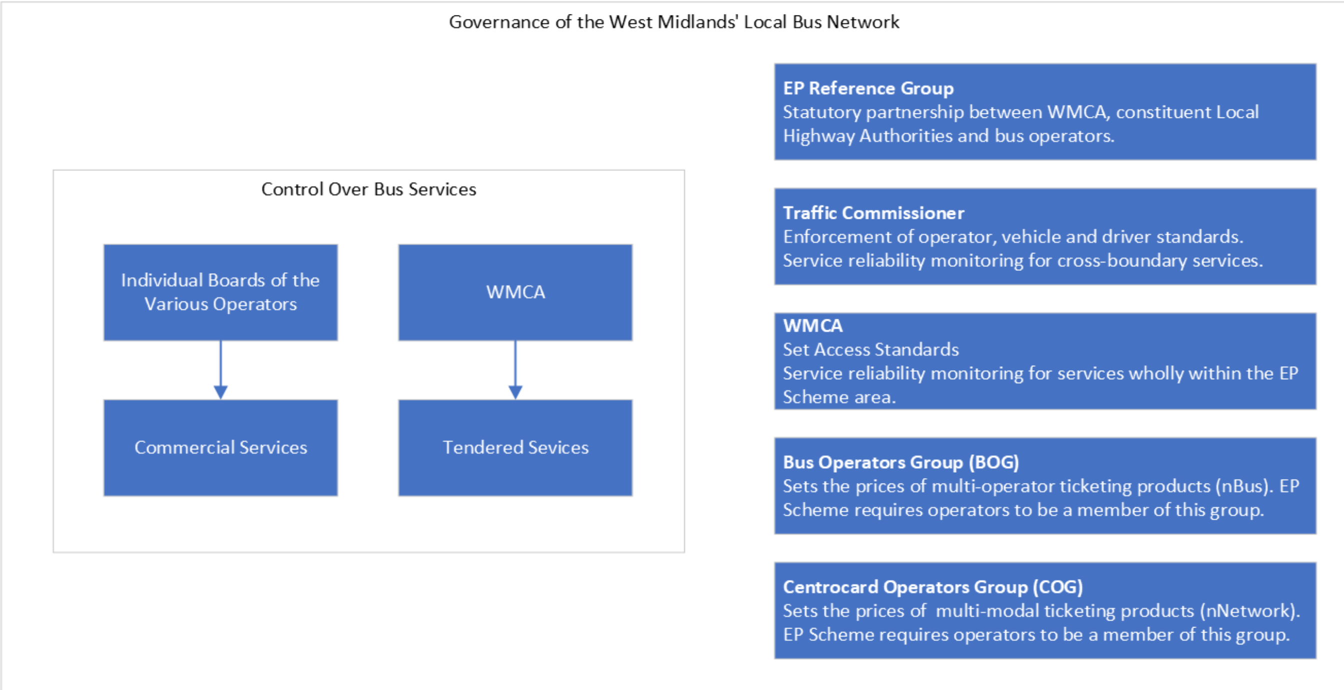
7.35 The accountable decision-maker in the Bus Delivery Options Programme Board is the SRO. Any decisions made by the Bus Delivery Options Programme Board must fall within the delegated authority levels or be escalated as appropriate to the Transport DSO. The Bus Delivery Options Programme Board is ultimately responsible for the technical delivery of this Assessment and ensures that there is wider visibility of the development and delivery of this Assessment amongst relevant stakeholders and senior officers within the Authority.

7.36 Once any proposals have been considered by the Bus Delivery Options Programme Board for comments/endorsement, and any such comments have been considered by the Franchising Assessment Working Group, such proposals are then deemed to have been endorsed by the Bus Delivery Options Programme Board.

Governance under the Reference Case

7.37 There is no single structure for managing the West Midlands Bus Network in the current Delivery Option. The commercial network is managed by the individual boards of each Operator. The Authority sets minimum Access Standards and, where gaps in the commercial network fail to meet those Access Standards, the Authority tenders for the provision of additional Services. Figure 5-8 illustrates the nature of governance over the West Midlands Bus Network.

Figure 5-8: Current Governance Structure



7.38 The governance framework above has been supported through the Bus Alliance Board, which the Authority is a member of, and which provides a coordination role between the various stakeholders. The Bus Alliance Board has grown to accommodate increased scope over the past five years. Current sub-groups are:

(a) Operators Panel;

(b) Safer Travel Partnership;

(c) Bus Passenger Satisfaction Steering Group;

(d) Communications and Marketing Steering Group; and

(e) Community Transport Operators Panel.

7.39 This model demonstrates the wealth of cross-partner involvement and stakeholder engagement necessary to manage the West Midlands Bus Network under the EP under the Reference Case. The Transport Act 1985 moved all decision making for the commercial network to individual Operators and, as such, the Authority only has the power to manage Supported Services. Other initiatives are subject to voluntary agreements or negotiations with stakeholders.

7.40 In the event that no different Delivery Option is selected by the Authority, the current governance framework would remain but would likely be reviewed to ensure best practice continues.

Governance under the Future Partnership

7.41 For the Future Partnership, the governance arrangements would remain broadly the same as under the Reference Case, with the statutory underpinning of the EP under the Reference Case being unchanged. Nevertheless, there would be some changes:

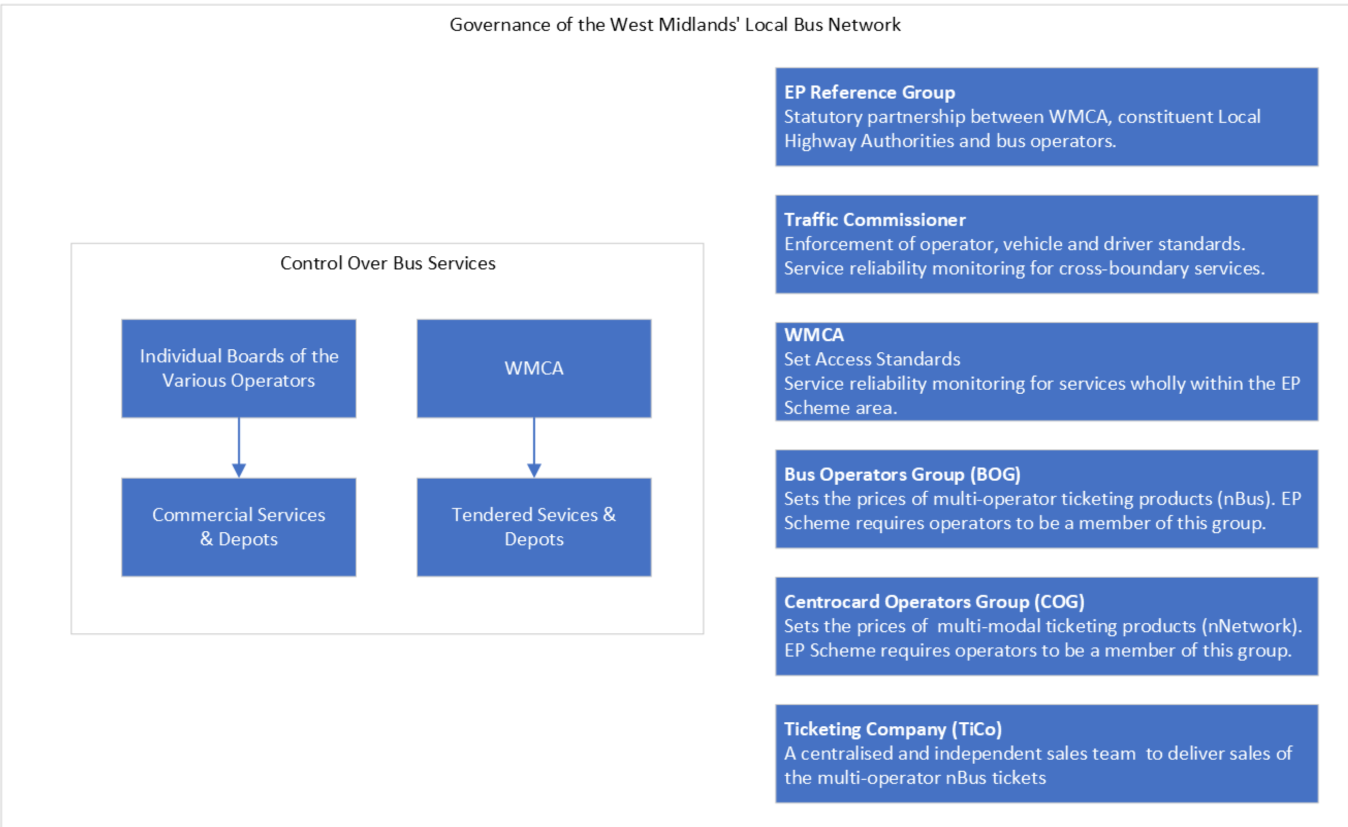
(a) additional governance would be required for managing depots for use by the tendered West Midlands Bus Network;

(b) revised governance would be required to reflect the transition to gross cost Supported Services Contracts; and

(c) an additional independent body would be created for the purposes of centralising sales teams for multi-Operator tickets. The Authority would become a member of this.

7.42 Figure 5-9 illustrates what a core governance framework would look like for the Future Partnership:

Figure 5-9: The Future Partnership Governance



Governance under Franchising

7.43 The transition to Franchising would require the structured coordination of multiple business functions and interconnected activities. This increase in scope, accountabilities, and responsibilities for the Authority, would constitute a major transition programme. A Bus Options

Programme Group would be established (reporting to the Transport DSO) with a variety of project level groups to plan, transition and implement each aspect of change.

7.44 Whilst the capacity and capabilities of programme / project management and enabling services for transition would likely increase, the principles of governing and supporting that transition would likely align with the existing structures and process described above. There may, however, be a requirement to increase non-decision-making Franchising Assessment Working Group sessions to accommodate additional scope such as fleet/depot/procurement/commercial requirements in preparation for Franchising or to ensure adequate coordination and integration of the transition. Post selection, the full scope of transition would inform the revision and agreement of this transitional governance.

7.45 Figure 5-10 illustrates what a core governance framework may look like for Franchising, housing the new competencies and team structure detailed in paragraph 2 of this Management Case. It is critical to note the dependencies with legislative and statutory requirements and the need for the Authority to engage with and seek endorsement from key stakeholders, both during implementation and after. For example, a variation to the Franchising Scheme would require a consultation to be held, and revocation of the Franchising Scheme would require an assessment of options, similar to that to implement a Franchising Scheme.

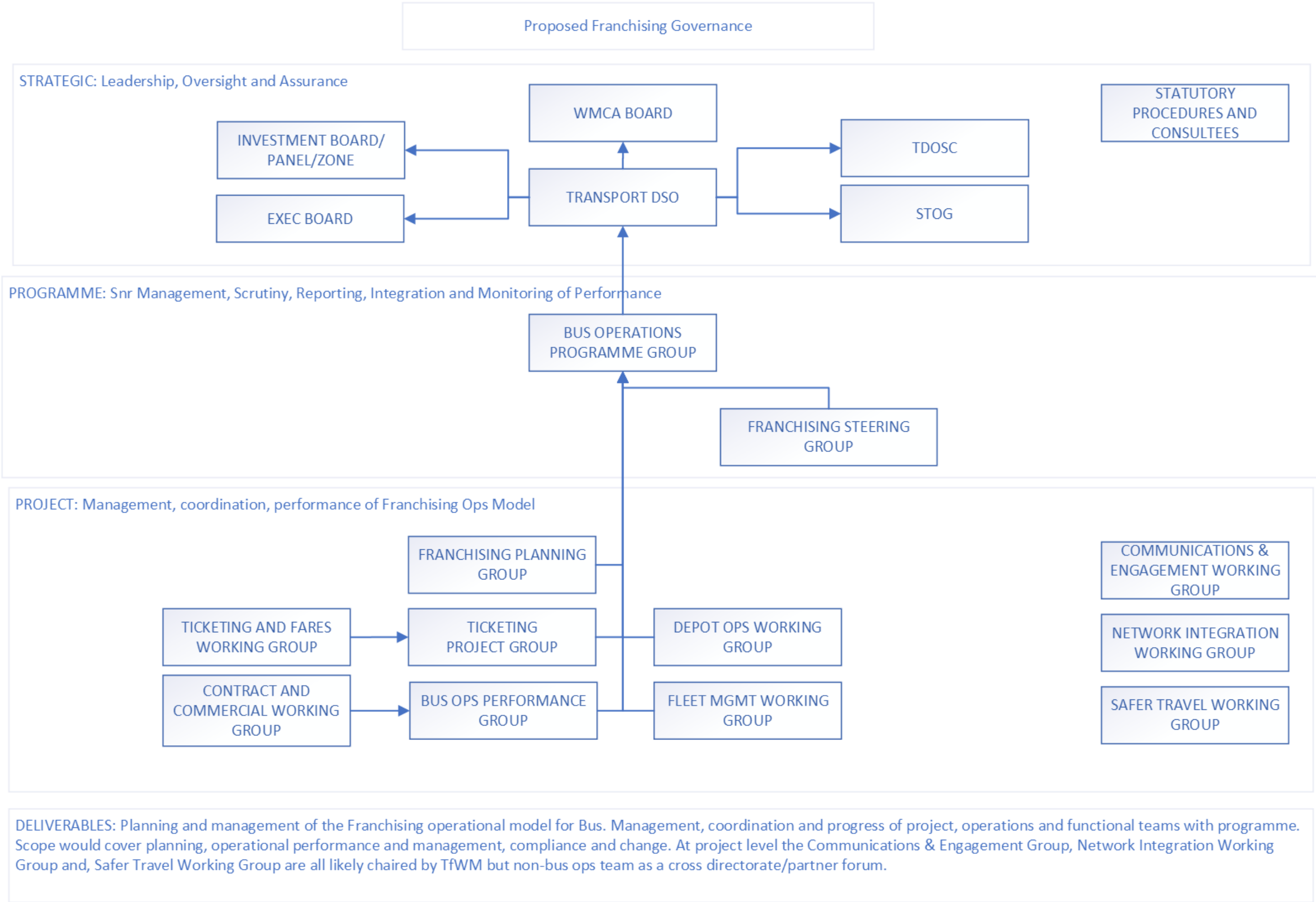
7.46 Key to the revised structure is agility. Operational delegations would sit at the appropriate level so that the Authority could dynamically respond to the real-time operational environment. The default delegation structure (as noted earlier in this paragraph 7) is not fit for this purpose and is why a review of how these would apply to Franchising governance would need to be considered during the implementation planning phase, with the Authority utilising feedback from other CAs that have already implemented Franchising to create best practice. For example:

(a) if a fire occurred at one of the major depots overnight that renders it unusable, a decision would need to be made before Services begin for the day on how the Services operated by that depot would be fulfilled. That could rely on running a Sunday timetable while unutilised driving staff focus on relocating vehicles to nearby depots. This would have the effect of significantly reducing revenue and also adding cost to operating that depot's Services until the new depot could be repaired. The expenditure for the repairs themselves would need to be released quickly to avoid continuing losses and disruption to the West Midlands Bus Network – waiting for a business case to be drawn up and to be taken through the full approvals process could result in several weeks of disruption and financial losses;

(b) if a major road is closed due to a burst water main and the diversion route adds 10 minutes to the journey time, buses would be diverted as part of business-as-usual, but a decision would be required on how to maintain the level of service the next day; the timetable would need to be changed and, to maintain frequency, extra vehicles would be required, adding significant cost to the operation for an unknown period of time. It would be imperative to move quickly to minimise disruption; experience has shown that patronage is quick to fall as the period of disruption continues and is slow to recover (typically taking six to twelve months); and

(c) if an improperly configured update to ticket machines caused physical damage to them, rendering the machines inoperable, the Authority would need to urgently diagnose the issue, then develop and instigate a rolling programme of repairs. With all revenue dependant upon the ticket machines, a delay in making a decision would incur extensive financial loss. The Authority may also want to quickly procure and issue hand-held ticketing devices to revenue protection teams to issue tickets in lieu of on-vehicle ticket machines. The financial impacts of this type of issue would quickly and significantly compound over time. Taking the time to conduct a proper assessment of a revised working structure / processes and going through a competitive tender process to obtain ticket machines (handheld temporary devices and/or the repairs to existing machines) would lead to significant financial loss.

Figure 5-10: Franchising Governance Organigram and Explanatory Tables.



Franchising Governance	Bus Operations Programme Group	Franchising Steering Group	Bus Ops Performance Group	Ticketing Project Group
Membership	• SRO (Bus, TfWM) - Chair • Operational Lead/Sponsor, Franchising • Programme Manager • Operational Leads • Enabling Service Business Partners (HR, Finance, Legal, Procurement, Change) • Comms and Engagement • Other attendees as agenda requires	• Chair: TfWM • Members: Internal and External • Operating Managers/Snr Managers • Comms & Engagement • Partner/Operator Representatives	• Operational Lead/Sponsor, Franchising - Chair • Snr Project Manager • Project Manager/s • Risk Manager • Commercial Manager • HR Manager • Finance Manger • Procurement Manager • Legal Manager • Operating Manager/s – as required	• Operational Lead, Ticketing - Chair • Project Manager, Ticketing • Operational Manager/s • Enabling Service Officers • Other representatives as required
Decision-making	Yes	No	Yes	Yes
Purpose	• Accountable to Transport DSO. • This would be a programme level group. • Oversee the Franchise operation; performance, compliance, issue resolution and decision-making within its delegated authority. • Manage business case production, approval or progress to completion as required. • Oversee the performance of the multiple operational workstreams/teams in the Franchising operating programme. • Oversee, provide advice and direction to operational teams implementing and managing SOPs, SLAs and KPIs as part of Franchising. • Take decisions within delegated authority. • Manage the forward plan and escalation of any decision-making, or issue resolution to leadership level. • Define and manage the risk profile for the programme. • Define and manage programme dependencies. • Define, manage and/or inform any programme level assurance or audit activity. • Establish and oversee the monitoring and evaluation of benefits and outcomes, defined in the business case, for Franchising.	• This would be accountable to Bus Operations Programme Group. • This would be a programme level partnership group. • Provide a forum to manage dependencies between TfWM and Partners/Stakeholders.	• Accountable to Bus Operations Programme Group • This would be a project level group. • Oversee and manage the performance of the Franchising Operation. • Develop, implement and manage the workstreams of Franchising operation. • Take decisions within delegated authority. • Escalate reports, papers for visibility and approval to the programme group. • Escalate any issue/risks for resolution or support. • Manage the performance of Franchising through the implementation of SOPs, KPIs and SLAs as required. • Manage dependencies between performance workstreams/teams. • Inform/complete any required assurance or audit activity pertaining to the operation.	• Accountable to Bus Operations Programme group. • This would be a project level group. • Oversee and manage the performance of ticketing. • Develop, implement and manage the workstreams of ticketing operation. • Take decisions within delegated authority. • Escalate reports, papers for visibility and approval to the programme group. • Escalate any issue/risks for resolution or support. • Manage the performance of ticketing through the implementation of SOPs, KPIs and SLAs as required. • Manage dependencies between performance workstreams/teams. • Inform/complete any required assurance or audit activity pertaining to ticketing operation.

Franchising Governance	Depot Ops Working Group	Contract and Commercial Working Group	Franchising Planning Group	Ticketing and Fares Working Group
Membership	• Operational Lead, Depots - Chair • Project Manager, Depots • operating Manager/s • Enabling Service Officers • Other representatives as required • Other representatives defined according to scope.	• Franchising Commercial Lead, TfWM – Chair • Commercial managers • Finance BP • Procurement BP • Legal BP • Operational mangers as required • Operator representatives as required • Other representatives defined according to future scope.	• Operational Mgr (Planning), TfWM – Chair • Project Manager • Project Sponsor/s • Policy/Strategy Manager/s • Other representatives defined according to future scope	• Operational Manager (Ticketing) - chair • Project Manager • Commercial/Contract Management • Other representatives defined according to future scope
Decision-making	Yes	Yes	Yes	Yes
Purpose	• Accountable to the Bus Operations Programme Group. • This would be a project level group. • Oversee and manage the performance of operating Depots. • Develop, implement and manage the workstreams for operating Depots. • Take decisions within delegated authority. • Escalate reports, papers for visibility and approval to the programme group. • Escalate any issue/risks for resolution or support. • Manage the performance of Depots through the implementation of SOPs, KPIs and SLAs as required. • Manage dependencies between performance workstreams/teams. • Inform/complete any required assurance or audit activity pertaining to depot operating.	• This would be a project level working group, responsible to 'Bus Performance Group'. • Lead and manage the contract and commercial function for Franchising operating across the workstreams. • Establish and manage best practice Commercial Strategy and Management Plan. • Manage contractual performance via established KPIs, SLAs and SOPs. • Ensure compliant contract and commercial management practices are adhered to across Franchising operating in accordance with statutory and legal compliance requirements. • Work to identify and manage opportunities and efficiencies across the operational programme. • Take decisions within delegated authority.	• Accountable to the Bus Operations Programme Group. • This would be a project level group. • Manage the development of planning workstreams/strategies/policies/planning within the scope of FP operating. • Take decisions within delegated authority. • Provide a forum for integrated operational planning for the Franchising including planning for service levels. • Identify opportunities and efficiencies between projects to maintain VfM.	• Accountable to the Ticketing Project Group • This would be a cross-partner working group. • Manage and coordinate activities in the ticketing and fares workstream for agreement and implementation in Ticketing Project Group. • Take decisions within delegated authority. • Provide a forum for managing ticketing and fare activities for Franchising operating model. • Provide a forum to manage and integrate dependency work with other team/workstreams as required.

Franchising Governance	Fleet Management Working Group			
Membership	• Operational Lead, Fleet - Chair • Project Manager, Depots • operating Manager/s • Enabling Service Officers • Other representatives as required • Other representatives defined according to scope.			
Decision-making	Yes			
Purpose	• Accountable to the Bus Operations Programme Group. • This would be a project level group. • Oversee and manage the performance of operating Fleet. • Develop, implement and manage the workstreams for operating Fleet. • Take decisions within delegated authority. • Escalate reports, papers for visibility and approval to the programme group. • Escalate any issue/risks for resolution or support. • Manage the performance of Fleet through the implementation of SOPs, KPIs and SLAs as required. • Manage dependencies between performance workstreams/teams. • Inform/complete any required assurance or audit activity pertaining to depot operating.			

7.47 The above organigram and summary tables are representative of a proposed core framework only. Membership, frequencies and delegations would be critically reviewed once full scope was complete to refine and agree before transition and implementation.

7.48 A newly revised clear and enforceable governance framework would ensure the realisation of benefits and outcomes (see paragraph 4 of this Management Case) and be monitored and managed by programme and project levels through the implementation of robust controls (budget, scope, and time) and reporting (regular, transparent, single source of truth for performance).

7.49 The framework would still operate in line with defined strategic/executive, programme, and project levels as defined by the Authority.

7.50 This new/strengthened governance, programme and project framework would require integration with new/strengthened practice business management (HR, Legal, Finance and Business) and accompanying standard operating procedures for the new target operating model to function successfully. These two elements would be defined by the scope of a new target operating model.

8 Conclusion

8.1 This Management Case considers the factors which influence the deliverability and robustness of the Authority's arrangements to manage, deliver, monitor and evaluate the Delivery Options. Or, put another way, it is designed to show that the Delivery Options could be successfully implemented and managed by the Authority.

8.2 The Authority's current operating model and capabilities are set-out in this Management Case. This is a model which has been successfully utilised by the Authority to manage Operators, respond to change and ultimately deliver Services within the Authority's Region. This operating model has grown organically over a number of years and includes within it the necessary skill set and capacity to fully deliver the Reference Case.

8.3 If the Future Partnership is progressed, then the Authority would obtain additional responsibilities, which may require supplementary capabilities to be added to the current Bus Team and some updates to be made to its operating model. Roles within the current team structure would be adapted to manage these new responsibilities, and support would be provided from the Authority's central function. Therefore, given the level of changes anticipated under the Future Partnership, the Authority would have the required capabilities to manage transition and implementation.

8.4 Franchising would require a large degree of change to the current operating model, given the Authority would become accountable for the delivery of the whole West Midlands Bus Network. Therefore, given the increase in responsibilities, there would be a requirement for an increase in people and capability, and for a streamlining of the Authority's governance structure, to ensure Franchising could be appropriately implemented and managed.

8.5 Delivery of Franchising would be a large-scale project undertaking for the Authority, and this Management Case demonstrates the Authority's proficiency and experience in both delivering under its current operating model, and through delivering other large-scale transport projects. These experiences and skills within the Authority will be utilised to fully manage a transition to Franchising, and its operation and management thereafter.

Resource

8.6 The Authority has developed a plan for the staff and resources which would be needed for transition and for ongoing management for both Delivery Options.

8.7 As with any project implementation, having the appropriate resource to deliver the project is imperative. A plan for the recruitment of team members and the appointment of additional specialists has been undertaken by the Authority and will be further developed at the appropriate times.

8.8 Franchising will have the bigger impact on addition resource requirements, and it is anticipated that an additional 165 roles will be required in relation to the Franchising Scheme. This is described in more detail at paragraph 2 of this Management Case.

Cost

8.9 Transition, the expansion of skills within the Authority, and the requirement for additional resource, has significant costs attached to it. This has been carefully modelled by the Authority, to understand the potential future cost of a transition to the Future Partnership and to Franchising. Given that Franchising would represent a more material change from the Reference Case, this equates to more significant resource and costs (particularly given there will be more risks to manage).

Table 5-21: Anticipated Transition Cost

Delivery Option	The Future Partnership	Franchising
Additional Resource Cost	£796,547.43	£16,054,371.61
Other Transitional Costs	N/A	£22,545,300
Total	**£796,547.43**	**£38,599,672.61**

Governance

8.10 Given the similarities between the Reference Case and the Future Partnership, it is expected that the Authority would utilise the same governance as has been established under the Reference Case.

8.11 To ensure that the benefits of Franchising would be realised, clear and enforceable governance will be required. The Authority currently have clearly defined reporting and governance frameworks which will be transferable to any implemented Delivery Option. The Authority will follow these frameworks to ensure a revised Governance structure would be able to adapt and be able to successfully implement and manage Franchising.

8.12 Full detail of this is contained in paragraph 7 of this Management Case.

Management Case Appendix 1

Risk Register

Risk ID	HLD / Programme / Project	Workstream	Date Risk Raised	Raised by	Category	Risk Title	Cause	Effect	Controls / Measures Already in Place	Likelihood	Impact	Score	Target	Further Actions Required to Mitigate Risk	Action Owner	Action Due Date	Risk Escalation	Date Risk Escalated	Risk Closed (Y)
BD001	Full Franchising Assessment	Lotting	05/03/2024	Guy Craddock	Financial /Financial Loss	Sub-optimal Lotting strategy	An under-developed lotting strategy due to one or more of the following: • Lack of knowledge of financial performance of bus routes; • Failure to group routes into contracts in a way that, during transition, maximises the financial stability of the West Midlands Bus Network as a whole; • Failure to consider cross-boundary Services; • Failure to consider depot availability; • Failure to consider a Service Permit Regime; • Changes to Services between development of strategy and start of delivery.	One or more of the following: • Limited competition for contracts, causing costs to rise; • Operators withdrawing marginal / loss-making commercial Services, forcing the Authority to subsidise Services to maintain access standards; • Undermining the commercial viability of Services outside of the Authority's Region, causing reputational damage; • Complex administrative arrangements where Franchised and non-franchised Services overlap, overwhelming the available resource and causing delay to the delivery plan.	Create an overarching strategy based on Operator data obtained at the start of the Assessment. Lotting zones have been chosen in line with the depot strategy to maximise chances of having depots of sufficient size within each Lot. Recognising that Services are constantly changing, a rough understanding of which routes are included in which Lots was established. Assess the sequence in which zones are Franchised to ensure Operators retain profitable Services until the last tranche of Franchised Services to reduce the risk that Operators will deregister Services. Discuss cross-boundary Services with neighbouring LAs. Approach to make a Franchising Scheme across the whole of the Authority's Region, without the use of sub-areas, provides the Authority with flexibility to change its lotting strategy if required (e.g. because of lessons learned from the procurement process) without needing to vary the Franchising Scheme.	3	5	15	8	Review of lotting strategy. Development of detailed lotting plan taking account of the Services and financial standing of Services existing at that point. The Authority will work with neighbouring Las to agree cross-boundary Service Permit arrangements for the exact Services following a decision to Franchise, taking into account comments received during consultation.	Guy Craddock	Ongoing			
BD002	Full Franchising Assessment	Lotting	05/03/2024	Guy Craddock	Programme Delivery	Management of interdependencies	Fleet, depot and lotting strategies are closely intertwined.	May need to make decisions without having all the answers for the other workstreams.	Ensure workstream leads are working closely.	2	4	8	4						Y
BD003	Full Franchising Assessment	Strategy Coordination	05/03/2024	David Harris	Programme Delivery	Agreement on Case for Change	Lack of agreement on challenges/objectives and Case for Change.	Poor quality business case.	Ongoing development, review and challenge of draft Strategic Case and engagement with key officers.	2	5	10	4	Continue development, review and challenge of draft Strategic Case and engagement with key officers. Supporting update from auditor comments.	David Harris	24/10/2024			

Risk ID	HLD / Programme / Project	Workstream	Date Risk Raised	Raised by	Category	Risk Title	Cause	Effect	Controls / Measures Already in Place	Likelihood	Impact	Score	Target	Further Actions Required to Mitigate Risk	Action Owner	Action Due Date	Risk Escalation	Date Risk Escalated	Risk Closed (Y)
BD004	Full Franchising Assessment	Strategy Coordination	05/03/2024	David Harris	Programme Delivery	Bus market uncertainty	Further uncertainty within the West Midlands Bus Network.	Further/repeated revision of the Strategic Case. Delays to delivery.	Any changes that could affect the Strategic Case to be identified and discussed by the project team. Monitor emerging issues.	3	4	12	6	Ongoing updating of the Strategic Case as required from comments. Supporting update from auditor comments.	David Harris	24/10/2024			
BD005	Full Franchising Assessment	Depot Strategy	05/03/2024	Andy Thrupp	Financial /Financial Loss	Depot availability	A lack of depot site availability.	Significantly constrain the ability for Operators to compete for Franchise Contracts.	A depot strategy is being developed by the Authority. Get agreement on the depot strategy through business case approval.	3	5	15	8	Depot Strategy to go to the Authority's Board in October.	Andrew Thrupp	12/10/2024			
BD006	Full Franchising Assessment	Depot Strategy	05/03/2024	Andy Thrupp	Programme Delivery	Depot allocation to lotting strategy	Uncertainty over depot locations for South and East Birmingham.	Makes it challenging to create contracts.	Work with Bruton Knowles to search for land. Work with Birmingham City Council to see if they have land opportunities. Keep looking for opportunities more generally.	3	5	15	8	Maintain dialogue with incumbents and potential wider developer market.	Andrew Thrupp	Ongoing			
BD007	Full Franchising Assessment	Fleet	05/03/2024	Eliot Wilde	Financial /Financial Loss	Vehicle availability	Risk that ZEBs that have not been grant funded cannot be retained in the Authority's Region as a result of NX not winning a Franchise Contract that would require that fleet.	This would require additional investment by the Authority in order to maintain the ZEB profile of the fleet in the Authority's Region.	Needs to be considered within the lotting strategy and with regard to vehicle ownership. We may need to agree that we're happy with some reduction to competition as a result of maintaining the ZEB profile without the need for additional spending.	2	5	10	6	Dialogue with NX to understand their position on "leased" vehicles from Zenobe.	Eliot Wilde	March 2025			
BD008	Full Franchising Assessment	Fleet	05/03/2024	Eliot Wilde	Financial /Financial Loss	Finance availability for fleet	Limited availability of Authority financing/ borrowing.	Dependency on certain fleet ownership models on unlocking the bus market and ensuring competition.	Ensure finance workstream has full visibility of dependencies around fleet options.	2	4	8	6	Develop a budget requirement based upon current vehicle costs and network requirements.	Eliot Wilde	March 2025			
BD009	Full Franchising Assessment	Fleet	05/03/2024	Eliot Wilde	Financial /Financial Loss	NX and ZEB fleet commitments	NX moving away from a firm commitment for a fully ZEB fleet by 2030, indicating that investment in any new fleet is marginal.	At the point of Franchising, the Authority would have to undertake a significantly larger programme of fleet renewal than previously assumed.	Mitigations for this risk do not directly sit within the case for Franchising but the board will be kept informed.	4	5	20	8						Y
BD010	Full Franchising Assessment	Option Definition	05/03/2024	Steve Hayes	Governance	Division of activities	Failure to engage constructively.	Lack of consensus around which activities are taken by Operators, what activities are done in-house.	Ongoing stakeholder engagement – regular liaison sessions with districts being established.	2	4	8	4	Maintain stakeholder engagement – regular liaison sessions with districts.	Steve Hayes	24/10/2024			
BD011	Full Franchising Assessment	Option Definition	05/03/2024	Steve Hayes	Programme Delivery	Delivery of commitments	Ongoing challenges with delivery of commitments within the EP Scheme.	Makes Future Partnership harder to define/realise.	Ongoing dialogue with Operators.	2	4	8	8						Y

Risk ID	HLD / Programme / Project	Workstream	Date Risk Raised	Raised by	Category	Risk Title	Cause	Effect	Controls / Measures Already in Place	Likelihood	Impact	Score	Target	Further Actions Required to Mitigate Risk	Action Owner	Action Due Date	Risk Escalation	Date Risk Escalated	Risk Closed (Y)
BD012	Full Franchising Assessment	Funding	05/03/2024	Paula Martyn	Reputational	Funding of a Franchised West Midlands Bus Network.	Insufficient funding for Franchising.	Prevents Franchising from being implemented successfully or for significant improvements to be made so outcomes remain similar and the Authority is put under more pressure to deliver as customers see little improvement.	Need political buy-in that successful Franchising requires significant investment. Need to manage expectations and prioritise key target areas to deliver improvements. The scale of the Franchising on offer to match available resource i.e. if little additional funding is available then the franchising chosen will need to be limited in scope. Need to consider the way in which Franchising is implemented to match availability of resources i.e. big bang across the Authority's Region v different Lots.	3	4	12	6		Paula Martyn	24/10/2024			
BD013	Full Franchising Assessment	Funding	05/03/2024	Paula Martyn	Financial /Financial Loss	Resource availability during mobilisation	Insufficient resource or in-house knowledge during the mobilisation phase.	Key areas of delivery being overlooked or planned inadequately. Some key people currently working across multiple high-priority areas. This could leave the Authority financially exposed, either through missing opportunities or requiring Services to be bought-in at short notice at high cost.	Identify critical roles required for mobilisation Use TfGM as a potential model. Finance/HR/Ops team to work together to understand whether mobilisation can start now and how this will be funded. Robust project management required, allocating responsibility / accountability through workstream leads.	2	4	8	6	Develop the budget for the mobilisation plan and inform the SRO of the funding required/available and approach to securing the funding.	Paula Martyn	30/10/2024			
BD014	Full Franchising Assessment	Funding	05/03/2024	Paula Martyn	Financial /Financial Loss	Lack of Leverage	Current lack of leverage (e.g. lack of depot ownership, reliance on a very dominant Operator).	High / unaffordable prices.	Depot strategy being drawn-up including a SOBC which has now been completed. The Authority has purchased Walsall depot. R&R review looking at re-procurement in July 2024 which should introduce more competition into the market.	3	4	12	10	Continue to explore financial options to improve the Authority's position and leverage towards Franchising, including depot acquisition.	Paula Martyn	March 2025			
BD015	Full Franchising Assessment	Governance and Structure	05/03/2024	Steve Hayes	Governance	Organisational Change	Lack of recognition within the Authority and within districts around level of organisational change required to deliver a franchised environment.	Franchised network is under-resourced, under performs and/or quickly becomes unmanageable. May require bringing in extra resource at short notice, adding to costs.	Picked up through regular LA engagement sessions and reporting lines through senior leadership.	3	4	12	8		Steve Hayes	March 2025			
BD016	Full Franchising Assessment	Governance and Structure	05/03/2024	Steve Hayes	Programme Delivery	Organisational Change	Delay in agreeing assumptions for future structure resource.	Delays to the authoring of the business cases, causing delay to delivery of this Assessment. Financial Case is on the critical path.	New FFA Audit and Business Case Review group has been set up to address outstanding decisions and agreement of assumptions.	4	5	20	8						Y
BD017	Full Franchising Assessment	Network Development	05/03/2024	Andy Roberts	Reputational	Day 1 Network Changes	Failure to understand the small changes to the West Midlands Bus Network for	Delays to making small changes to the West Midlands Bus Network.	Support from board on approach.	2	3	6	6						Y

Risk ID	HLD / Programme / Project	Workstream	Date Risk Raised	Raised by	Category	Risk Title	Cause	Effect	Controls / Measures Already in Place	Likelihood	Impact	Score	Target	Further Actions Required to Mitigate Risk	Action Owner	Action Due Date	Risk Escalation	Date Risk Escalated	Risk Closed (Y)
							day 1 (mainly in Solihull and East Birmingham).												
BD018	Full Franchising Assessment	Network Development	05/03/2024	Andy Roberts	Programme Delivery	Cuts to the West Midlands Bus Network	Cuts to the West Midlands Bus Network.	Work will be undertaken to see whether if Franchising for the Authority's Region is announced, the Authority take a similar approach to GMCA in maintaining the network. This will include a review as to whether the areas identified for more significant change should continue to be assessed in this way.	Close working with the bus team to understand the effects. There are some levers that will prevent wholescale withdrawals and a workstream to have a 'live' understanding of potential cuts proposed to be made. N.B: RAG rating red because the scale is unknown.	4	4	16	10	Maintain ongoing review of the current network and the potential network in a franchised world to understand the impacts on the current network and where growth can be made.	Andy Roberts	March 2025			
BD019	Full Franchising Assessment	Fares and Ticketing	05/03/2024	Matt Lewis	Operations	Fares & Payment Strategy	Lack of fares & payment strategy in time to inform this Assessment.		Looking to secure consultancy support to develop the fares and payment strategy and setting out a resourcing plan.	2	3	6	6						Y
BD020	Full Franchising Assessment	Public and Political Comms	05/03/2024	Steve Hayes	Political	Stakeholder buy-in	Failure to obtain buy-in.	Implementation harder for the chosen outcome (Franchising or further iterations of the EP Scheme).	A dedicated workstream has been set up to oversee this mission-critical part of this Assessment. Regular stakeholder meetings have been scheduled.	3	5	15	8						Y
BD021	Full Franchising Assessment	Market Engagement	05/03/2024	Lee Harvey	Programme Delivery	Relevant Data	Failure to obtain relevant data.	Lower the quality of this Assessment.	Engage proactively and constructively with relevant stakeholders. Follow up on any data queries.	2	4	8	4						Y
BD022	Full Franchising Assessment	Market Engagement	05/03/2024	Lee Harvey	Programme Delivery	Attractive Commercial Offer	Failure to make an attractive commercial offer either for Future Partnership or Franchising.	No progress towards achieving our aims is possible.	Hold formal engagement sessions to establish what would make an attractive offer in the Authority's Region. Do this early in the process so there is opportunity to shape discussions.	2	4	8	4						Y
BD023	Full Franchising Assessment	Authoring of this Assessment	05/03/2024	Sara Gilmore	Programme Delivery	Key Decisions	Failure to make timely decisions on key matters.	Delays will impact upon the programme.	Steering group, programme board.	4	5	20	4	Regular review meetings and allocating key actions to owners with associated timescales.					Y
BD024	Full Franchising Assessment	Depot Strategy	02/04/2024	Andy Thrupp	Programme Delivery	Depot Acquisition	NX have voiced concerns over the acquisition of Walsall depot.	Future freehold purchases may become more difficult.	Ongoing partnership work.	3	4	12	4	Maintain dialogue with NX	Andrew Thrupp	Ongoing			
BD025	Full Franchising Assessment	Fleet	05/03/2024	Eliot Wilde	Reputational	Misalignment of ZEB fleet commitments	2030 commitment removed from this Assessment, but this no longer aligns with the Authority's or NX's public positions.	Potential damage to the integrity (or perceived integrity) of this Assessment.	Inform team in charge of refreshing the BSIP so this change can also be reflected there. Evidence of NX moving away from their 2030 commitment to be documented.	3	5	15	4						Y

Risk ID	HLD / Programme / Project	Workstream	Date Risk Raised	Raised by	Category	Risk Title	Cause	Effect	Controls / Measures Already in Place	Likelihood	Impact	Score	Target	Further Actions Required to Mitigate Risk	Action Owner	Action Due Date	Risk Escalation	Date Risk Escalated	Risk Closed (Y)
BD026	Full Franchising Assessment	Audit Phase Preparation	02/04/2024	Lee Harvey	Programme Delivery	Conflict of interest	Grant Thornton are our independent financial auditors. They are also the main (if not only) company conducting audits of franchising assessments.	Unable to appoint an auditor.	Check to see if other bidders would be interested. Legal advised that Grant Thornton could be appointed to conduct the audit, but we would need to insist on them implementing 'information barriers'.	2	5	10	2						Y
BD027	Full Franchising Assessment	Audit Phase Preparation	02/04/2024	Lee Harvey	Reputational	Misinterpretation that this workstream is pre-empting the Authority's board decision on whether to proceed to the audit stage.	Lack of communication. Lack of oversight. Failure to engage stakeholders.	Potential damage to the integrity (or perceived integrity) of this Assessment.	Supply Briefing Note for boards to consider and escalate, that clearly identifies that this is preparatory work only - so that IF a decision is made to proceed, we can do so quickly to mitigate any political pressure.	3	5	15	6						Y
BD028	Full Franchising Assessment	Fleet	26/04/2024	Eliot Wilde	Financial /Financial Loss	Uncertainty over depot fit-out costs.	Lack of quantifiable data on costs of charging infrastructure and their installation.	Inaccurate assumptions toward costs of Franchising and/or Future Partnership Delivery Options.	Looking at Delivery Options to include costs per vehicle in the fleet strategy in order to support any depot requirements.	3	5	15	6						Y
BD029	Full Franchising Assessment	Governance and Structure	23/05/2024	Jon Hayes	Programme Delivery	Lack of resource to fulfil new structures.	Demand from multiple authorities for scarce skills when transitioning to a franchised market at or around the same time.	Unable to recruit people with the necessary skills to fulfil the transitionary or future business structure.	Develop job descriptions and work with the HR team to determine route to appointing the required people.	4	5	20	16	Manage the TUPE process. Develop and manage sufficient remuneration packages.	Jon Hayes	March 2025			
BD030	Full Franchising Assessment	Depot Strategy	20/06/2024	Andy Thrupp	Financial /Financial Loss	Obtaining a fair price for depot sites.	Lack of options for depot sites. Operators unwilling to sell existing sites.	Owners of potential depot sites unwilling to sell at market cost.	Full review of available sites and gaining a book valuation via Bruton Knowles to inform budget base.	3	4	12	10	Negotiations with owners / Operators.	Andrew Thrupp	Ongoing			
BD031	Full Franchising Assessment	Depot Strategy	20/06/2024	Andy Thrupp	Financial /Financial Loss	Depot costs higher than expected.	Desktop valuations of potential depot sites were carried out in late 2023.	Cost estimates are inaccurate.	New valuations in October 2024.	2	3	6	6	Negotiations with owners / Operators.	Andrew Thrupp	Ongoing			
BD032	Full Franchising Assessment	Depot Strategy	20/06/2024	Andy Thrupp	Programme Delivery	Not enough depots to fulfil West Midlands Bus Network.	West Midlands Bus Network requirements exceed available depot space.	Ability to respond to the needs of the West Midlands Bus Network. Having to source and build new depot facilities at pace, not achieving value for money.	Work with network development and fleet teams to forecast future demand and create a pipeline of purchases as necessary.	2	5	10	6	Negotiate with NX to secure key depot sites. Explore options of other potential sites that could be re-purposed.	Andrew Thrupp	Ongoing			
BD033	Full Franchising Assessment	Audit	30/09/2024	Lee Harvey	Programme Delivery	Delay to timeline.	Caused by a lack of staff availability and/or failure to achieve internal sign-off (e.g. of a response to a clarification question).	Any delay to the audit timeline will make achieving the scheduled Authority Board meeting even more challenging.	Hold weekly meetings with the assessment team to discuss any challenging responses and tackle any logjams. Hold weekly meetings with audit team to discuss progress and tackle any logjams. Maintain ordered and clear dialogue between the teams with clear differentiation of responsibilities.	3	5	15	6						

10-85366187-3\360717-17

Risk ID	HLD / Programme / Project	Workstream	Date Risk Raised	Raised by	Category	Risk Title	Cause	Effect	Controls / Measures Already in Place	Likelihood	Impact	Score	Target	Further Actions Required to Mitigate Risk	Action Owner	Action Due Date	Risk Escalation	Date Risk Escalated	Risk Closed (Y)
BD034	Full Franchising Assessment	Audit	30/09/2024	Lee Harvey	Programme Delivery	Corruption of the Clarification Question Log.	Most likely to be caused by human error but also could be caused through damage to an individual device.	This would result in loss of an important record and work needing to be repeated, causing significant delay to the project timeline.	Organise the work such that EY and the Authority both have their own 'working version' of the log to draft questions/answers collaboratively within their own teams. Once a question/answer is finalised, this gets transferred to the master record by a designated pen-holder from each organisation. Files to be stored in 'cloud' environments with automated backups of all versions of the log to be made nightly.	2	5	10	6						
BD035	Full Franchising Assessment	Audit	30/09/2024	Lee Harvey	Programme Delivery	Auditor identifies a significant deficiency within this Assessment.	Could be caused by differing interpretations of the guidance, use of outdated statistics etc.	This could lead to significant programme delay and, potentially, reputational damage.	Hold weekly meetings with the auditor to identify and discuss/address potential issues at an early stage. Keep wider stakeholders informed of progress through the Bus Reform Panel.	2	5	10	6						
BD036	Full Franchising Assessment	Consultation	22/10/2024	Rachel Foy	Programme Delivery	Delay to Audit	Caused by delays to audit and/or the Authority's Board decision whether to proceed to consultation.	Any delay to the consultation timeline will make achieving the scheduled Authority's Board meeting even more challenging.	Won't confirm dates until after the decision to proceed to consultation. Have agreed an extra Authority Board session in May 2025 to allow more time for analysing responses and finalising the board report.	3	5	15	6						
BD037	Full Franchising Assessment	Consultation	22/10/2024	Rachel Foy	Programme Delivery	Delay to Budget Approval	Delay to releasing the budget for pre-decision work.	Unable to start consultation activities before a decision on whether or not to move to consultation. This would impact the delivery timeline.	Costs have been divided into two categories - what can be held off and what can't be avoided. Some of the committed expenditure could also be redirected to other campaigns in the case of not proceeding to consultation. Thus minimising the money we would be risking.	2	5	10	6						

Management Case Appendix 2

Operator Engagement Report

Market Engagement Response Document

1 Introduction and Purpose

1.1 The Authority conducted a market engagement exercise in relation to the future delivery of Services in the West Midlands. This paper sets out a summary of the responses received, and the conclusions made from responses received from Operators.

1.2 The Appendix consists of two paragraphs:

(a) **Market Engagement**: this provides an overview of the market engagement exercise that was undertaken by the Authority, together with a list of the Operators that responded to the questionnaire and that were invited to participate in the exercise; and

(b) **Detailed responses from Operators**: this sets out the Operators' responses and the Authority's conclusions following the engagement exercise.

2 Market Engagement

2.1 The market engagement exercise focussed on in this paper involved the sending of a Questionnaire document, on or around 28 July 2023, to:

(a) Operators within the West Midlands;

(b) Operators operating in neighbouring authorities; and

(c) other larger Operators who are active in the UK bus market,

to provide these Operators with information about the Authority's commercial proposition for bus reform (and its initial thoughts and questions across several areas) and to seek input from interested parties.

2.2 The objectives of the market engagement exercise were to:

(a) seek evidence to inform the assessment for bus reform and to allow the Authority to critically assess the viability and suitability of the commercial proposition;

(b) gain insight to the market's capabilities and preferences and to identify the level of market interest;

(c) understand the associated risks and issues;

(d) help determine the framework within which Services will be provided in the future in the West Midlands area;

(e) determine what Franchising could look like in the West Midlands and how effectively that may deliver the Authority's bus policies and support passengers; and

(f) raise Operator awareness of the commercial proposition and the potential effect on their businesses.

2.3 Responses to the Questionnaire from Operators was required by 4 September 2023 (although some responses were received after this date).

2.4 Not every Operator responded to the Questionnaire (despite being requested to do so, and given reasonable time to respond), and not every comment received is considered or referred to within this paper. This is because there was both a large volume and a mix of comments received in both support of and disagreement to the various proposals. The Authority has considered the comments received through this engagement appropriately and consistently.

2.5 Table 5-22 details those Operators to whom the questionnaire was sent, and those who responded:

Table 5-22: Operator Market Engagement Log

Operator	Responded to Questionnaire
West Midlands Travel Ltd (t/a National Express West Midlands and National Express Coventry)	Yes (written) and also separate meeting
Rotala Group (t/a Diamond Bus Ltd)	Yes (written)
Arriva Midlands and Arriva Midlands North Ltd	Yes (written)
Midland Red (South) Ltd (t/a Stagecoach Midlands)	Yes (written)
TransportUK (formerly Abellio)	Yes (written)
First Midland Red Buses Ltd (t/a First Worcestershire)	No response received (minor presence in West Midlands bus market, at the time no current presence)
Keolis (UK) Ltd	Yes (written)
The Go-Ahead Group Ltd	Yes (written)
Metroline Travel Ltd	Yes (written)
Transdev Blazefield Ltd	Yes (written)
RATP Dev UK Ltd	No response received (currently no presence in West Midlands bus market)
The Trent Motor Traction Company Ltd and Barton Buses Ltd (t/a trentbarton)	No response received (currently no presence in West Midlands bus market)

Operator	Responded to Questionnaire
Chaserider Buses Ltd	No response received (currently minor presence in West Midlands bus market)
Walsall Community Transport	Yes (meeting; record taken)
Silverline Landflight Ltd	Yes (meeting; record taken)
Solus Travel Ltd (t/a Solus Coaches)	Yes (meeting; record taken)
Kevs Cars and Coaches Ltd	No response received (current presence in West Midlands bus market)
BP Brown Travel Ltd (t/a Select Bus Services)	No response received (current presence in West Midlands bus market)
Spangap Ltd	No response received (current presence in West Midlands bus market)
The Green Transport Company Ltd	No response received (currently no presence in West Midlands bus market)
Travel Express Ltd (t/a Lets Go)	No response received (current presence in West Midlands bus market)
Clearway of Catshill	No response received (currently no presence in West Midlands bus market)
Coventry Minibuses	No response received (currently minor presence in West Midlands bus market)
MRD Limited	No response received (currently minor presence in West Midlands bus market)

3 Analysis of Responses

Table 5-23 details the questions asked by the Authority in the Questionnaire and a summary of the themes deriving from the Operators' responses.

Table 5-23: Operator's Response

#	Questions	Operator Responses	Analysis
A	**PARTNERING**		
A1	*How successful do you consider that partnership has been in relation to West Midlands bus services? Please provide your rationale for your response.*	The sentiment across the majority of Operators was that the EP under the Reference Case has achieved a moderate level of success and is working (to an extent). Comments included: a strong working relationship between the Authority and the Operators; an appetite for increased collaboration; the Authority having a known financial commitment to the market; and confidence of authorities, Operators and the Authority to challenge each other. Larger Operators pointed towards years of collaboration and the joint-delivery of a number of initiatives, particularly in the response to the problems caused by Covid-19 and passenger recovery. However, responses also indicated several fundamental issues with the current bus model in the West Midlands, namely the existence of a single dominant Operator. Such dominance has continually increased over time, ever growing the lack of competition in the Authority's Region and resulting in a lack of incentive for this dominant Operator to engage with the Authority and other Operators. Another issue with the current partnership system was stated to be a lack of overarching control by the Authority. One mid-sized Operator from the Authority's Region noted that without further investment on a national level and the ability for the Authority to stipulate policies with Operators (for example, fares, service frequencies, hours of operation, network support and vehicle specification), then emissions and ridership targets are unachievable. The lack of influence the Authority has over service changes implemented by Operators was perceived as a major disadvantage, notwithstanding substantial subsidy provided to Operators. Commentary was also received on smaller low-cost Operators, who are said to focus purely on providing low-cost alternatives and failed to contribute meaningfully to the service of the Authority's Region as a whole by concentrating only on cost.	The responses indicate that the current model within the West Midlands has provided a good bus service offering for passengers, and there are strong working relationships between Operators and the Authority. However, it is clear Operators viewed the existence of a very dominant Operator in the West Midlands, and the lack of control over Operator policies, as the basis of numerous issues, which will be very difficult to overcome under the current bus-model. This appears to be a view shared by bus-Operators who do not currently run Services in the West-Midlands – who perceive a positive relationship (between the Authority and Operators) but note that additional Operators / a less-dominant position being to the benefit of the Authority's Region.

#	Questions	Operator Responses	Analysis
B	**BARRIERS TO ENTRY UNDER ENHANCED PARTNERSHIP**		
B1	*When entering a new market, what scale of operation would you need to justify investment? Would you expect to run substantial numbers of commercial services?*	Many of the Operators responded with concern to this question, noting the previous failures of long-term tenders in a market dominated by a small number of incumbent Operators. A mid-sized Operator noted they would be unlikely to enter a market that was purely tender based, whilst a smaller Operator stated the scale of operation required depended on expected profit and risk under a gross cost Franchising model. There was general sentiment that a sufficient level of operation and revenue potential was needed to support costs of entering a market. One larger respondent indicated that Operators are more likely (in current economic times) to enter a new market through offering a smaller number of cross-boundary Services stemming from an existing market (through tendering for Supported Services or through acquiring another Operator already existing in the Authority's Region) rather than suddenly commencing operation of a substantial number of new commercial Services. Specific thresholds for viable Services ranged between 50 PVR (from a single garage location) and 150 PVR, with the majority indicating a threshold of 100 PVR was preferred (albeit one Operator noted they were currently looking to perform with 13 PVR although they expect 40-60 PVR to be optimal). Smaller respondents indicated that a minimum of 50 PVR would be achievable where administrative functions were provided by a central entity, but a minimum of 100 PVR would be more realistic. Another Operator further stipulated that they would seek to run a package of Franchise Contracts with a total worth of at least £50 million in order to provide a commercially viable operation.	The responses indicate a reluctance from Operators to commit to investment in a bus market where levels of financial gain were uncertain. In addition, the responses indicate that the Operators generally require Lots in excess of 50 PVR (for smaller Operators), and around 100 PVR (for medium size / larger Operators), in order to consider bidding for a Lot.
B2	*What are the main disincentives to you when considering*	Concerns were raised around a lack of fleet, driver and depot availability. Farebox revenue risk and lack of cost indexation were also noted.	Inviting respondents to list disincentives will always lead to a wide range of potential "issues".

#	Questions	Operator Responses	Analysis
	bidding for contracts for supported services under an enhanced partnership?	In relation to Supported Services under an enhanced partnership specifically, one respondent noted that the disparate nature of offering individual contracts as opposed to a broader package of Services discourages the required investment. Similarly, it was noted that contracts based a greater distance away from an existing operating base in a neighbouring authority disincentivises bidding for contracts. As smaller Operators are less likely to have existing infrastructure or personnel in a neighbouring region, this issue impacts such providers to a greater degree. Correspondingly, many of the Operators discussed needing to create fair competition between new Operators and incumbent Operators in the market, especially given the dominance of the single market leader in the Authority's Region. An ability to compete was said to be key. Suggestions included imposing electrification requirements (meaning the incumbent Operators would also need to invest in new vehicles and infrastructure), relaxing the vehicle requirements to allow for a wider scope of buses to be sourced, and ensuring that the scale of contracts offered would be large enough to support the initial investment required.	This occurred here, and the Authority would consider all concerns when designing a Franchising strategy.
B3	*What are the main disincentives to you when considering operating commercial services under an enhanced partnership (if different from above)?*	The main disincentive pointed to by respondents is the dominance in the Authority's Region by a single Operator. One Operator who is not currently in the West Midlands market added that the resources such strong incumbent Operators already have invested in the locality (for example, vehicles, depot and staff and access to key boarding points) led to a conclusion of insufficient commercial opportunity for newcomers. Several Operators referred to the ticketing system and capacity controls limiting growth (with multi-Operator ticketing arrangements being generally well-supported). There is also general concern around market opportunity in an uncertain and challenging post-Covid-19 world. The need for transparency, high quality information and surety about opportunity was highlighted.	A single dominant Operator was again raised as a main barrier to operating commercial Services. In particular, ticketing was drawn out as a main concern, with the suggestion that given most passengers in the West Midlands would purchase a ticket from the dominant Operator, they would be less likely to purchase tickets from other Operators, or rather believe their purchased ticket would allow

#	Questions	Operator Responses	Analysis
			them to use any other bus in the Authority's Region.
B4	*All West Midlands bus subsidy contracts are currently net cost (i.e., the Operator retains the revenue). An alternative model is gross cost, in which the revenue risk sits with the contracting authority. What is your preference between gross cost or net cost contracting and why?*	Of those Operators who expressed a preference, all stated that a gross cost model was favoured, or would encourage bidder interest. Reasons for this included a shared belief that Operators should not be responsible for the wider risks of lack of patronage following Covid-19 and the cost of living crisis, and the administrative burden of setting ticketing policies. Placing these on the Authority instead would allow Operators to instead focus on operational success whilst being provided with guaranteed revenue / margin, and also increasing attractiveness to the market, leading to greater competition. In addition, gross cost contracting was suggested to mitigate the practice of some Operators underreporting revenue (under a net cost arrangement) to artificially increase the cost of a newcomer being awarded a contract at re-tender. Some Operators acknowledged that a gross cost model would be underpinned by performance metrics and incentives, given a gross-cost model would mean there is less incentives for Operators to deliver passenger growth. One respondent indicated that they could be future-opportunity for net-cost contracts once patronage levels had recovered to a stable-level.	Gross cost contracting was a clear favourite with Operators. The majority highlighted the risk of operating under net cost contracts in the current uncertain world, where patronage levels have been affected by Covid-19 and the cost of living crisis. Perhaps unsurprisingly, Operators thought the Authority should take responsibility for this risk, allowing Operators to concentrate on controlling things within their control and ultimately leading to a better service provision.
B5	*To what extent would your interest in entering the West Midlands market under an Enhanced Partnership arrangement be affected by the availability of depot space? If the Authority were to make depot space available would*	Many respondents described lack of depot access as a significant barrier, with responses ranging from it being the key barrier (and creating a significant advantage to incumbent Operators given other Operators would need to purchase depot space), to others concluding it was important but not the only such barrier and therefore the provision of depot space alone would be unlikely to influence the final outcome of a decision to bid for Franchise Contracts. One larger Operator stated depot space is a major barrier and finding, acquiring, build and fit out of (for example) 10 depots would take a number of years. Another indicated that whilst not so fundamental, it would be easier and more attractive if the Authority provide depot space.	Depot space, and new Operators not owning depots or not having available depot space, is clearly seen as a key barrier to entry for Operators. This is discussed further in row E (Franchise Design: Depots) below.

#	Questions	Operator Responses	Analysis
	this be a significant factor?	The location of such depots was also said to be key – with depot space near viable contracts being critical, and also space being near a key location (for example, a train station). Sufficient electric charging infrastructure was also stated to be a requirement, with concern that power upgrades can take up to two years, which can delay implementation.	
B6	*Would you be prepared to share depot space with other Operators and, if so, under what conditions?*	Openness to this proposal was varied but generally limited. Concerns centred around unnecessary complexity along the following themes: • Space – sufficient parking areas, cleaning zones and segregated office space would be required to ensure each Operator could function independently. • Staff - the risk of headhunting between Operators, salary inflation, and industrial disputes more generally would be heightened. Separate staff facilities required. • Safety - liability for accidents between different Operators would be a particularly contentious point in negotiation and tight administrative controls on-site would be needed and a clear split of responsibilities on-site. • Confidentiality concerns. • Operational and logistical constraints (for example, ability to manoeuvre vehicles as required; access to maintenance bays etc) and the ability to smoothly operate. However, there were suggestions that with appropriate mechanisms in place to deal with the risks listed above, the sharing of depot space *could* work. One Operator discussed the idea of separate facilities being built for both Operators, but with a primary 'anchor' Operator (who has ultimate responsibility for administration	Whilst many Operators viewed the lack of depot space as a key barrier to entry (as per the above response), they also do not see the sharing of depot space between Operators as an ideal solution. It is clear that the Operators view the depot space required as a "working-hub" (containing staff dealing with all operations in that area, and dealing with back office functions etc) and not just as a space for vehicles. Therefore, significant potential operational and logistical constraints and problems were identified by most Operators. Therefore, a depot-space solution focussing on depot-sharing could still be viewed by Operators as a significant barrier for entry (unless depots were sufficiently large enough to cater for sharing, with access to all functions of the depot for each Operator, and this being

#	Questions	Operator Responses	Analysis
		and safety on site) sharing with a secondary company (who has less responsibility and control), and such relationship being governed by an interface agreement.	underpinned by contractual protections).
B7	*What facilities are, in your view, required in a local depot? Thinking laterally, could some activities that have traditionally taken place in depots be done elsewhere?*	Operators noted that the facilities required depended on the scale of operations undertaken from site, but generally, responses differed as to what they thought could be conducted off-site rather than on-site at depots. Parking spaces and (some) staff and welfare facilities (together with management space to meet staff) were seen as minimum requirements on-site (including sign-on and rest areas), together with space for out of service buses. Most Operators appear to have carefully considered what could be done off-site, and suggestions included fuelling/charging; maintenance; engineering and (to some extent) office facilities and control centres. But this was not seen as ideal, and indications were that this could cause operational difficulties and inefficiency in increasing the amount of 'dead runs' undertaken between the different areas. A solution used by TfGM was also mooted - where a central operational centre, housing representatives of each Operator, was established - though this was stipulated as working in addition to, not instead of, a local depot presence.	The different responses to this question lead on from the above narrative on depots – that although Operators see the lack of depot-space as a barrier to entry, to the extent depot space is provided, then Operators have exacting specifications and wants as to depot features and operations. Some degree of operations could take place "off-site" / away from depots, but appetite for this differs between Operators (and there does not appear to be a "one-size fits all" approach to appease all Operators), and would, in all cases, depend on the availability of suitable space nearby to conduct other operations from.
B8	*The Authority's Enhanced Partnership Scheme requires all buses to be at least Euro VI compliant. How straightforward would it be to source fleet with this requirement in*	Most Operators described the difficulty of sourcing such a fleet (particularly Euro VI) to be a significant barrier to entry, albeit this was less of a concern for larger Operators. It was widely stated that the scarcity of compliant vehicles (as manufacturers concentrate on ZEBs has resulted not only in inflated prices, but also a parallel issue in the second-hand market for compliant vehicles. Some Operators noted the ability	Understandably, this issue impacts smaller Operators more as they will be less likely to have existing fleet available to re-deploy in the West Midlands (whereas larger Operators may be able to re-deploy buses from other areas to meet demands, so not need to incur

#	Questions	Operator Responses	Analysis
	place, and would the availability of fleet be a significant barrier to entry?	to cascade vehicles. or redeploy vehicles from other locations to meet targets and thresholds, is being diminished as LAs increase their requirements around fleet. Smaller Operators were concerned that the need to purchase new vehicles both increases the cost of providing the service, and the timescales (given the long lag times in delivery of compliant buses). Another Operator was more optimistic about their ability to overcome the issue. The drive towards ZEBs has meant that this Operator already has plans to purchase new vehicles over the next few years regardless of an expansion into the West Midlands market.	substantial capital costs, or be constrained by long-lead times). However, it is noted that not all Operators thought this was a possibility. To ensure competition, the Authority must ensure controls are in place to level the playing field between Operators when it comes to fleet requirements, as responses do not see Euro VI compliant fleet requirements to be feasible across the board.
B9	*The Authority has committed to having a 100% zero-emission bus fleet in place by 2030. Given this commitment, to what extent is the sourcing of zero-emission buses an issue for you?*	The main concerns in response to this question centred on the cost and lag-time associated with sourcing ZEBs from certified providers and setting up the supporting infrastructure. One respondent noted that many other LTAs and other Authorities have made similar commitments which will likely result in considerable pressure being exerted on the supply market. Several Operators discussed the need for a suitable mobilisation period between the award of the Franchise Contracts and the start of the phased introduction of ZEBs. More generally, Operators emphasised the importance of the overall Franchise Contracts length (or the general "worth" of the contract) in justifying the expenditure of sourcing a new fleet and charging points. For example, one Operator encouraged minimum Franchise Contracts of seven years, to be aligned to the warranty on the batteries of electric buses. One Operator also questioned the requirement for hydrogen-powered buses. Whilst there is a supply of these vehicles in the UK market, there is a lack of hydrogen fuel,	A zero-emission fleet has two main challenges: (i) the availability of vehicles / timing pressures; and (ii) the extensive infrastructure required to be able to operate an electric fleet. These appear to be the Operators' chief concerns and must be addressed by the Authority when considering its Fleet and Depot strategy. A solution suggested was orders for buses to be made by the Authority during tender processes for Franchise Contracts, with the

#	Questions	Operator Responses	Analysis
		and it was suggested that the Authority would have to have a role in guaranteeing the supply of the fuel for Operators in order to support the zero-emission target being met.	contracts to then be novated to successful Operators.
B10	*Do you consider there to be any other barriers to entry to the bus market in the West Midlands that have not been mentioned in the questions above?*	Whilst the effective monopoly granted to the largest Operator in the Authority's Region was flagged as key barrier to entry, smaller and newer Operators detailed more general concerns surrounding the issue of running Franchise Contracts in a new area in the face of well-established incumbent Operators, and the provision of "vital" information from incumbent operations, both during bid and transition phases. Concerns ranged from a lack of transparency about how the Services are currently run and uncertainty around workforce requirements (for example, availability of required staff to operate, how TUPE provisions would operate or whether the incumbent Operator would redeploy staff). Long lead-in times to Franchising was noted as a potential remedy, as well as knowledge sharing sessions, and appropriate evaluation criteria during tender-evaluation by the Authority. The introduction of the Bonfire of Bus Tickets was said to remove a barrier to entry; however, effectiveness was questioned until multi-Operator ticket price capping is introduced. Generally, ticketing, and lack of true multi-Operator products, is still seen as a barrier to entry. One new potential bidder noted that sufficient weight would need to be placed on experiences and references of work from outside the Authority's Region when bidding for Franchise Contracts, when compared to those provided by the incumbent Operators of past work in the Authority's Region during the bidding process. Potential capital investment requirements were also detailed as a barrier, as well as required investment in fleet to achieve the 2030 zero emission bus fleet policies.	As above, depot, fleet, and the advantage of incumbent Operators are seen as the main barriers to entry. Incumbent Operators are clearly seen by non-incumbent Operators as having a distinct advantage (in bidding for Franchise Contracts), given they know the area and operations. Operators are therefore advancing ways to level the playing field (for example, the Authority organising knowledge sharing sessions; weighting tender submission evaluation so non-incumbent Operators with a lot less information available to them are not disadvantaged, and so on). This will need to be managed by the Authority.
B11	*Do you consider there to be a reasonable prospect that Franchising would*	Respondents generally agreed that the Franchising model would reduce barriers to entry in the market rather than create a worse position. This was subject to a number of caveats relating to how depot and fleet ownership was structured, arrangements for incumbent Operators to transfer vehicles to	Whether barriers for entry will be created under Franchising will be dependent on how a Franchising Scheme is set-up. Therefore, the

#	Questions	Operator Responses	Analysis
	create any other barriers to entry to the bus market in the West Midlands?	successful Operators under Franchising; any the Authority requirements for disproportionate performance guarantees or bonds; any unreasonable performance criteria to be enforced by the Authority (for example, high damages payments under Franchise Contracts); how "eligibility to bid criteria" was drawn by the Authority (for example, if an Operator licence is required pre-bidding, this may cause a barrier), and the cost of bidding / balancing costs vs amount of Lots won. One Operator noted that consideration would need to be given to cross-boundary Services and for their protection through carve-out from any onerous obligations.	answers to this question were understandably "future-gazing", and listing potential problems rather than actuals, but centred on the expected themes (and which are explored further below). The overwhelming sense was that Franchising should remove barriers to entry rather than creating new significant ones.
C	**FRANCHISE PACKAGE SIZE**		
C1	*Please set out the benefits and limitations of the geographies of the Zones proposed from the perspective of your organisation.*	Responses to this question were varied. Non-incumbent Operators noted it was hard to fully understand zones by reference to a map alone. The placement of depots within each zone was discussed as key to stability and to reduce 'dead' mileage and ensure greater certainty for proposed bidders. An incumbent Operator noted the zones were broadly in line with current operations. Other larger Operators failed to provide full responses, with one requesting further detail around PVRs and lotting orders, and another instead advocating for a Franchising system focussed on routes (as in London) rather than by geographical zone (to create greater flexibility and competition). One Operator expressed concern that the current number of proposed zones would unnecessarily delay the roll-out of Franchising, and another suggested current zones were too small to offer viable Lots (and combining zones would lead to a shorter transition time). Another Operator flagged that if zones were large, then there might	There was an obvious split in responses between incumbent Operators and those who understood the geographies of the West Midlands, and potential future bidders who are not currently operating within the West Midlands or have small operations. Non-incumbent Operators generally required more detail information on the zones and Lots to understand matters better. Current Operators had different views on how zones could be amended or combined. However, there did not appear to be any major objection to the current zones and

#	Questions	Operator Responses	Analysis
		be big gaps between being able to bid for work, which may mean Operators go out of business in the interim (when compared to awarding work by route). Finally, it was suggested that Service Permits be issued in all zones from the date of the first Franchising, to give the Authority greater control and lessen any difference between Franchising and zones that are not subject to Franchising.	the key issue flagged was to ensure zones and Lots are married to suitably located depot space.
C2	*Do you have any views on the size of the individual Lots?*	Operators generally appreciated the rationale of offering Lots of varying sizes, stating this would attract SMEs through to larger providers, but it was noted success would be dependent on available depot capacity. At least two Operators noted PVRs of 150 to 170 vehicles, with other smaller Lots of 10 to 20 PVRs to be optimal. Potential newcomers to the Authority's Region stated that the smaller Lots would not represent enough of an opportunity for them to warrant the initial outlay required. They would either therefore bid only for the larger Lots or would want the ability to 'bundle' Lots together at the bidding stage. Bundling Lots, it was suggested, would produce the most cost effective and efficient way of working.	There was clear evidence that the size of an Operator would dictate which zones/Lots they felt they would be able to bid for. Again, the Authority's depot and fleet strategies were considered key to whether Lots would be bid for (for example, it would not just be the size of Lots dictating bids).
C3	*Do you have any views on the size of any potential specific Zone?*	As above, it was suggested that smaller zones should be merged to make these attractive to Operators. Dudley was flagged as a potential concern as this extended into the South-East zone. Numerous Operators stated that additional clarification on the distinction between zones and lots would be desirable. Development of cross-city routes was flagged as a challenge (in terms of which zone the route should be in). Current drivers being dedicated to specific routes was also flagged as a risk if routes were changed (for example, drivers may leave; unions may become involved etc).	Analysis the same as above. Responses were at a fairly high-level rather than a forensic evaluation of zones.
D	**FLEET**		

#	Questions	Operator Responses	Analysis
D1	*What are your views on the options for the provisions of fleets described above? Which option(s) would be suitable for your organisation and under what circumstances? Which option(s), if any, would not be suitable for your organisation and why not?*	The vast majority of respondents expressed a preference for Option Three (the Authority-provided fleet). Reasons for this included: the Authority's greater access to capital; the Authority being able to plan further ahead than Operators; levelling of the playing field between incumbent Operators and new Operators; improved standardisation of vehicles; and a minimisation of risk and costs for the Operators. It was suggested that Operators remain involved in the procurement of the new fleet so that their expertise and relationships with suppliers could be utilised fully, and to mitigate Operator-risk of the Authority procuring unsuitable buses. Conversely, it was noted that this option could delay decarbonisation of the fleet; and it was also flagged that work may be required by Operators to bring fleet up to their own requirements. Option Two (Operator-provided fleet with Residual Value Mechanism) was also deemed 'acceptable' by most Operators, and it was flagged that this would provide continuity of fleet. Emphasis here was placed on obliging - rather than giving the option for - the Authority to purchase fleet at the end of the Franchise Contracts, allowing Operators to depreciate the cost of the vehicles over the full lifetime (as opposed to contract length). However, issues with uncertain cost and lag-time involved with sourcing a new fleet remain under this option. Franchise Contract length was flagged as an important consideration, together with impositions by the Authority and how this would be achieved (for example, technological updates; branding and so on). Option One (Operator owned fleet) was least favoured – with thoughts that priced bids would be more conservative to manage fleet-ownership risk effectively and would be seen as a barrier to entry. However, at least one respondent did favour this option, and pointed towards enabling bidders to provide different and more competitive bids to the Authority.	The Authority owning and providing the fleet to Operators was a clear favourite and was viewed as the best option to remove a barrier to entry. Whilst Operators providing fleet with a residual value mechanism was not dismissed, numerous practical difficulties were discussed. Operators owning fleet was seen as a blocker to incumbent Operators and not encouraging competition.

#	Questions	Operator Responses	Analysis
D2	*If the Authority provided the fleet, does how the Authority makes the fleet available (e.g., the Authority owns outright, the Authority leases from a third party, or the Authority enters into an availability contract) affect you, and how?*	Whilst most Operators did not appear to feel strongly about a particular option, generally it was concluded that the cleanest option would be for the Authority to own the vehicles outright and lease them to the Operators as this would negate the need to have a third party involved. Restrictions under a leasing arrangement (whether this could prevent control changes of fleet between Operators) was flagged for consideration, together with a need for a detailed contractual framework with Operators - covering usage, maintenance, insurance and so on. Another respondent stated that the important part of this structure was not how the Authority held an interest in the vehicles, but instead the nature of the Operator's interest, and how condition / dilapidation of vehicles was dealt with. Finally, several Operators emphasised the importance of the level of fee charged to Franchisee Operators under each of these models. The exact level suggested differed between the responses, ranging from a fee equal to the cost to Operators purchasing vehicles outright themselves, to no cost at all.	The Authority owning vehicles outright and leasing to Operators was the favoured option. There was concern around the introduction of a third party (for example, a leasing company) to this arrangement and adding an additional layer of complexity. However, it was not suggested that this would be insurmountable. The above view was predicated on suitable terms of leasing being set out and agreed with the Authority
D3	*In relation to Options 2 and 3, can you comment on how the transition between two different Operators could be managed if a Franchise changes hands. Does your organisation have views on how the Authority can incentivise Operators to manage assets efficiently?*	Most Operators discussed the need for appropriate and clear hand back provisions to be built into the Franchise Contracts (with these provisions to be set out at the time of bidding for contracts). Specific provisions suggested include: sufficient time for an incoming Operator to inspect and make an informed decision on fleet transfer, a mechanism to recoup rectification work costs or oblige the outgoing Operator to repair; a disputes resolution procedure; a condition scheduling programme running throughout the term of the Franchise Contracts; a fleet handover report to be commissioned by the Authority; and a performance regime including a demobilisation bonus should the transition work smoothly, or penalties should there be any non-compliance with fleet requirements. Transparency about fleet condition was encouraged, to ensure that any new Operator was aware of any subsisting issues. Extended warranties and service pack provisions for new vehicles was also suggested as a way to create future-cost certainty for Operators.	It is obvious that Operators want to see clear and specific hand-back provisions in Franchise Contracts. They need to consider these when bidding for Franchise Contracts, so they can see the requirements that will be placed on them and analyse risk (and therefore price) – and be confident that this is backed-up by an established dispute procedure if the Operators and the Authority are in disagreement on hand-back. Financial incentives and penalties were also discussed as being key

#	Questions	Operator Responses	Analysis
		Generally, several Operators commented on the success of handover provisions in other areas (both neighbouring LTAs and abroad), and that an established dispute resolution procedure should be adopted in relation to handover of fleet.	features of fleet contracts, to ensure Operators are motivated to perform and passengers continued to enjoy best experiences.
D4	*Are there any other models for fleet provision you believe the Authority should consider? Please provide your underlying rationale.*	A couple of Operators suggested a hybrid between Option 2 and Option 3 - where the Authority provide a proportion of the fleet required, and only the Authority acquire new ZEBs; and Operators use current vehicles, or procure their own vehicles, to supplement the Authority provision. Some Operators raised the specific issue of electric battery leasing and replacement and refresh (stating that this should be an Authority responsibility), and also advocated for vehicle warranties to be passed to Operators. Asset brokers / financiers were also flagged as needing consideration, and any other "additional fees" to be charged in relation to fleet procurement.	There were not many detailed responses to this question, which appears indicative that Option Three is the highly favoured model by Operators.
E	**FRANCHISE DESIGN: DEPOTS**		
E1	*What are your views on depot ownership? Do you agree that the Authority should invest directly in and own depots? What alternative approaches to depot investment and ownership would you propose and why?*	A high majority of respondents advocated for the Authority-owned depots, whether that be with the Authority owning the freehold to the depot or a long leasehold interest. Operators could then be granted a lease mirroring the term of the Franchise Contracts with provisions as to maintenance of the depot. The main advantages offered for the Authority having centrally owned depots were: more control by the Authority; the enhancement of key assets by the Authority; better VfM (due to the Authority's enhanced access to funding and through benefiting from depreciating land values); increased control in meeting Net Zero targets; and encouraging competition through a levelling of the playing field between Operators already holding depot sites and those without.	The Authority owning and providing depots was the highly favoured option. There will be nuances to this (for example, the Authority owning key depots and a mix of larger and smaller depots, whilst utilising other Operator-owned depots as well) but, generally, the Authority owning depots and providing Operators with depot space was seen as vital to increasing competition and creating a level-playing field.

#	Questions	Operator Responses	Analysis
		Risks were also flagged - such as depot ownership being a large mobilisation task, and this model may prevent Operators creating efficiencies that they could otherwise achieve themselves through controlling depots. One Operator suggested an alternative approach could be considered whereby Operators own the depot site(s) but there is a buyback provision included in the Franchise Contracts for the Authority. Whilst this means that the Operator is responsible for increased costs in developing the depot, this is likely to result in such costs being passed onto the Authority. A lone Operator reiterated their preference for the tendering of Lots by route rather than by area, which they suggested would remove the need for depot ownership.	The work required to allow depots to transition to be able to service ZEBs was a key concern for many Operators, and the complexities and cost in doing this was best seen as an Authority risk.
E2	*Would your organisation consider bidding for a Franchise if the Authority was not providing a depot(s)?*	As above, the majority of Operators who do not have a current large depot footprint in the West Midlands stated that this would represent a significant barrier to entry, would reduce competition, would give the large incumbent Operators a very big ("unfair") advantage, and would make it unlikely that they would enter bids, or would need to bid strategically. Reasons given for this included high cost of procuring depot space, lack of suitable land, mobilisation costs, lag times and the consequent need for expensive interim space and the eventual risk of stranded assets. It was noted that if the Authority did not provide depots, longer Franchise Contracts would need to be awarded so that Operators could recoup costs and realise benefits. The installation of charging infrastructure and grid connections (for ZEBs) was noted by a lot of Operators as being a challenge to be addressed in relation to depot ownership. Responses indicated the time and effort to be incurred in undertaking necessary future interventions meant that depots would best be owned by the Authority.	Following from the above question, if the Authority do not provide depot space, this was perhaps viewed as the most significant barrier to entry for Operators and was seen as highly favouring incumbent Operators with depot space. Operators thought not much would change regarding Operator identity if depot space was not provided. Some options were put forward if the Authority did not own depots (such as much longer Franchise Contracts so Operators can reclaim depot costs), but generally these were seen as very much secondary to the Authority owning depots.

#	Questions	Operator Responses	Analysis
E3	*If the Authority were not to provide depots, what would be the lead time required to mobilise for a Franchise? Would it be beneficial to have a buy-back arrangement for the Authority to take over the depot at the end of the Franchise?*	Lead times for mobilisation were reported as highly dependent on Lot size and planning requirements. Estimates broadly ranged from 12 months to four years. Despite a preference for the Authority to own depots outright, several Operators accepted that buy-back mechanisms could reduce barriers to entry and be acceptable, given this should remove the risk of stranded assets in the future. However, it was noted this would provide contractual complexity for the Authority to manage (including how pricing is set).	Responses to this question varied a lot, which is understandable given certainty could not be provided around zone and Lot size, and there are a lot of variables that would impact an answer. On average, an 18-to-30-month period was anticipated to be required to fully mobilise.
E4	*What are your views on the options for depot management and sharing? What would you see as being the benefits and disadvantages of an 'anchor' tenant being responsible for depot management versus direct management by the Authority?*	Responses to the suggestion of shared depot space varied from hesitant to outright refusal. Concerns centred around competing for space, safety, industrial action issues, staff retention, harmonious workplaces, unnecessary competition at the depot, and cost apportionments. It was noted this could work if detailed contracts were in place setting out penalties and incentives, but noted this may cause unnecessary contractual complexity and whilst it does work in some areas, it should not be seen as a standard depot model to adopt. In relation to the 'anchor' tenant system specifically, issues were raised regarding the protection of the secondary tenant against exploitation by the larger one, and unnecessary complications around access; fuel; engineering etc. However, one respondent stated that this system could help to lower barriers to entry for smaller providers. A minority of respondents were more positive but flagged the need for one party having overall accountability for safety and security of the depot, and as much physical separation as possible, together with metered services and a central safety management team.	Operators are generally unified in their reluctance to share depots with other Operators. The inter-mingling of staff, and Operators "poaching" rival staff, was flagged numerous times. If the Authority were to proceed down this route, it must therefore consider appropriate separation within depots (and the cost of doing this) and setting out (through contracts; leases etc) the exact responsibilities of each tenant at a depot, to avoid dissatisfaction.
E5	*To what extent, if any, does the Authority's*	The majority of respondents held no opinion here, instead referring back to comments on lotting and noting that the lotting strategy and depot strategy needed to be	It is clear that Operators view lotting and depot strategies as linked – a

#	Questions	Operator Responses	Analysis
	depot ownership structure influence your views on the Lotting strategy set out in paragraph *3?*	considered together. Two Operators did note that, whilst their preference remained for the Authority to own the depots, for smaller Lots it would be possible for Operators to arrange depot space for themselves. A third Operator re-iterated the premise that depot location within Lots was key in keeping 'dead mileage', and costs, low.	good lotting strategy will require ample depot space to be provided to Operators in close-by locations. Also, a good depot strategy will mean depots are strategically located to service zones/Lots. Or, put another way, a correctly located depot is vital to operational success – this reduces dead mileage and maximises efficiencies.
E6	*What are your views on utilising non-depot sites for vehicle overnight charging and storage with separate maintenance and servicing locations?*	Reponses to this enquiry were extremely mixed. Two Operators responded negatively, citing increased operational charges associated with split locations, and noting co-location for charging and maintenance was optimal. A further two respondents stated this could work subject to consideration for drivers ending shifts at different locations (the use of remote sign-on technology for drivers may mitigate this), and sufficient safety / security provision at the respective sites. Others were more positive - considering the cost advantages of charging sites closer to grid connection points and explaining previous successes with a split depot system in a different LTA. However, it was noted that the limit to success of a split-location was a maximum fleet size of around 50 buses, as beyond this the organisation difficulties become too large. Some Operators highlighted the importance of having a long-term plan for transitioning to ZEBs and the corresponding alterations to depots, and how this would work on a split-site basis.	The mix of responses appears indicative of a lack of specifics that can be provided to Operators at this time by the Authority. Each Operator has their own views on what a "split-site" might mean, and this influenced whether they said it as workable or a negative proposition. The Authority would need to conduct further engagement on this point with Operators prior to designing Franchise Contracts, to ascertain precisely what are red-flag issues for Operators and to ensure a split-site would not result in Operators not bidding for Franchise Contracts. Where drivers

#	Questions	Operator Responses	Analysis
			start and finish their workdays may also be a fundamental issue that will need to be considered as part of the above, and these should align as much as possible.
F	**TRANSITION PERIOD**		
F1	*Do you have any views on the approach to phasing of the procurement of different Zones and the length of any interval between the letting of different Zones? If so, please provide these together with your underlying rationale.*	All Operators agreed that the Franchising of zones should be done on a rolling basis; however, opinions on the timescales / overlap per zone differed. Whilst one Operator preferred for future zones to be tendered during the mobilisation stage of the previous zone with an overall time frame of two - three years to complete Franchising, many respondents preferring some level of gap between mobilisation of one zone and tendering of the next, with time estimates of between four months and upwards of nine months per zone – to allow time for "lessons learnt". Operators want to understand if they have been successful in one zone before deciding to bid on further zones, with repeated and wasted bid costs detailed as a concern for Operators. One Operator added that the flexibility of being permitted to bid for multiple Lots within a zone at once would be appreciated, in order to cut bidding (and ultimately, running) costs and enjoy greater economies of scale. 'Cliff edge' end dates for multiple Lots, meaning an Operator may lose its entire business in an area at once, should be avoided as this would deter investment.	Operators generally requested that: (i) zones should be tendered in tranches; and (ii) there should be gaps between different zones, and the tendering for one zone should not start until the result of a tender for a previous zone is announced. The Authority will consider these responses in designing their lotting strategy. It seems clear that staggering Lot dates will optimise engagement by Operators.
F2	*Do you have any views on the order in which Zones should be tendered / the potential sequencing of Franchise packages? If so, please provide*	Views were predominantly based on: (i) zone size (with views that smaller, isolated trial zones should be subject to Franchising before the more complex and public larger zones); (ii) current operational needs and stability (with the less stable zones being subject to Franchising first); (iii) prioritising zones that need the most financial support; and (iv) Net Zero plans (with those subject to less Net Zero associated changes being	It appeared that Operators were fairly relaxed on order of zone lotting and there were no major concerns raised (and quite a few Operators had no opinion).

#	Questions	Operator Responses	Analysis
	these together with your underlying rationale.	subject to Franchising first in order to allow greater planning time for the zones with a higher number of required adaptations). Operators also expressed differing views on the system of Franchising once the first zone had been selected - some advocated a geographically clockwise approach, with another suggesting an outer to inner system.	
F3	*To what extent do you consider the proposed re-tendering strategy to be appropriate? Does your organisation consider that this approach will maintain an active bus market within the West Midlands?*	The majority of Operators considered the outlined approach as appropriate in generating an active bus market within the Authority's Region. Re-Franchising was encouraged by Operators, provided this is sufficiently staggered so that there is not a continual / annual upheaval and change of bus operations in each zone. One respondent did highlight concerns regarding potential threats posed by Franchising to cross-boundary Services (with the potential deterioration of service provision to communities just outside the Authority boundary); and the risk of one Operator maintaining dominance by winning the most bids (given its very strong starting position).	The Authority is encouraged to take a balanced approach to retendering. Franchise Contracts need to be long enough to ensure Operators are motivated to bid; but short enough to ensure unsuccessful Operators do not disappear from the Authority's Region. The staggering of Lots should continue throughout the life of Franchising, so, in future years, there are constant opportunities for re-tendering across all separate Lots.
F4	*Does your organisation have any views on whether the whole of the West Midlands should be Franchised at once, or whether the Authority should be split into Sub-Areas, like in Greater Manchester?*	All but one provider advocated the spitting of the Authority's Region into sub-areas for the purpose of Franchising and for this to be done at different times, allowing for better quality bids and a wider spread of risk between Operators. It was thought that if all Lots were subject to Franchising at once, Operators' bids would be identical for each zone, and therefore the same Operator may be selected in each zone. The one outlier supported the phased introduction of Franchising but instead pushed for a system of Service Permits from the date of the first Service under Franchise	Many Operators noted a large risk of the Authority trying to implement a Franchising Scheme an area of circa 1,500 PVR in one go, and the huge undertaking this would be for Operators. Concerns ranged from major disruption (owing to changes needed to ticket machines; vehicles; licenses etc); to increased demand for staff in areas; lack of

#	Questions	Operator Responses	Analysis
		Contract going live, to prevent a transition period where both Services under Franchise Contract and deregulated Services were running concurrently. The size of sub-areas proved a more divisive topic, with one Operator suggesting tranche sizes of around 300 buses and two depots, and another suggesting that the whole area should be tendered in no more than three Rounds.	quality of bids; to no time for lesson learnt so that bids and operations can be improved. Franchising in one go would not be beneficial to the Authority or to Operators.
F5	*Do you have any views on the length of time required to mobilise post-contract award? Does this only depend on whether the Authority or Operators provide access to depots and/ or fleet?*	As above, time scales varied between six months and three years, with the length of time to mobilise being dependent on the availability of depots and the fleet. Other factors impacting timescales were time taken to transfer staff from the existing Operator and/ or recruit additional staff, time to fit-out and brand vehicles; availability and training of drivers, and the provision of ZEBs and supporting infrastructure (one Operator estimated it would take double the time required for mobilisation - two years as opposed to one - where a Net Zero capable depot was required relative to a standard depot).	12 months to mobilise was viewed as a conservative estimate by Operators, particularly if a new fleet is required to be procured (whether by Operators or the Authority). It was noted that GMCA have a nine month period to mobilise, but this was not thought to be long enough. The Authority will consider how much GMCA's approach can align to the Authority's approach.
G	**CONTRACT LENGTH**		
G1	*Do you have any views on the length of the Franchise contract in the following circumstances:* *(a) the Authority owns fleet and depots and makes these available to a successful bidder*	The majority of respondents stated that they would expect a minimum term of five years in order to place a viable bid, regardless of the circumstances listed. Various Operators indicated a term of seven years would be appropriate in either all the circumstances listed or in all but the first scenario. Matching the battery warranty of ZEBs to correspond to half of the planned working life of traditional diesel buses, were used as evidential reasoning. One Operator stated 7 - 10 years would be required under scenario (d) due to the increased Operator investment required. Two further Operators stated that they would not place bids under scenario (c) or (d), with one questioning whether (d) would be	Operator responses make clear that five years should be the absolute minimum term, and 7 - 10 years seems to be the "sweet spot" for contract length, and would be acceptable generally to all Operators.

#	Questions	Operator Responses	Analysis
	(b) the Authority owns depots and makes these available to successful bidders with Operators providing fleet *(c) the Authority owns fleet and makes this available to successful bidders with Operators providing depots* *(d) Operators are required to provide fleet and depots* *If so, please provide these together with your underlying rationale, including how the Franchise contract length would provide you with the ability to manage cost risk and to make a suitable return on investment.*	open to legal challenge due to such systems favouring incumbent Operators with depots and fleet already active in the Authority's Region. The maximum Franchise Contract length suggested by one Operator as viable was 10 years, as beyond this it is harder to price competitively.	
G2	*Do you have any views on contract extension?*	Most Operators indicated a preference for an extension option of some kind, and stated these were fairly "standard". However, the Authority were encouraged by some to analyse extensions – stating they are useful but need planning and do not always achieve best value, and that the set-up of the contract would need exploring (for	Although most Operators reacted favourably to the idea of Franchise Contract extensions, it was clear that the overall length of the

#	Questions	Operator Responses	Analysis
		example – would a seven-year contract be five years plus a two-year extension, or seven years with an option to extend for a further year)? The feeling was that extensions should be linked to performance KPIs (with automatic extensions if KPIs are met), though one Operator did state that this did not encourage as strong a performance when compared to a strong quality incentive mechanism. Other points flagged included: extensions should be at the agreement of both parties, not solely at the discretion of the Authority; notice of at least 6 - 12 months prior to the expiry of the initial term would be required; and extensions would need to take account of inflation adjusted rates. Only one Operator gave a strong preference as to the term of any extension (two years). However, another Operator commented that contracts / extensions past the seven-year mark were likely to be unprofitable and therefore undesirable to Operators.	Franchise Contracts was the key metric to Operators. An extension term should not be used to potentially cut-short the lifespan of a Franchise Contract as Operators will need to plan and budget for the full length of a Franchise Contract. For example, if a seven-year term was the desired length, this should not be structured as a five plus two-year extension, as this may cause uncertainty. Rather the length should be seven years, with an optional extension at the end of that period should well defined metrics be achieved by Operators.
H	**PROCUREMENT PROCESS**		
H1	*Does your organisation have a view on the type of pre-qualification process the Authority should use? If so, please provide your underlying rationale.*	A pre-qualification process was generally met with positive responses, with most Operators preferring some form of selection questionnaire covering basic information allowing them to demonstrate their previous experience, financial standing and general capability to take on any future tenders. An open system was also advocated for, whereby Operators could undertake the pre-qualification process and gain "qualification" across all zones prior to a specific date. Another Operator took the idea of a qualification system further, suggesting that different CAs should seek to form a single qualification process for Operators to adhere to. A framework agreement system, as used in London, was also suggested by one respondent (where qualified Operators are party to a central framework agreement).	A pre-qualification process is expected by Operators, and deemed necessary and important. The exact nature of how this is implemented by the Authority is to be assessed – but Operators were almost unanimous that there should be a pre-process for them to submit their credentials, followed by selection to a general pool of "qualified Operators" who can then bid for any zones – rather than

#	Questions	Operator Responses	Analysis
		One respondent answered more cautiously overall, emphasising the need for the Authority to hold open discussions with Operators during the pre-qualification process to ensure that any questions were answered and potential issues to qualification resolved in a timely manner – to ensure the process does not act as a barrier to entry to the market.	Operators repeating this process for all zones they wish to bid for.
H2	*Does your organisation consider that the negotiated or restricted procedure should be used in relation to the procurement of Franchise contracts? Please provide your reasoning.*	The majority of respondents preferred the negotiated procedure, flagging the high level of co-operation between bidders and the Authority that such a process would encourage. Thoughts on structure were either as a second stage to a tender process (to be engaged with a preferred bidder only), or for future tenders only when the Franchising system is more established in the Authority's Region. Two Operators stated a strong preference for the restricted procedure. This was due to previous experience with the model, the appropriateness of this procedure for the letting of large Franchise Contracts, and belief this generates more competitive bids.	Responses were mixed, between negotiated, restricted, or a combination of the two (via a two-stage process once preferred bidders had been selected). Given responses, the Authority will need to consider the pros and cons of each approach at the relevant time. However, although Operators offered opinions, there was not a sense that this would be a major barrier to them in submitting bids if their less favoured process was selected.
H3	*What does your organisation consider to be the optimal number of bidders that you would expect to see shortlisted at the main bid stage?*	Answers varied between three and five bidders. The consensus was that a minimum of three bidders allowed for enough competition without the process becoming too cumbersome and expensive for Operators and the Authority. One Operator noted that if a restricted procedure was adopted, then there should be no limit on bidders (but an open process).	Notably, there was a correlation between Operator size and preferred number of bidders, with larger Operators supporting a smaller number. But most agreed three to five bidders was optimal.
H4	*Do you have any other comments in respect of*	Two Operators commented that a limit per Operator regarding Franchise Contracts won (across all zones) should be implemented, to ensure an increase in competition	Points to be considered by the Authority when designing the

#	Questions	Operator Responses	Analysis
	the proposed procurement process?	in the market and to mitigate potential mobilisation and delivery risks. One Operator suggested a limit of 30% of the network per Operator. Other comments included a need for tender information in a timely manner; allowing Operators to submit bids for multiple Franchise Contracts within a tranche; and open meetings between bidders and the Authority. It was also flagged that the Authority should not be bound to accept the lowest bid, but to consider other social and environmental factors in assessing bids.	Franchise Contracts tendering process.
H5	*What information does your organisation consider necessary for it to be able to put together a bid?*	Operators responded in detail to this question, the main take-away being that as much information as possible is desirable in putting together a bid. This seemed especially important to those Operators not currently operating in the area, with emphasis on the need for the incumbent Operators to publish the necessary data on operational costs, timetables and so on. General themes of information required include: • Route, timetable and ticketing information; • Fleet and depot specifications; • Staff lists, including those likely to be subject to TUPE regulations; • Operational data and historic performance; • Cost base of the incumbent Operators / labour costs; • Branding requirement; • Proposed contract terms (including payment mechanics and performance regimes); and • Requirements for tender submissions.	All to be considered by the Authority when designing the Franchise Contracts tendering process. Responses shared a key theme – that the provision of information was key to ensuring: (i) bids were as accurate as possible (and reduce the need for change to happen in-life of awarded Franchise Contracts); and (ii) incumbent Operators were not put at a distinct advantage given they knew a lot about the area, where new incoming Operators may not. This could be seen as a real barrier to entry for incoming Operators and therefore is a risk that the Authority must seek to mitigate.

#	Questions	Operator Responses	Analysis
I	**FRANCHISE DESIGN: COMMERCIAL ASPECTS**		
I1	*To what extent do you consider the proposed fares and ticketing strategy to be appropriate? Are there any areas where you would consider the Franchise Operator to be better placed to manage risk and, if so, why?*	All Operators agreed strongly that the strategy set-out by the Authority in the questionnaire was appropriate and that the Authority should take control of revenue and ticketing and this best served passengers. One Operator added that management of fare evasion was a role better placed with Operators due to their on-the-ground presence, but that the Authority should play a supporting role in terms of wider fare compliance enforcement and anti-fare evasion campaigns. Another Operator opined that Operators should still have a role to play in shaping the policies of the Authority on aspects such as ticketing. Ideally, Operators would have a degree of flexibility in offering alternative ticket options but, as a minimum, discussion forums should be held between the Authority and the Operators to share experiences.	Operators were supportive of the proposals put forward by the Authority
I2	*To what extent do you consider the proposed allocation of revenue risk to be appropriate? Are there any areas where you would consider the Franchise Operator to be better placed to manage risk and, if so, why?*	Generally, all Operators were supportive of the plans detailed, given the lessening of the commercial risks, especially with regards to newer Operators and to non-profitable routes which otherwise may not be run. Two areas specifically referred to by several Operators were: (i) that the risk of fare avoidance was better placed with the Operator; and (ii) farebox leakage was better placed with the Authority. Similar to the above response, this was due to a belief that these aspects were under greater control of one party than the other and that this should be reflected in Franchise Contracts. One Operator appeared to opine that revenue risk should sit wholly with the Operator when that Operator was a new entrant to the market. However, its main assertion related to the importance of well-planned KPIs being used in any incentive programme, namely that such KPIs should relate to factors within the Operator's control (the example given was that KPIs should relate to quality of service instead of overall patronage).	As above, Operators were generally positive about the proposals put forward by the Authority. The Authority to consider underpinning the proposals with revenue targets for Operators, to allow Operators to assist in growing patronage / developing a KPI regime to motivate Operators.

#	Questions	Operator Responses	Analysis
I3	*To what extent do you consider the proposed marketing and brand management strategy to be appropriate? Are there any areas where you would consider the Franchise Operator to be better placed to manage risk and, if so, why?*	Whilst all responses concluded the marketing strategy as proposed was appropriate, there were some points to note. Some Operators emphasised the importance of their commercial experience when designing and implementing such branding. Also, Services such as express Services and airport routes were flagged as being suitable for "premium branding". Cohesive branding across different transport options in the Authority's Region, namely across bus and rail industries, was flagged as something that should be progressed by the Authority in its branding activities – but one Operator thought this was unattainable given how the rail industry is fragmented across different Operators. Some Operators noted that branding should not be route-specific (so that vehicles can be switched between routes); whereas another Operator stated that some major routes being individually branded would enhance customer experience.	All Operators identified the need for a clear, consistent, cohesive visual identity for buses and that the Authority would be best placed to manage this under Franchising. Two key take-aways are: (i) the Authority should seek to rely on Operator expertise where appropriate for its branding activities; and (ii) the Authority to consider how far branding can be linked to other transport modes across the Authority's Region.
I4	*To what extent do you consider the proposed allocation of customer relations and service quality responsibility to be appropriate? Are there any areas where you would consider the Franchise Operator to be better placed to manage risk and, if so, why?*	All responses were positive and the importance of a central customer service system, operated by the Authority, was agreed, given bus users would be the Authority's passengers under Franchising. The need for a collaborative approach between Operators and the Authority, and the sharing of information when it comes to customer relations, was raised by many Operators as important.	Operators are supportive of the Authority leading on customer relations, but want the Authority to use Operators' experience, and communication channels, when it comes to customer relations. The importance of a detailed and clear KPI regime is clear to the Operators – generating performance incentive provisions to support good service. A clear definition of roles and responsibilities on both the part of the Authority and Operators should

#	Questions	Operator Responses	Analysis
			therefore underpin the design of the Franchise Contracts.
J	**CONTRACT TERMS**		
J1	*To what extent do you consider the proposed allocation of operational cost risk, including fuel cost risk, to be appropriate?*	Answers to this question were mixed. Whilst it was acknowledged by Operators that they were generally in control of cost and spend, a majority of Operators flagged areas where costs could increase and where risk should not be 100% borne by Operators. Areas flagged where risk allocation should be considered were: (i) driver wages increases (and Unions pushing for increases) not to be 100% be borne by Operators; (ii) fuel cost risk to be placed with the Authority or, at the least, indexation provisions regarding fuel cost be built into the Franchise Contracts; (iii) electricity costs to be passed through to Operators with the Authority owning depots; and (iv) underlying costs inflation should see a risk share between Operators and the Authority.	Operators want protection from the Authority against increases in costs that Operators cannot control. Operators will bid on the basis of the current state of the market and in anticipation of planned or usual updates to market conditions. However, where costs increase to Operators beyond "the norm" then Operators are seeking protection from the Authority.
J2	*What is your preferred form of contract?*	Responses again were mixed. At least two Operators advocated for the Authority to pay Operators per mile delivered, but others flagged this as too simplistic; not incentivising Operators to improve and perform; and it being difficult for the Authority to assess bids between different Operators. Other Operators stated a preference for a contract based on a given timetable, together with incentive mechanisms, or a punitive system of deductible and non-deductible operated miles. Respondents also discussed the need for open discussions to be had between the Authority and the winning bidder at suitable intervals of the Franchise Contracts to allow for knowledge-sharing and modifications to be made to the future design of the Franchise Contracts, based on lessons learnt.	Although responses were mixed, there appeared to be a preference for gross cost contracts with incentives. A KPI / incentive regime was considered as key by most Operators, but this must be carefully constructed by the Authority so that it does not become a barrier for entry (for example, if a contract is only viable to an Operator if incentives are met; then incentives must not be set "too

#	Questions	Operator Responses	Analysis
		Another Operator opined that letting Franchise Contracts with incentives to optimise the network may act as a barrier to entry as only the incumbent Operators will have the requisite data to deliver on such aspects and know whether targets can be achieved.	high" for smaller Operators to reach). Bonuses for good performance rather than penalties for bad performance are an (obvious) Operator preference.
J3	*What are your views on an appropriate indexation mechanism? How would you wish this to work under a proposed Franchising model? What would you propose as a fair and representative indexation mechanism?*	All Operators discussed the need for different indexation requirements for separate elements of the Franchise Contracts, namely for: (i) fuel, (ii) labour costs/wages; and (iii) general costs. Fuel was suggested as requiring monthly or quarterly indexation and/ or indexation using a specialised measure such as the DERV Index. Labour was suggested to be reviewed annually against the use of specific measures such as the Average Weekly Earnings Index, and the percentage pay awards given by the Operators were considered important. The use of specialised measures such as CPT's Regional Cost Monitor or alternatively a mixture of different general indices across the Franchise Contracts as a whole was also supported.	As a minimum, the sentiment from Operators appeared to be that prices should be adjusted annually in line with RPI, but benchmarking against more detailed industry specific measures would be a better approach, and one approach should not be used globally (wages and fuel, for example, should be adjusted through different mechanisms.
J4	*To what extent do you consider the proposed performance mechanism measurement areas to be appropriate and why? What alternative approaches do you think the Authority should consider?*	Detailed views were provided by Operators on the individual performance metrics suggested by the Authority. Whilst Operators did not consider the areas set out as wholly inappropriate and several noted the proposal was "market standard", several themes became apparent: • KPIs must be limited to factors within the control of the Operator; • KPIs need to be clearly defined and set at achievable levels; • operational data / performance statistics of any incumbent Operator should be provided prior to the bid submission date so that Operators could ascertain	All Operators agreed that performance metrics were critical to Franchise Contracts. There was a sense that rewarding good performance should be the Authority's approach rather than penalty payments – as this would need to be factored into an

#	Questions	Operator Responses	Analysis
		how likely they would be to meet KPIs and whether the possibility of penalties needed to be priced into their bid; • potential adjustment per route – noting some KPIs were readily achievable on busier routes where others (around passenger frequency) would be much harder to hit on other routes if a "one size fits all" approach was adopted; and • the structure of a KPI regime – for example, an incentives-only approach vs a mix of incentive and punitive measures vs simplistic KPIs to encourage compliance. Potential caps / maximum liability for Operators were also mooted.	Operator's pricing when bidding for Franchise Contracts. Overall, the provision of information at the bid stage was highlighted as key – so new Operators to the Authority's Region could ascertain, in a fair manner and so they are on a level playing field with incumbent Operators, how likely KPIs were to be hit, so they can price accordingly. Clear, simple, objective, realistic, achievable, and fair were buzz words used.
K	**TUPE**		
K1	*Please set out your current views on what TUPE-transfers of staff will be required in the event that your organisation was to win one or more Franchises, including any concerns you may have and/or risks you may perceive*	One response stated that the risks associated with TUPE transfers should sit with the Operator, with the ability of the Operator to deal with this process and recruit additional workers being vital to their operations. However, this was not a view shared with other Operators, who stated the need for close collaboration between the incumbent Operators, the Authority, and the new Operators to ensure a fair and smooth TUPE process. Most Operators flagged the need for detailed information on any employees who may or may not be subject to the TUPE transfer process, including information on current benefits, pay, and pension arrangements. This would allow Operators to price accurately and it would set up the Operator for success as the number of extra workers needed would be known from the outset. Union arrangements and pension scheme	It was recognised that a switch to Franchising would result in significant changes to the bus market in the West Midlands and in workforces, and therefore substantial engagement would be needed, both between Operators, incumbent Operators and the Authority, but also with Trade Unions.

#	Questions	Operator Responses	Analysis
		membership were flagged as key criteria where information must be visible to Operators. A specific area of concern was the possibility of the incumbent Operators relocating staff elsewhere in their business as opposed to them choosing to transfer to the new Operator. Similarly, there was concern of incumbent Operators running staff numbers down in anticipation of any change in ownership. Another potential issue was flagged of some staff no longer being aligned to a particular route/zone in a new Franchising system and therefore not being subject to TUPE provisions. One suggestion to overcome this related to Franchising areas being based on depot, as this generally would also minimise disruption to staff.	It was clear than Operators saw employees and TUPE transfers as a key risk in implementing Franchising. It was equally clear that many saw the mitigation to this risk being an adequate provision of information from incumbent Operators around their workforce, so that a clear picture could be developed by Operators at the bid stage. Some Operators also expect the Authority to provide a financial protection arrangement should the provision of incorrect information lead to loss or increased costs for bid-winning Operators. To be considered by the Authority in the contract-design stage. Drivers and maintenance staff were viewed as perhaps the most important category of workers where the TUPE position would need to be understood.
L	**OTHER CONSIDERATIONS**		
L1	*Please set out any further views that you may have on the potential Franchising of bus services in the*	Some further points raised by Operators included:	All are pertinent points and will be considered by the Authority if/when designing a Franchising Scheme.

#	Questions	Operator Responses	Analysis
	West Midlands that has not already been addressed in previous questions and that you feel it is important for the Authority to consider.	• the importance of a true partnership between Operators and the Authority and open dialogue, and (on a practical level) 'Partnership Principles' to be included in the Franchise Contracts; • a requirement for as short as possible / not overly-complicated bid process. The length of a bid process and the size of documents in GMCA was noted as something that put-off Operators from bidding, particularly smaller Operators; • the need for the market to be as open as possible to new entrants, which included the sharing of as much information as possible on topics such as timetabling and traffic data. Generally, incoming Operators should have as much information available to them at a bid stage as incumbent Operators, otherwise it is not a level playing field; • the need to increase the managerial capacity of the Authority to assist with the running of a Franchising Scheme; • the request for a grace period of around three-six months be built in before the enforcement of KPIs occurred, to allow mobilisation to fully take effect; • suggestions for a mechanism to deal with any increase or decrease in mileage over the life of the Franchise Contracts, taking into account a wide range of aspects including hours, miles and additional overheads; • consideration of political pressure on network design – it was suggested that political interventions to the detriment of the wider service/network already occur, and this could potentially increase under Franchising; • the timing of Franchising – best bids could be expected by the Authority if this did not "clash" with Franchising bids being invited from other CAs; and	

#	Questions	Operator Responses	Analysis
		• some incumbent Operators challenged the benefits of Franchising vs the Future Partnership, but no thoughts were provided on what such a partnership could or should look like.	

Management Case Appendix 3

Current organisational roles and team under the Reference Case

Team	Current Roles	Number of employees
Directors of Transport	Director of Integrated Transport Services	1
	Director of Policy, Strategy and Innovation	1
	Director of Network Resilience	1
Transport Services (Assets, Network and Planning)	<u>Operations Team</u>	
	Head of Operational Assets	1
	Asset Development Manager	1
	Implementation Manager	1
	Operation Asset Manager	1
	EPI Asset Specialist	1
	Transport Asset Specialist	2
	Contracts Manager and Administrator	1
	<u>Transformation Team</u>	
	Head of Network Transformation	1

Team	**Current Roles**	**Number of employees**
	Bus Transformation Manager Transport Project Development Officer ZEB Delivery Manager Network Transformation Specialist	1 2 1 1
	<u>Health and Safety Team</u> HSE Manager HSE Advisor HSE Technician	 1 2 1
	Project Manager Consultant	1
Bus Operations and Services Team	<u>Leadership Team</u> Head of Bus	1
	<u>Operations Team</u> Operations and Development Manager Bus Services Manager	 1 1

Team	Current Roles	Number of employees
	Development Specialist Ring and Ride / Demand Response Manager Bus Network Performance Manager Bus Services Specialists Services Co-ordinators Contracts Coordinators Support Officers Network Coordination Specialists Network Performance Specialist Network Performance Support Officer	1 1 1 3 1 1 1 2.8 1 1
	<u>Partnerships Team</u> Bus Partnerships Manager Partnership Coordinator	 1 1
	<u>Integrated Information Team</u> Information Manager	 1

Team	Current Roles	Number of employees
	Information Team Leader Product Development Lead Information Systems Specialist Information Officers	1 1 1 6
Customer Services and Ticketing	<u>Customer Services Team</u> Customer Services Manager Ticketing Services Team Leaders Ticketing Services Executives Customer Services Team Leader Customer Services Specialist Customer Service Assistant Senior Customer Relations Executives Customer Relations Executives	 1 2 20 1 2 10 2 4
	<u>Customer Experience Team</u> Head of Customer Experience	 1

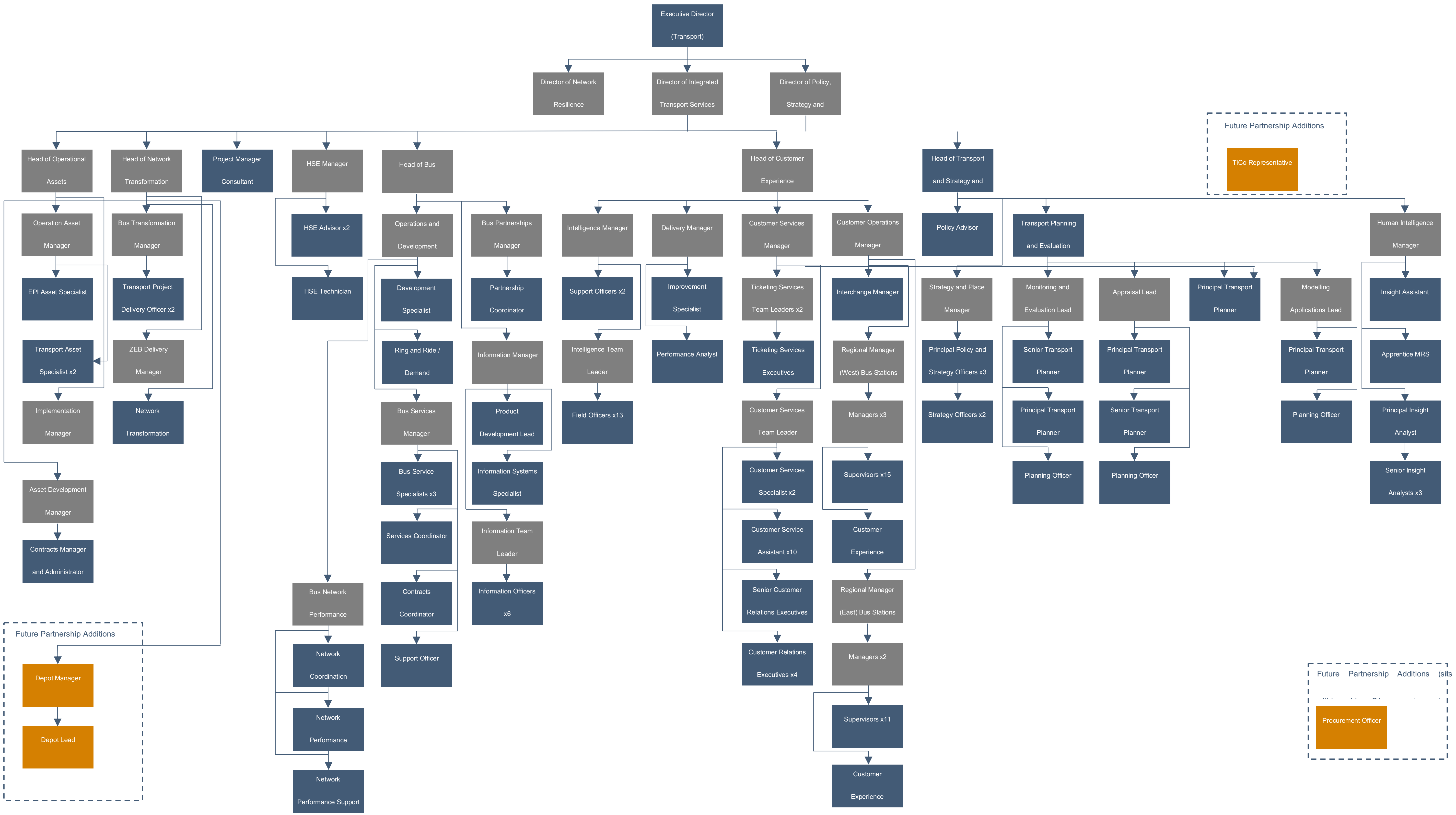
Team	Current Roles	Number of employees
	Delivery Manager Improvement Specialist Performance Analyst	1 1 1
	<u>Customer Intelligence Team</u> Intelligence Manager Intelligence Team Leader Field Officers Support Officers	 1 1 13 2
Strategy and Planning	Head of Transport and Strategy and Planning	1
	<u>Policy and Strategy Team</u> Strategy and Place Manager Principal Policy and Strategy officers Strategy Officers	 1 3 2
	<u>Planning and Evaluation Team</u>	

Team	Current Roles	Number of employees
	Transport Planning and Evaluation Manager Monitoring and Evaluation Lead Appraisal Lead Modelling Applications Lead Principal Transport Planners Senior Transport Planners Planning Officers	1 1 1 1 4 2 3
	<u>Analysts and Insight</u> Human Intelligence Manager Policy Advisor Insight Assistant Insight Analyst Senior Insight Analysts Apprentice MRS	 1 1 1 1 3 1
Bus Stations	Customer Operations Manager	1

Team	Current Roles	Number of employees
	Interchange Manager	1
	Regional Manager (West) Bus Stations Managers Supervisors Customer Experience Specialists	1 3 15 2.5
	Regional Manager (East) Bus Stations Managers Supervisors Customer Experience Specialists	1 2 11 8

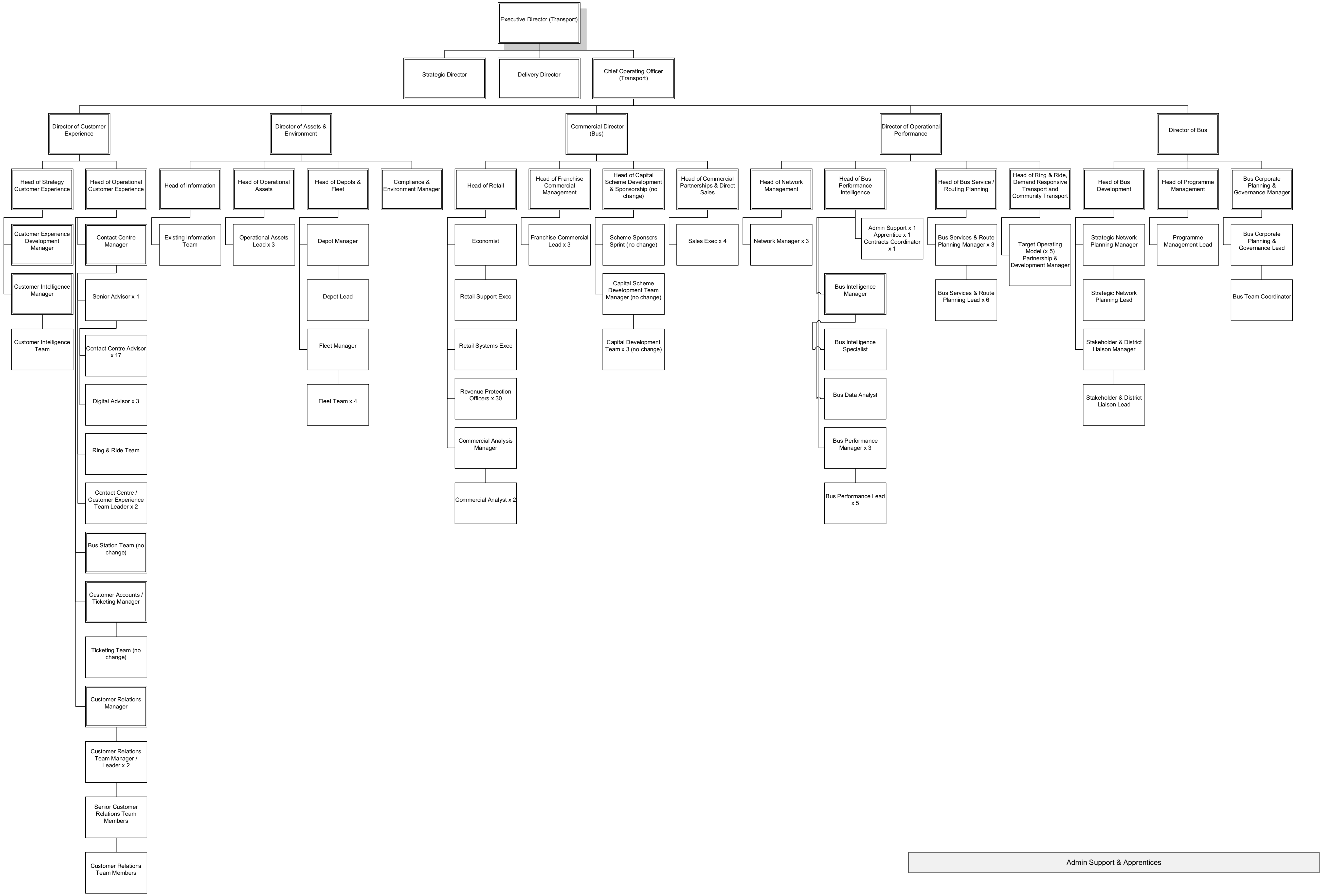
Management Case Appendix 4

Team Structure under Reference Case and Future Partnership



Management Case Appendix 5

Team structure under Franchising



WEST MIDLANDS COMBINED AUTHORITY BUS ASSESSMENT BUSINESS CASE: CONCLUSION

Contents

Tables

1 Summary of Approach

1.1 This Assessment, through the five-case structure of the Strategic Case, the Economic Case, the Commercial Case, the Financial Case and the Management Case, has considered the case for regulatory reform of Service delivery in the Authority's Region.

1.2 This Assessment has been conducted by the Authority:

(a) in accordance with the Transport Act (as amended by the Bus Services Act), which sets out the statutory process CAs must follow in order to decide whether to implement a franchising scheme; and

(b) with reference to HM Treasury's Green Book Guidance requirements and the Franchising Guidance requirements.

1.3 The five key activities set out in the Franchising Guidance can be found across the five cases comprising this Assessment as follows:

(a) **Developing the case for change**: the Strategic Case outlines the case for changing the current bus arrangements in the Authority's Region, the strategic rationale for bus reform, and the need for intervention - and sets out the two Delivery Options for bus reform;

(b) **Setting objectives:** paragraph 6 of the Strategic Case sets out the objectives that the Authority is trying to achieve through bus reform, and ultimately the introduction of the Delivery Options;

(c) **Options generation and refinement:** paragraph 3 of the Strategic Case discusses the regulatory options which are available to the Authority; and paragraph 7 presents and assesses the Delivery Options;

(d) **Detailed assessment of options**: this Assessment assesses the Delivery Options against the EP under the Reference Case, and against the Authority's objectives. This Assessment has been undertaken with the aim of identifying which Delivery Option best achieves the Authority's strategic ambitions for bus as well as responding to other social, economic and environmental challenges; and

(e) **Selection of preferred Delivery Option**: on the basis of the performance of the Delivery Options, this conclusion identifies the Authority's preferred Delivery Option and the justification for its choice.

2 The Strategic Case

2.1 The Strategic Case considers the rationale for bus reform in the Authority's Region, outlining the case for changing the current arrangements, comparing the Delivery Options against the Reference Case, and setting out strategic objectives relating to what the Authority is seeking to achieve.

Objectives

2.2 The Strategic Case sets out six objectives which are broadly grouped into three main themes directly relating to the challenges identified.

2.3 The **Operational objectives** address the challenges the current West Midlands Bus Network creates for passengers. The Operational objectives are:

(a) **Objective 1 - Network**: ensure public transport is inclusive and meets the changing needs of diverse West Midlands communities, by all modes working together;

(b) **Objective 2 - Customer Experience**: improve customer experience when planning and making journeys;

(c) **Objective 3 - Fares and Ticketing**: increase traveller understanding and confidence through simple, and affordable, fares; and

(d) **Objective 4 - Environment**: reduce the climate, air quality, and other environmental impacts of the bus fleet.

2.4 The **Efficiency objective** addresses the financial and managerial challenges that the Authority faces in procuring and delivering Services in the Authority's Region. The Efficiency objective is:

(a) **Objective 5 - Stability**: ensure that on a long-term basis, Services in the Authority's Region are financially stable and affordable.

2.5 The **Visionary objective** addresses the ability of the Delivery Options to support the Authority in maximising the value of the West Midlands Bus Network in achieving wider policy goals. The Visionary objective is:

(a) **Objective 6 - Transformation and Change**: enable the Authority to secure ambitious, transformational public transport improvements to deliver wider policy goals.

Option Development and Assessment

2.6 The Strategic Case discusses three shortlisted options to be considered, as follows:

(a) Do Minimum – the Reference Case: continued partnership between the Authority and the Operators as per current arrangements;

(b) Do Something – the Future Partnership: continued partnership between the Authority and the Operators, with alterations to the existing arrangements; and

(c) Do Something – implement the Franchising Scheme: suspension of EP under the Reference Case, and power given to the Authority to contract Services.

2.7 The above are qualitatively assessed against the Authority's objectives to understand strategic fit. A summary of this is provided in Table 6-1. Table 6-1 clearly shows that Franchising has the highest level of alignment with the Authority's objectives.

Table 6-1: The Reference Case / Delivery Option(s) alignment to Authority's objectives

Objective	**The Reference Case**	**The Future Partnership**	**Franchising**
Objective 1: Network			
Objective 2: Customer experience			
Objective 3: Fares and Ticketing			
Objective 4: Environment			

Objective 5: Stability			
Objective 6: Transformation and Change			

Key:

	Lowest level of strategic fit against objectives		Medium level of strategic fit against objectives		Highest level of strategic fit against objectives

The Need for Intervention

2.8 The Strategic Case forms the argument and justification for how regulatory changes can lead to wider social and economic improvements and support the Authority in achieving wider ambitions for the Authority's Region. The need for intervention is therefore based on three strategic arguments:

(a) **Operational:** enabling 'quick win' improvements for passengers, such as an enhanced network, changes to fares, and improved fleet, without additional public sector funding. Bus reform provides an opportunity for the Authority to deliver a better planned and more integrated West Midlands Bus Network that works for the benefit of all passengers and is more aligned with wider ambitions such as reducing emissions from the transport sector. This would not only deliver a better and cheaper experience for passengers, but also give the Authority additional opportunities to better support the most deprived communities;

(b) **Efficiency:** allowing the Authority to efficiently manage the West Midlands Bus Network on a day-to-day basis and deliver more Services for the same current level of public subsidy. Bus reform provides an opportunity for the Authority to deliver a long-term, financially sustainable network that provides better VfM from public subsidies. The financial benefits from this would allow the Authority to expand the West Midlands Bus Network (including more Supported Services) and support other parts of the transport network to ensure that the West Midlands has a transport system that works for all; and

(c) **Visionary:** supporting the ability for bus reform to enable 'transformational' changes to the West Midlands Bus Network, such as higher frequencies, new routes, and greater integration with rail and Metro. Bus reform provides an opportunity for the Authority to make transformational changes to the transport network in the West Midlands by giving it the power to make strategic decisions about the whole West Midlands Bus Network. This will enable the Authority to achieve its ambition to reimagine transport in the Authority's Region and provide a high quality and affordable public transport system that's fair to everyone and the environment.

3 The Economic Case

3.1 The Economic Case focuses on establishing whether the benefits of reforming Services outweighs the costs of delivering change, and if these reformatory changes represent VfM for the Authority.

3.2 The Economic Case, and economic appraisal that underpins it, is a key part of establishing a preferred Delivery Option between the Delivery Options. The HM Treasury's Green Book Guidance states that the preferred Delivery Option must represent an acceptable balance between costs, benefits and risks to society and the public sector, allowing for any unquantifiable factors which could affect a decision. The HM Treasury's Green

Book Guidance also requires the impacts are valued in monetary terms, unless it is not possible or not appropriate to do so.

3.3 The Future Partnership:

(a) has the potential to generate a moderate NPV in terms of monetised impacts, alongside a slight beneficial non-monetised impact;

(b) achieves a very high BCR, suggesting that it would deliver a high volume of benefits per pound spent; and

(c) is considered to provide very high VfM.

3.4 Franchising has the potential to generate an NPV substantially higher than the Future Partnership, though it achieves a lower BCR. When also considering the overall non-monetised impacts, Franchising achieves high VfM.

Forecasting Approach

3.5 The Economic Case forecasts demand, revenue and costs for the Delivery Options relative to the Reference Case, capturing a mix of commercial and Supported Services. The approach starts from an 'unconstrained' forecast of future bus demand whereby demand and revenue fall over time (underpinned by drivers such as GDP, population and car ownership) and overlays a model of commercial decision-making whereby Operators 'trim' and then 'cut' Services from the West Midlands Bus Network, requiring more and more Services over time to be supported by the Authority.

3.6 Under the Delivery Options, and in particular Franchising, the Authority can exercise greater control over the specification of Services, enabling changes to the West Midlands Bus Network that are expected to mitigate some of the decline in demand and revenue. The main drivers of this impact are the lower profit margin assumed in Franchising, and the network-wide basis on which Services can be specified.

Impact of Reforms

3.7 The potential impact of reforms on different groups varies across the Delivery Options, given the different levels of ambition. The Delivery Options are expected to have beneficial impacts on passengers, primarily through the greater degree of control that the Authority will be empowered to exercise over the specification and operation of Services. This will be more pronounced in Franchising, where the Authority will have full discretion over potential improvements, including:

(a) a greater volume of Services compared to the Reference Case;

(b) fares and ticketing improvements, including greater simplification and integration;

(c) improved customer experience; and

(d) more reliable Services.

3.8 Additionally, the Delivery Options are expected to generate environmental and social impacts, which will be of greater magnitude in Franchising:

(a) greater bus use than under the Reference Case and the Future Partnership, reducing the scale of externalities such as congestion, greenhouse gas emissions, air quality impacts, noise, accidents; and

(b) enabling the transition towards a ZEB fleet.

Approach to Appraisal

3.9 The appraisal of the Delivery Options follows the approaches recommended by the HM Treasury's Green Book Guidance and the Franchising Guidance. The interventions are appraised over a 40-year appraisal period, starting from FY 2027/2028, allowing for the full benefits of the Delivery Options to be realised. Monetised benefits are estimated using the following approaches:

(a) user benefits: a generalised cost-based approach that estimates the benefits to bus users of the additional Services available compared to the Reference Case;

(b) non-user benefits: a marginal external cost approach that captures the impact of modal shift compared to the Reference Case;

(c) wider economic impacts: Level 2 impacts of agglomeration, output in imperfectly competitive markets, and labour supply have been estimated using approaches consistent with the HM Treasury's Green Book Guidance and the Franchising Guidance; and

(d) all monetary amounts are considered in consistent appraisal terms, namely:

(i) converted to 2010 prices using RPI and GDP deflator cost indices, and converted to a 2010 perspective using a 3.5% discount rate for the first 30 years and 3% thereafter;

(ii) converted to market prices using 19% adjustment factor; and

(iii) where relevant, applied optimism bias (44% uplift used for fleet and depot costs).

Appraisal Outputs

3.10 Table 6-2 summarises the key outputs of the Economic Case, incorporating appraisal results, for the Delivery Options.

Table 6-2: Appraisal Outputs of the Delivery Options

Outputs	The Future Partnership	Franchising
NPV (2010)	£282.4 million	£470.8 million
NPV including wider economic impact (2010)	£338.1 million	£682.5 million
Overall non-monetised impacts	Slight beneficial	Slight beneficial
Distributional impact	Slight beneficial	Beneficial
Uncertainty during transition	Medium	High
Uncertainty during operation	Medium	Low

Uncertainty around evolution	High	Low
Initial VfM Category	Very High	High
Adjusted VfM category, also considering: **Non-monetised impacts** **Distributional impacts** **Uncertainty**	Very High	High

VfM

3.11 Both Delivery Options have been shown to generate a substantial NPV when compared to the Reference Case. Comparing the NPVs of the Delivery Options suggests that Franchising would generate a large total positive impact on broader society, while the Future Partnership would generate a greater volume of benefits for each pound spent, indicated by a higher BCR.

3.12 Franchising performs better than the Future Partnership in the assessment of wider economic impacts. The levels of uncertainty are similar between the Future Partnership and Franchising, given the trade-offs surrounding transition, operation and future evolution of the Delivery Options.

4 The Commercial Case

4.1 The Commercial Case sets out the Authority's Commercial Objectives, including the existing market composition, features and challenges. It then details the commercial characteristics of the Reference Case and the Delivery Options, performing an assessment of each Delivery Option relative to the Authority's Commercial Objectives.

4.2 Table 6-3 sets out an analysis of these Commercial Objectives.

Table 6-3: Commercial Objectives

Commercial Objectives	Description
Best Value	The Delivery Option should maximise the output generated by the Authority's investment in the West Midlands Bus Network.
Optimise Passenger Outcomes	The Delivery Option should maximise passenger outcomes in terms of customer experience.
Ease of introducing Changes	The Delivery Option should allow the Authority to easily make changes to the West Midlands Bus Network or introduce new initiatives or interventions.

Ease of Implementation	The Delivery Option should allow the Authority to implement it with ease.
Risk Allocation	The Delivery Option should minimise risk during operation to the Authority.
Commercial Sustainability	The Delivery Option should maximise the commercial sustainability of the West Midlands Bus Network.

4.3 The Commercial Case assesses each Delivery Option against a set of Commercial Objectives to outline the potential of each Commercial Objective being met. This helps provide confidence that either Delivery Option could be implemented and managed successfully by the Authority. The Commercial Case considers several components:

(a) the nature of the present market for Operators;

(b) the degree of maturity surrounding the commercial model of the Delivery Options that are described in the Strategic Case;

(c) how the Delivery Options could be procured competitively;

(d) the commercial risks that the Authority may face in respect of the Delivery Options discussed; and

(e) the Authority's intended lotting strategy, and the order in which Lots of Franchise Contracts are intended to be let.

Control

4.4 Under the Delivery Options, the Authority would gain additional control of several areas, these can be seen in Table 6-4:

Table 6-4: The Reference Case vs Delivery Options - Authority's control

Control **Public Sector vs Private Sector**	**The Reference Case**	**The Future Partnership**	**Franchising**
Fares	Private Sector	Private Sector (Public Sector for Supported Services)	Public Sector
Ticketing	Private Sector	Shared Ticketing Function	Public Sector
Service Specifications and branding	Private Sector	Private Sector	Public Sector

Operating Cost	Private Sector	Private Sector	Private Sector
Employment of bus and network management staff	Private Sector	Private Sector	Private Sector
Timetabling	Private Sector (Public Sector for Supported Services)	Private Sector (Public Sector for Supported Services)	Public Sector

The Reference Case

4.5 While the Reference Case provides a forum for collaboration between the Authority and the Operators, implementing change is not within the Authority's sole control and there is little 'contractualisation' of Operator performance. Interventions carried out under the Reference Case lack alignment between investment costs and benefits, with costs incurred by the Authority and benefits shared with the Operators. Therefore, while it has some benefit, the Reference Case does not provide the Authority with a high level of control, or address issues that arise from the lack of competition in the market.

The Future Partnership

4.6 Similarly, the Future Partnership, in theory, provides the ability to introduce additional interventions that could support the Authority's commercial success factors. This Delivery Option provides the opportunity to build upon and improve on some of the challenges faced under the Reference Case. This includes providing scope for existing SMOs and new market entrants to potentially challenge and disrupt the current monopolistic market landscape, with the aim to ultimately drive long-term sustainable outcomes for passengers.

4.7 However, in practice, given implementation of these interventions and any changes are subject to further agreement with the Operators, and that there may not be significant commercial incentive for the Operators to engage, it may not have a materially different commercial impact on outcomes than the Reference Case.

Franchising

4.8 Finally, the Commercial Case discusses Franchising from a commercial perspective and details how a Franchising Scheme could be implemented by the Authority.

4.9 The Franchising Scheme represents a strategic initiative to enhance the regulation and delivery of Services in the Authority's Region. It sets the stage for achieving the Authority's Commercial Objectives, notably providing a platform for which the Authority has an enhanced level of control over the West Midlands Bus Network, and its expenditure on Supported Services and allows the Authority to ultimately drive competition, in what is currently a monopolistic market.

4.10 The success of the Franchising Scheme would be contingent upon the Authority's ability to manage the implementation, operational and financial risks involved and to execute a well-planned mobilisation strategy.

The Financial Case

4.11 The Financial Case presents a financial evaluation of the Delivery Options compared to the Reference Case.

4.12 The findings from this financial assessment indicate that both the Future Partnership and Franchising present improvements over the Reference Case in terms of passenger journeys and Service provision within the existing financial constraints that the Authority have at their disposal.

4.13 Franchising provides the greatest level of passenger journeys (using alternative scenarios and sensitivities) within the budget available for Services.

Delivery Option Risk

4.14 The Future Partnership and Franchising move away from the current approach in several areas which are seen in the Reference Case. Therefore, the Authority would take on risks which they have not had to deal with before. Table 6-5 shows the key financial risks which the Authority would be required to take-on if a decision is made to move away from the Reference Case (non-financial risks can be seen in the Commercial Case).

Table 6-5: Key Financial Risks

Delivery Option Financial Risk	The Reference Case	The Future Partnership	Franchising
Revenue Risk	Private Sector	Private Sector/ Authority - but some transfer to Public Sector	Public Sector/ Authority
Asset Risk – Depot	Private Sector	Private Sector/ Authority- but some transfer to Public Sector	Public Sector/ Authority
Asset Risk – Fleet	Private Sector	Private Sector	Public Sector/ Authority
Financing Risk (i.e. interest rate risk)	Private Sector	Private Sector (dependent on depot grant funding)	Public Sector/ Authority

Affordability

4.15 The Delivery Options which have been assessed within the Financial Case can be determined to be affordable to the Authority. This is because the same level of gross budget available for Services has been assumed. The difference between the Delivery Options is the additional costs associated with a Delivery Option (for example, management costs, transitional costs or financing costs).

The Future Partnership

4.16 The Future Partnership provides several benefits, mainly on the network interventions that come with it. These include: Supported Services being procured on a gross cost basis which will provide the Authority with more transparency of Service profitability and VfM; some of these Services being bundled with access to required depots which will promote competition and reduce barriers to entry for Operators; a joint ticketing function (TiCo) between the Authority and the Operators to promote and sell multi-operator tickets; and a reduction in the barriers to market entry for other Operators which will increase competition and innovation in the West Midlands Bus Network.

4.17 However, the Future Partnership shifts a greater degree of risk onto the Authority as there is a movement to gross cost contracts and depot ownership, while the risk of fleet ownership remains within the private sector.

4.18 Although there is greater risk compared to the Reference Case, through the sensitivity analysis which aims to stress test adverse movements in the Delivery Options, it can be seen that the Future Partnership provides greater benefits to the West Midlands Bus Network than the Reference Case.

Franchising

4.19 Franchising is anticipated to yield greater benefits than both the Reference Case and the Future Partnership. It encompasses all the positive outcomes of network interventions, which translates into an increase in both Service provision and passenger journeys without additional budgetary input.

4.20 Franchising gives greater control and flexibility for the Authority to shape the West Midlands Bus Network according to its strategic objectives and local needs, without relying on the commercial decisions of the Operators; and gives a greater level of coordination of Services and the wider transport network, encouraging increased levels of public transport use by passengers.

4.21 However, Franchising shifts an even greater degree of risk onto the Authority, encompassing both cost and revenue uncertainties as well as asset-related risks. This is a strategic move to lower the barriers for new market entrants and to foster a more competitive environment.

4.22 Although there is greater risk over the Reference Case and the Future Partnership, through the sensitivity analysis, it can be seen that Franchising provides consistently greater benefits to the West Midlands Bus Network than the Reference Case and the Future Partnership.

5 The Management Case

5.1 The Management Case explores the current operating and governance procedures utilised by the Authority to deliver the Reference Case and explores the deliverability of each Delivery Option - including how it would be implemented; how it would be managed and evaluated; and how risks would be mitigated. This provided confidence that the Delivery Options could be implemented and managed successfully by the Authority.

5.2 Generally:

(a) a transition to the Future Partnership would rely heavily on the Authority's current operating model. Whilst the Authority would obtain some additional responsibilities such as ownership of more depots (and therefore some additional resource and capability would be required), analysis shows that there would not be a high degree of change or impact to the Authority's current operating model; and

(b) a transition to Franchising would require a large degree of change to the Authority's current operating model, given the Authority would become accountable for the delivery of the whole West Midlands Bus Network. Therefore, given the increase in responsibilities, there is shown to be a requirement for a significant increase in people and capability, and for a redesign of the Authority's governance structure, to ensure Franchising could be appropriately implemented and managed.

5.3 Table 6-6 and Table 6-7 show a high-level analysis of the degree of management and change, and acceptability to stakeholders, evident under each Delivery Option.

Additional Resource Requirements

5.4 Additional resource requirements would be needed by the Authority for a transition to, and the ongoing delivery of, each Delivery Option. Accordingly, the Authority has, and will continue to develop, robust plans for additional resource requirements, and additional competencies and staffing requirements under each Delivery Option. A transition to Franchising would be a much more significant undertaking compared to the Future Partnership and would accordingly require a materially higher increase in resources and competencies and new commercial culture. Please see paragraph 2 of the Management Case for further information.

Table 6-6: Delivery Options – Resource Requirement

Delivery Option	**The Future Partnership**	**Franchising**
Resource Requirement		
Transitional resource Requirement	Low	High
Ongoing resource requirement	Low	High

Complexity and Risks

5.5 Risk management is a fundamental part of any scheme delivery - managing the negative impacts of the uncertainty that is inherent in any project. The Authority has identified the risks associated with the management and delivery of the Delivery Options - please see paragraph 6 of the Management Case for further information.

5.6 Given a change to a Franchising Scheme is a more material change than a change to the Future Partnership (requiring more changes to the operating model, resource requirements and costs), there would naturally be more risk associated with it, and more potential for legal challenge. Given the Future Partnership has the EP under the Reference Case as its backbone, it would have considerably less opportunity for challenge than the Franchising Scheme. Although the Future Partnership (like Franchising) also requires the purchase and/or development of depots that are currently in third party ownership, there is a risk that depot ownership cannot be achieved in the timeframe and at the cost envisaged.

Table 6-7: Delivery Options – Stakeholder acceptability

Delivery Option	**The Future Partnership**	**Franchising**
Resource Requirement		
Complexity and therefore associated Risk	Medium	High
Potential for Challenge	Low	Medium

Acceptability

5.7 Given engagement with key stakeholders is a key element of determining the Delivery Options, the Authority has undertaken stakeholder engagement in developing this Assessment. Such engagement would continue following approval of either Delivery Option and the continued involvement of stakeholders would be integral to the successful delivery of a Delivery Option.

5.8 Table 6-8 represents a broad scoring of the Authority's engagement exercises with its key stakeholders. Where a range score (for example Medium-High) is given, this should be taken to represent some divergence of opinions within the group.

Table 6-8: Delivery Options - Stakeholder engagement

Delivery Option	**The Future Partnership**	**Franchising**
Resource Requirement		
Existing Operator acceptability	Medium-High	Medium
Potential new Operator acceptability	Low	High
LA acceptability	Medium-High	Medium-High
Bus user acceptability[184]	Medium	High

6 Option Assessment and Recommendation

6.1 This conclusion summarises key messages and outcomes of the five cases comprising this Assessment. Based on the reasoning drawn out above, this Assessment concludes that, on balance, Franchising is the most effective and efficient way of delivering Services across the Authority's Region, as opposed to the Reference Case and the Future Partnership.

6.2 Full consideration of all five cases is required in order to arrive at the decision that Franchising is the most effective and efficient way of delivering Services. However, in brief:

(a) **The Strategic Case**: both the Future Partnership and Franchising have higher levels of strategic fit with the reform objectives compared to the Reference Case. However, Franchising demonstrates the greatest strategic benefits against the bus reform objectives; especially those relating to Network (Objective 1), Stability (Objective 5) and Transformation and Change (Objective 6).

---

184 Considered on the basis of the quantum of Services retained and extent to which the VfB is delivered, rather than on passenger knowledge of the specific options.

(b) **The Economic Case**: both the Future Partnership and Franchising have been shown to generate a substantial NPV when compared to the Reference Case. Comparing the NPVs of the two Delivery Options suggests that Franchising would generate a large total positive impact on broader society, while the Future Partnership would generate a greater volume of benefits for each pound spent, indicated by a higher BCR. Franchising performs better than the Future Partnership in the assessment of non-monetised and wider economic impacts.

(c) **The Commercial Case**: the Future Partnership could potentially disrupt the monopolistic market and possibly better align with the Authority's Commercial Objectives, but its impact may not significantly differ from the Reference Case due to reliance on Operator agreements to implement new initiatives. Franchising, however, provides the Authority with greater control over Services and the potential to foster competition, contingent on effective risk management and successful mobilisation strategy execution.

(d) **The Financial Case**: Franchising requires the Authority to take more risk on revenues and assets than both the Reference Case and the Future Partnership; however, with the additional control and competition, Franchising is able to deliver increased passenger benefits for the same level of budget as opposed to the Future Partnership and the Reference Case and therefore is ultimately affordable for the Authority.

(e) **The Management Case**: although Franchising is shown to require significant change (whether to operating models, governance requirements, staffing levels and so on), the Management Case demonstrates that both the Future Partnership and Franchising would be deliverable by the Authority.

6.3 Accordingly, for the reasons stated above, and having undertaken this Assessment in accordance with the relevant requirements of Transport Act and the Franchising Guidance, the Authority considers, on balance, that Franchising is the preferred Delivery Option in relation to regulatory reform for bus service delivery in the Authority's Region.

6.4 The above recommendation is subject to audit of this Assessment and statutory consultation (both stages as required by the Transport Act (as amended by the Bus Services Act)).