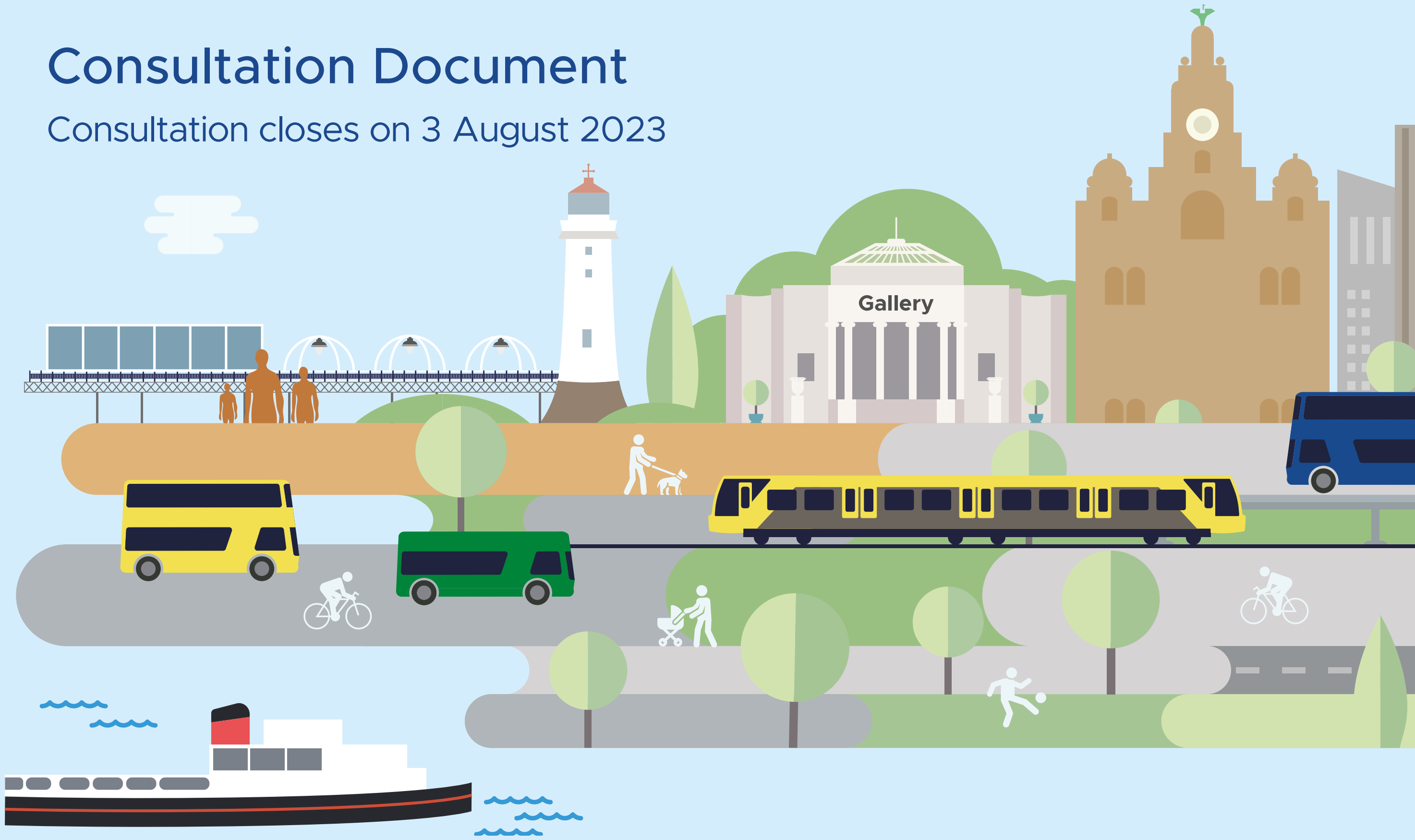
MOVING BUSES FORWARD

Liverpool City Region Bus Franchising Consultation

Have your say on how our buses are run

Consultation Document

Consultation closes on 3 August 2023



Have your say on how our buses are run, visit:
www.liverpoolcityregion-ca.gov.uk/movingbusesforward

LIVERPOOL CITY REGION COMBINED AUTHORITY

METRO MAYOR LIVERPOOL CITY REGION

The Liverpool City Region Combined Authority believes the way buses are run in the Liverpool City Region needs to change. We think that Franchising is the best way to do this, and we would like your views on what we are proposing. This document gives you more details about our proposals and how you can get involved.

The consultation runs from 12pm on 9 May 2023 to 11.59pm on 3 August 2023

The Liverpool City Region Mayor is directly elected by the people of the Liverpool City Region and chairs the Liverpool City Region Combined Authority. The Mayor has specific executive powers, including some relating to transport, and exercises the powers and functions devolved from government set out in the local area's devolution deal. The Mayor has the power under the Transport Act (2000), as amended by the Bus Services Act, to decide whether to introduce bus Franchising. The Mayor is Steve Rotheram.

Liverpool City Region Combined Authority (the Combined Authority) is made up of six local authorities – Halton, Knowsley, Liverpool, Sefton, St Helens, and Wirral. It is a strategic authority with powers including public transport, economic development, regeneration, spatial planning, and housing. The Combined Authority is responsible for the provision, planning, procurement and promotion of public transport.

Merseytravel is the executive public body responsible for coordinating Liverpool City Region's transport strategy and delivering its objectives. It is accountable to and directed by the Combined Authority, the six constituent authorities of the Liverpool City Region and the Mayor. Merseytravel owns assets including interchanges, bus shelters and bus stops.

The contents of this document

This is the Full Consultation Document on a Proposed Franchising Scheme for the Liverpool City Region.

It is split into the following sections:

1. **Introduction** – This sets out the background to the consultation, including the process that must be followed to make a statutory change to the way buses in the Liverpool City Region are run. It also provides an overview of how buses are run now, why the Combined Authority believes change is needed and the consultation process. *(9 pages)*
2. **Description of the Proposed Franchising Scheme** – This provides information about the Proposed Franchising Scheme for the Liverpool City Region and related questions. *(5 pages)*
3. **Assessment summary**– This section provides a summary of the Assessment of the Proposed Franchising Scheme and related questions. It compares the Proposed Franchising Scheme and an Enhanced Partnership with the current situation and recommends that the preferred option for the future of the Liverpool City Region's bus network is for all buses, with a small number of exceptions, to be run under a franchised system. This section also includes the proposal for how the Combined Authority would fund the introduction of a franchised system. *(52 pages)*
4. **Equality Impact Assessment** – This sets out the potential equality impacts of the Proposed Franchising Scheme. *(1 page)*
5. **Outcome of the Independent Audit** – A summary of the outcome of the independent audit of the Assessment. *(1 page)*

Appendix 1 – This sets out all the questions that form the short and long version of the questionnaire. *(5 pages)*

Appendix 2 – List locations where you can view and respond to the consultation *(3 pages)*

Appendix 3 – Contains the Independent Auditor's Report. *(56 pages)*

Appendix 4 – Is the Combined Authority's response to the Independent Auditor's observations. *(3 pages)*

Appendix 5 – Is the full Proposed Franchise Scheme. *(12 pages)*

Introduction

The Transport Act (2000), as amended by the Bus Services Act (which we refer to as "the Act"), has given the Combined Authority powers to improve bus services. The options available include Franchising – the system used in London and other cities globally – or an Enhanced Partnership with existing operators.

After assessing both options available in our Bus Franchising Assessment, we believe that, subject to the results of this Consultation, Franchising would be the best option to improve our bus services. In this document, we explain why.

We provide details of what Franchising could look like in the Liverpool City Region, and we encourage you to give your views on these proposals. Our plan for Franchising in the Liverpool City Region is referred to as the 'Proposed Franchising Scheme' throughout this document.

This is a statutory consultation, required by the Act and prepared in accordance with the Act and the supporting Bus Services Act 2017: Franchising Scheme Guidance (which we will refer to as "the Guidance"). This legislation explains what we need to do to introduce bus Franchising. You can read more about this **here.**

Getting involved with our consultation

We want to hear from you. This section explains who can take part, the consultation questions, how to respond, information on accessibility and where to find more information.

The deadline for responses is **11.59pm** on **3 August 2023**. If you want to respond, please make sure you do so before this time.

Who can take part?

Anyone can take part in the consultation. You do not have to live in the Liverpool City Region or be a bus user. We want to hear from everyone. You can answer as a member of the public or in an official capacity. Please be aware that if you are answering in an official capacity, your response may be published. Decision makers will see all responses. References or quotes from responses from members of the public will be made anonymous.

The consultation questions

We want to make this consultation accessible and easy to understand. We have created two questionnaires – a short one and a longer one which goes into more detail. **You can choose to answer the short or the longer questionnaire, and you do not have to answer all the questions.** There is more information to help you answer the consultation questions in the consultation documents:

- The short questionnaire has eight key questions, which are set out in **Sections 2** and **3** of the separate **Consultation Summary Document**, and in Appendix 1. This shorter questionnaire is recommended for the public and focuses on the main areas we need your views on.
- The long questionnaire contains **34 key questions**, including the eight questions in the shorter questionnaire, which are set out in **Sections 2, 3** and **4** of this Consultation Document, and in full in **Appendix 1**. You may find these questions easier to understand if you have a good level of knowledge of and interest in the bus market and how it runs.

The consultation questions have been prepared to satisfy the requirements of the Act. AECOM, an independent agency commissioned by the Combined Authority, has made sure the questions are clearly worded and unbiased. You can view AECOM's privacy policy here.

How do I respond?

You can send your response in the following ways:

Complete and submit a questionnaire at:
www.liverpoolcityregion-ca.gov.uk/movingbusesforward

Email a completed questionnaire to:
movingbusesforward@liverpoolcityregion-ca.gov.uk

Post a completed questionnaire to:
FREEPOST RUES-SATR-JRCS,
AECOM,
Embankment East Tower,
100 Cathedral Approach,
Salford,
M3 7FB

Fill in a paper copy of the questionnaire at one of our events. For details visit the website above, or contact us on 0151 330 1249 to find out where the next event near you is being held.

Where do I get more information?

This Consultation Document includes a summary of the information you need to answer the consultation questions. Further information can be found in the appendices:

- **Appendix 1** – Consultation Questionnaire – Short and Long Version
- **Appendix 2** – List of locations where you can view the Consultation Document and supporting documents
- **Appendix 3** – Independent Auditor's Report
- **Appendix 4** – The Combined Authority's response to Independent Auditor's Report
- **Appendix 5** – Proposed Franchising Scheme

You can find more supporting information at one of the buildings which are listed in **Appendix 2** or at **www.liverpoolcityregion-ca.gov.uk/movingbusesforward** including:

- The full Business Case Assessment and supporting documentation
- Draft Equality Impact Assessment of the Proposed Franchising Scheme

Events

You can come and speak to us at a series of engagement events and roadshows throughout the consultation period in accessible venues across the Liverpool City Region. For up-to-date details, please check:

www.liverpoolcityregion-ca.gov.uk/movingbusesforward

At these events you can expect to meet some of our colleagues who will be available to answer your questions, as well as more information and copies of the questionnaire for you to fill in. We will also be providing access to hard copies of the consultation document for people who don't have online access.

If you need to respond in a different way, or require consultation materials in a different format, you can contact us at:

movingbusesforward@liverpoolcityregion-ca.gov.uk

Or you can call us on **0151 330 1249** and leave a voicemail with your name and contact details – one of our team will get back to you as soon as possible.

What happens next?

AECOM will independently assess the responses as part of the consultation process.

The Combined Authority will then consider all the responses we receive when making any decision on whether to introduce the Proposed Franchising Scheme.

The Act allows the Proposed Franchising Scheme to be amended after the consultation closes, for example to reflect the bus network at that moment in time or to amend the network to reflect consultation responses. In some circumstances, if changes are significant enough, it may be necessary to consult further on the changes to the Proposed Franchising Scheme.

You can opt in to receive further updates on our plans for bus reform when filling out the questionnaire.

1.
Introduction

1. Introduction

Timeline for Bus Reform in the Liverpool City Region

2017	2018	2020	2022	2023
The Bus Services Act 2017 gave the Combined Authority powers to change the way buses are run	The Combined Authority publish the required statutory notices and commence a detailed evaluation	The Combined Authority authorised an initial analysis of options	The Assessment was reviewed by the Combined Authority in March 2022	A report including the auditor's opinion on the Assessment was completed in February 2023

1.1. Background to the Consultation

1.1.1. Liverpool City Region Mayor Steve Rotheram has pledged to deliver an integrated London-style transport system that makes travelling around the region quicker, cheaper, greener and more reliable. Done properly, public transport connects people with opportunities and each other, as well as providing a reliable, high-quality alternative to the car. Buses are the backbone of our local transport network, with 8 in 10 public transport journeys being taken by bus – the Combined Authority believes bus services can be improved.

1.1.2. In response to the powers of the Act, the Combined Authority took a decision in September 2018 to publish the required statutory notices and commence a detailed evaluation of the options available under the Act to reform bus services within the Liverpool City Region. There are two options under consideration: Franchising – the system used in London and other cities globally – or an Enhanced Partnership (EP).

1.1.3. The Combined Authority commenced an assessment of the options in 2018. The Assessment was completed by the Combined Authority in March 2022 where Franchising emerged as the preferred future model of bus governance for the Liverpool City Region. The Assessment was completed and then reviewed by an Independent Auditor (KPMG), as required by the Act, and is described later in this document. A report including the Independent Auditor's opinion on the Assessment was completed in February 2023.

Franchising Explained

Bus Franchising is where a transport authority specifies what bus services are provided, determining the routes, timetables and fares. Bus services are then operated under contract by private companies that bid to run the services through a competitive tendering process. This is the model currently in operation in London, and set to be introduced in Greater Manchester from September 2023. In the rest of Great Britain, bus services are deregulated, meaning that bus operators are largely free to choose what services they want to run, the vehicles they use and the fares they charge.

Enhanced Partnership explained

An Enhanced Partnership is a statutory partnership that allows transport authorities and bus operators to work collaboratively to set joint objectives to improve bus services (such as vehicle standards, passenger information and fare-setting of multi-operator tickets), without breaching competition law. Under an Enhanced Partnership, operators continue to take revenue from fares and make decisions about how bus services are run. This model has been implemented by various local authorities across England.

1.2. Buses in the Liverpool City Region

1.2.1. Good public transport is **vital** for connecting our communities with opportunity and with each other, and plays a pivotal role in delivering a fairer, stronger, cleaner city region where no one is left behind. We believe that our region should have a network that is **quick, cheap, green and reliable** and makes getting around as easy as possible.

1.2.2. In the Liverpool City Region, bus services are a lifeline that many people heavily rely on, with 82% of all public transport journeys in the region being taken by bus. But through the Big Bus Debate (our year-long public consultation on bus reform), people told us that they found bus services in our region to be **unreliable, expensive and part of a system that is both too complex and difficult to navigate.** We want to tackle these challenges and have aspirations to build a better bus network.

1.2.3. The impact of the COVID-19 pandemic has given us the chance to pause and reflect on the region and the transport network that the Combined Authority would like to see. Our region, like many others, does not want to return to business as usual – or buses as usual.

1.2.4. Since 1986 bus services outside of London, including in the Liverpool City Region, have been **deregulated.** That means that most bus services are run by commercial bus companies who decide the routes, timetables, fares and standards. The bus companies receive the revenue from fares and retain the profits.

1.2.5. For passengers this means that:

- Fares and ticketing can be complex and more expensive with little integration.
- Bus routes are run based on commercial reasons meaning some areas are better served than others.
- Customer standards vary.

1.2.6. And the Combined Authority cannot:

- Provide a fully integrated transport network.
- Effectively and efficiently coordinate a long-term transport strategy that supports our vision to deliver a fairer, stronger, cleaner city region where no one is left behind.
- Set the routes operated, fares charged or tickets sold by operators.

1.2.7. In the Liverpool City Region bus companies manage the commercial services which generate their return with gaps in the network being filled with subsidised supported services. The Combined Authority uses its powers to make up the shortfall as best it can and currently pays for:

- **Subsidised services** around **15%** of the region's bus network relies on this support (the £14m in 2021/22 financial year)
- **Investment in transport schemes** such as the **£2 single fare**, Green Bus Routes scheme (making your buses run faster/more reliably) and zero-emission hydrogen buses (£145m between 2022 – 2027)
- **Concessionary fare schemes** to make travel cheaper or free for certain groups including free travel for **older people** and people with **disabilities** (£40.3m in the 2021/22 financial year)

1.2.8. We also provide **public transport network information** and run and maintain bus stations, bus stops and travel centres.

1.2.9. All this is financed by the Transport Levy (which is funded by contributions from the constituent authorities that make up the Liverpool City Region) and central government funding delivered through the Bus Service Operator's Grant (BSOG), the Bus Recovery Grant, Bus Service Improvement Plan (BSIP) funding, and the City Region Sustainable Transport Settlements. In total, before the pandemic, **public funding accounted for around half of the income of private-sector bus operators.**

1.3. The Liverpool City Region Bus Alliance

1.3.1. The Combined Authority already works with operators to improve bus services. The Liverpool City Region Bus Alliance was launched in September 2016 against a backdrop of declining bus use, a lack of investment in bus and the need to improve passenger confidence. It was formed as a partnership between the Combined Authority, Arriva and Stagecoach – underpinned by a written commitment called a Voluntary Partnership Agreement (VPA). Other operators were also encouraged to join the partnership.

1.3.2. The Alliance enables partners to work together towards common goals, within an agreed framework, in order to drive social and economic growth for the Liverpool City Region. The high-level objectives of the Liverpool City Region Bus Alliance are to grow fare-paying patronage and improve passenger satisfaction.

1.3.3. The Alliance has delivered improvements to the region's bus offer and several positive outcomes. However, despite all parties' best efforts, the tools available to the Combined Authority within the VPA are not enough to achieve the improvements that are needed to meet the Combined Authority's strategic goals.

1.4. Enhancing our bus network

1.4.1. The Combined Authority is working hard to improve our city region's bus network through the following strategies, which provide the context for bus reform:

- **Liverpool City Region Bus Services Improvement Plan** - our plan to government for investment in bus.
- **Liverpool City Region Vision for Bus** - which sets out our ambition for the future bus network.
- **Liverpool City Region Plan for Prosperity** - our vision for a fairer, stronger, cleaner city region.

Bus Service Improvement Plan (BSIP)

1.4.2. The Liverpool City Region **BSIP** sets out the Combined Authority's ambitious plans for the largest ever investment in bus, aligned to **Bus Back Better** (the national bus strategy for England). It focuses on improving services so that they are more frequent, reliable, affordable and easier for passengers to understand. The BSIP covers the period 2022 – 2025 and will be reviewed annually with progress against BSIP targets published every six months.

1.4.3. **The bus improvement priorities are:**

- Quick and reliable bus journeys
- A comprehensive and integrated bus network
- Straight-forward ticketing and great-value fares
- An excellent passenger experience
- An emission-free bus system

The Liverpool City Region Vision for Bus

1.4.4. The Combined Authority has listened to what passengers want from their services and analysed the feedback received in the Big Bus Debate in 2019. The Liverpool City Region's Vision for Bus sets out a desire to tackle the issues that you identified, make the most of new technology in the bus sector and the region, and better recognise the key role of bus services in improving air quality through greener buses and a shift away from private car use.

1.4.5. **Our vision sets out the following objectives:**

- Increase levels of bus priority schemes across the region, including Bus Rapid Transit, to speed up bus journeys and improve their reliability
- Increase the hours of bus operation, with services running across the network between 5am and midnight, and on core bus corridors 24 hours a day
- Adopt a principle for bus service frequencies, meaning more buses in the early morning, evening and at weekends, and setting a minimum frequency of one bus per hour on all routes between 5am and midnight
- Adopt a city region-wide fare zone for bus tickets and support a simplified ticketing system
- Introduce new ticket types to suit passenger needs

- Introduce account-based contactless, mobile and smart ticketing and reduce cash transactions as much as possible to speed up boarding times
- Improve the availability of good-value multi-operator and multi-modal tickets
- Introduce fare capping, enabled by tap-and-go technology
- Bus fare increases not to exceed inflation
- Retain our enhanced concessionary travel scheme
- Introduce one brand for the Liverpool City Region's bus network – Metro – linked to a wider transport brand and identity
- Phase in zero-emission electric and hydrogen-powered buses, and phase out diesel engines from the bus fleet
- Introduce real-time on-board passenger information, added to phone charging and Wi-Fi as standard features of buses in the Liverpool City Region
- Bus interiors, layout and features to be decided in conjunction with bus users
- High-quality, digital, real-time passenger information

1.4.6. These priorities will help to create a bus service that is simpler, cheaper, more reliable, greener and integrated better with other transport modes and will be dependent on additional funding becoming available.

The Liverpool City Region: Plan for Prosperity

1.4.7. The *Liverpool City Region Plan for Prosperity* sets out the Combined Authority's long-term vision for transforming together to deliver a fairer, stronger, cleaner Liverpool City Region. It provides a framework for our future priorities and investment decisions, and for our conversations with government about how we work together through devolution to maximise prosperity for all people and communities.

1.4.8. **The prosperity we talk about within our plan includes:**

- Improving personal health, wealth and opportunity
- Creating thriving neighbourhoods and places
- Successful and productive businesses that create good-quality employment
- A healthy and protected natural environment
- A strengthened and improved public transport network across the city region
- A bus network that is efficient fully integrated with other public transport, and delivers value for money

1.4.9. The range of priorities and actions set out in the plan will support the city region in delivering transformational change that will enhance its resilience, creating an economy that works for all people and places, and delivers shared prosperity.

1.4.10. The plan recognises Franchising as the leading emerging bus reform option to deliver bus services in the city region that support clean recovery, access to work, leisure and education, ensuring that buses are not a last-resort form of travel.

1.5. Proposals to change the way buses in the Liverpool City Region are run

1.5.1. The Combined Authority has brought forward two options to reform the bus network – a Proposed Franchising Scheme and an Enhanced Partnership which have been assessed in the Bus Franchising Assessment.

1.5.2. The Assessment compares the two options with the current situation (being the "Reference Case"). Under the Reference Case, bus services in the Liverpool City Region would continue to be deregulated and the Bus Alliance would remain, with bus operators retaining ultimate control over routes and fares. The status quo is not a viable option due to government legislation and the need for improvements to deliver the service that people in the Liverpool City Region want and deserve.

1.5.3. The Assessment:

- Describes the effects of the Proposed Franchising Scheme.
- Compares the Proposed Franchising Scheme to the Reference Case and an Enhanced Partnership.
- Considers whether the Proposed Franchising Scheme would contribute to the implementation of the Combined Authority's policies as well as those of neighbouring authorities.
- Considers how the Combined Authority would make and operate the Proposed Franchising Scheme.
- Considers whether the Proposed Franchising Scheme would represent value for money.
- Considers the extent to which the Combined Authority would be able to secure local bus services under the Proposed Franchising Scheme through local service contracts.

1.5.4. The Assessment has concluded that the Proposed Franchising Scheme is **best of the options** for the future of the Liverpool City Region's bus network. This would mean that all buses, with a small number of exceptions (listed in Appendix 5, Annex 2 of this document), would be run under a franchised system. The Assessment also sets out how the Proposed Franchising Scheme would be paid for and how it would work.

1.5.5. A summary of the Assessment is included in this document (Section 3). The Assessment has also been independently audited, and the outcome of this audit is in Appendix 3.

1.6. What it would cost to introduce the Proposed Franchising Scheme

1.6.1. The expected net costs to implement the Proposed Franchising Scheme are set out in the Financial Case of the Assessment. They include £252m of investment in fleet (new buses required to run the bus network), £62m of investment in depots (where buses are parked and maintained when out of service as well as operational hubs for operators) and £27m in transition costs (e.g., management costs, consultancy, procurement, IT) (all in 2020/21 prices). Public-sector borrowing would be used to finance the investment in fleet and depots, and where possible, certain transition costs. The amount of financing required before and during the transition period, including interest on public-sector borrowing, is identified in the financial case as £154m in nominal terms (£73m for fleet, £48m for depots and £33m for transition costs), although actual costs will be impacted by inflation and other factors.

1.6.2. Ultimately, capital financing and other costs will be met from revenues within the bus economy which would flow to the Combined Authority under a franchised model. The financial case recognises that it will take some years for the operating model to evolve into a sustainable position given the extent of additional investment required to introduce a franchise model, along with the requirement to introduce zero emission vehicles over the same period. In order to accommodate these financial costs and risks, the Combined Authority has a number of financial instruments outside of bus revenues that would be applied.

a. The Transport Levy (which is funded by contributions from five of the six the constituent authorities that make up the Liverpool City Region)

b. A mayoral precept which is collected through council tax bills from each household in the Liverpool City Region

c. Any Mersey tunnel toll revenues remaining after the cost of operating and maintaining the tunnels has been met

1.6.3. In addition, there may be opportunities to increase commercial revenues and explore other local revenue raising powers in the future. Ultimately, the Mayor's aspiration for a London-style integrated transport model would provide for cross-subsidisation between all forms of public transport, including the Merseyrail Network however the current structure provides limited opportunities for this at present. Bus franchising would be a significant step towards such a model.

1.6.4. In addition to the transport levy and local authority mechanisms, the Combined Authority could apply for government funding in the form of grants, subsidies or funds. Following a decision to implement Franchising, there may be the ability for the Combined Authority to apply for central government funding initiatives available at that time. If this funding becomes available, it will mean the Combined Authority may be able to reduce the requirement for local funding.

1.7. What it would cost to introduce the Enhanced Partnership

1.7.1. The Financial Case assumes transition costs to implement the Enhanced Partnership of £1.5m (in 2020/21 prices). This will include market consultation and negotiations with operators, scheme design, and management and administration of the Enhanced Partnership following implementation.

1.7.2. In summary:

- **Transitional costs** – the cost of external advisors during the three-year implementation period is estimated to be £1,500,000 (in 2020/21 prices). The recurring cost of renegotiating the Enhanced Partnership every three years following implementation is estimated to be £500,000 per annum (in 2020/21 prices).
- **Financing costs** – transitional costs are assumed to be drawn from reserves, and repaid over a period of 15 years (without interest).
- This assumes that the Combined Authority does not invest in fleet and depots, and that these will continue to be provided by the private-sector operators (except for any fleet currently owned by the Combined Authority).

1.7.3. Under an Enhanced Partnership the Combined Authority will continue to pay for subsidised bus services through the transport levy. The amount expected to be used for bus services in the 2022/23 financial year is £66m. Based on current demand and revenue predictions it is expected that the costs for subsidised services will increase over time.

2.

Description of the Proposed Franchising Scheme

2. Description of the Proposed Franchising Scheme

2.1. What is a Proposed Franchising Scheme?

2.1.1. The Proposed Franchising Scheme is a legal document that describes how the Combined Authority would put Franchising in place for the city region's bus network. It when the decision will be taken to implement Franchising, when it will be put in place in each area, how long between the local service contract's start date and service provision (buses on the road), as well as information on the routes and areas Franchising will be put in place in, and those bus services that are not included. The Proposed Franchising Scheme as intended to be made is included in this document in Appendix 5.

2.1.2. The Proposed Franchising Scheme outlines the proposals for what a franchised bus network in the Liverpool City Region would look like. The scheme sets out the general routes by start and destination points to allow flexibility for us to develop and improve these routes based on public feedback in network reviews.

2.1.3. The Combined Authority would determine the service frequencies and timetables of these routes, and bus operators would run these services for the Combined Authority under a local service contract. The Combined Authority would be able to set fares, routes, timetables, and standards for services on the bus network – making sure the bus network meets the needs of the people who use it.

2.1.4. Once the Proposed Franchising Scheme is implemented in an area, all bus services that stop in that area must run under a local service contract or have a service permit, unless it is excepted from the Franchising scheme or is an interim service.

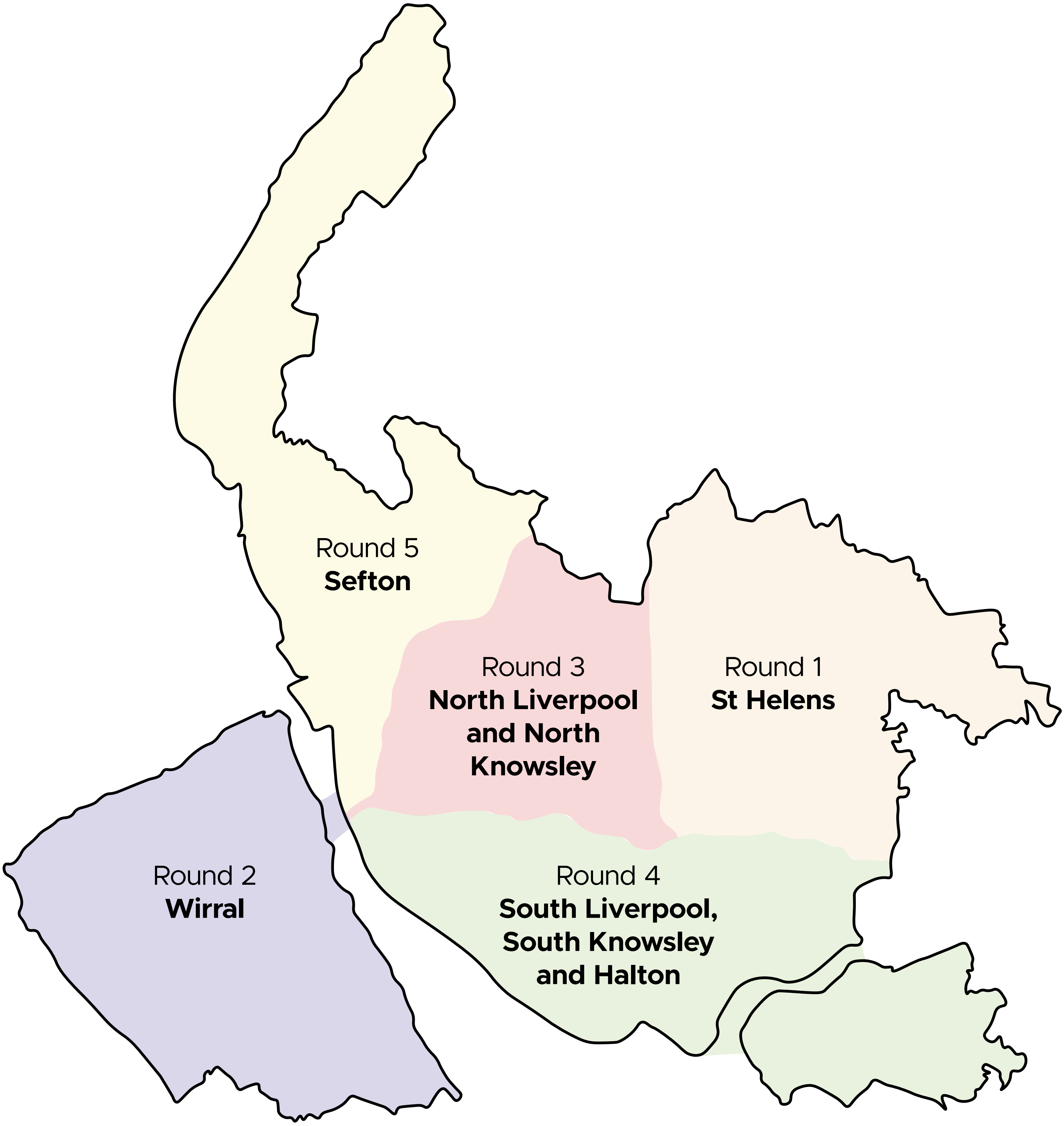
2.2. The Proposed Franchising Scheme

Area

2.2.1. It is proposed that the whole of the Liverpool City Region will become part of the scheme at the same time; however, bus service contracts will be rolled out across multiple "rounds" over a staggered period of time (see 2.2.4) as listed below and shown in figure 2.1:

- **Round 1** – St Helens
- **Round 2** – Wirral
- **Round 3** – North Liverpool and North Knowsley
- **Round 4** – South Liverpool, South Knowsley, and Halton
- **Round 5** – Sefton

Figure 2.1 Proposed Lotting Rounds



2.2.2. The rationale for this approach is to allow sufficient time for the franchise contracts to be procured and mobilisation to take place, as well as time for the local bus industry to adapt smoothly to a new model of operation.

2.2.3. The Act states that there must be a minimum period of six months between when the contract is entered into and when the bus service provision will start to provide adequate time for mobilisation. The Combined Authority propose at least 12 months for the mobilisation of each round. It is proposed that the Combined Authority will provide depots within each round to facilitate the letting of large franchise contracts.

Question 1. Do you have any comments on the proposal that the Proposed Franchising Scheme should apply to the entire Liverpool City Region?

Question 2. Do you have any comments on how we have split the geographical areas of the Liverpool City Region into five rounds in the Proposed Franchising Scheme?

Question 3. What do you think of the Combined Authority's proposal to allow at least 12 months for the mobilisation of each round: About right, too long or too short?

When will this happen?

2.2.4. It is anticipated that the Combined Authority will meet later in 2023 to take the final decision on whether to implement a Franchising scheme or pursue other partnership options. If a decision is taken to franchise the first franchised services will commence in the financial year 2026/27.

Question 4: Do you have any comments on the date on which the Proposed Franchising Scheme is currently planned to be introduced?

Question 5. Do you have any comments on the dates proposed for franchise contracts to first be entered into in the Proposed Franchising Scheme?

What bus services are included?

2.2.5. All proposed routes that are included in the Proposed Franchising Scheme are set out in Annex 1 of Appendix 5. The routes are organised by start and destination points. These may be subject to change as demands on the network change and grow. However, at this stage they reflect the current network and its needs.

Question 6. Do you have any comments on the local services that are proposed to be franchised in the Proposed Franchising Scheme?

Any exceptions?

2.2.6. Routes that are not included in the Proposed Franchising Scheme are set out in Annex 2. Those that are temporarily excluded are set out in Annex 3.

Question 7. Do you have any comments on the services which are exempt from regulation under the Proposed Franchising Scheme?

What is a local service contract?

2.2.7. A local service contract is defined by the Transport Act 2000 as an agreement in which a Franchising authority (for example, the Liverpool City Region Combined Authority) grants someone the exclusive right to operate a local bus service, specifying the frequency, fares and standard of service in the agreement. These contracts would be specified by the Combined Authority and operators would have to bid for the contracts in a competitive procurement process.

How will the scheme be implemented?

2.2.8. As previously described, the Combined Authority will implement the first franchised services in the financial year 2026/27. Contracts will be put out for competitive tender for the bus services in those areas and operators will bid on them. There will be multiple ‘lots’ in each round, of varying sizes, to allow for large, medium, and smaller operators to bid for contracts that are within their resourcing capacity. This will allow our local small and medium operators the opportunity to continue to provide a similar level of service to that delivered in the current network, as well as opening the opportunity to expand their services by bidding for multiple contracts. After the mobilisation period, where operators will prepare to deliver the new bus services under the Combined Authority’s specification, buses in that round will be running under the new contract specifications, unless on a service permit or exempted from the scheme.

When might this scheme change?

2.2.9. The Act allows the Proposed Franchising Scheme to be amended after the consultation closes, for example to reflect the bus network at that moment in time or to amend the network to reflect consultation responses. In some circumstances, if changes are deemed to be significant enough, it may be necessary to consult on the changes to the Proposed Franchising Scheme. The Combined Authority will ensure that the community is kept up to date as the Bus Franchising Scheme proposals progress.

Who will be consulted on this scheme?

2.2.10. The Act specifies a number of key stakeholders that the Combined Authority must consult on the Proposed Franchising Scheme:

- Local bus operators
- Representatives of employees of such operators
- Other bus operators that would be affected
- Organisations representing local passengers
- Local authorities who would be affected by the proposed scheme
- A Traffic Commissioner, Chief Officers of Police for areas to which the proposed scheme relates, Transport Focus (the Passengers' Council), and the Competition and Markets Authority
- Any other bodies or individuals it considers to be appropriate

2.2.11. The Combined Authority will also seek views on how well the Franchising scheme is working within 24 months from the start of franchised services.

3.
Assessment Summary

3. Assessment Summary

3.1. Introduction

3.1.1. This section summarises the Assessment, which compares the Proposed Franchising Scheme and an Enhanced Partnership option with the Reference Case:

- **Proposed Franchising Scheme:** Bus services would be brought within the Combined Authority's control. Merseytravel, on behalf of the Combined Authority, would set routes, timetables, fares and standards. Operators would competitively bid for contracts to run services on the Combined Authority 's behalf.
- **Enhanced Partnership:** Bus services in the Liverpool City Region would continue to be deregulated, but bus operators would sign an agreement with the Combined Authority setting out how they would work together to deliver improved bus services. This agreement would support the delivery of better bus services through cooperation, but operators would retain ultimate control over fares, route planning and timetables.
- **Reference Case:** Bus services in the Liverpool City Region would continue to be deregulated with bus operators choosing the services they provide. This would mean a continuation of the Bus Alliance without strategic changes to services. The Reference Case does not contribute to the achievement of the Combined Authority's objectives but carries no additional cost or risk to the Combined Authority. This is not a viable option due to government legislation and the need for improvements to deliver the service that people in the Liverpool City Region want and deserve.

3.1.2. The Assessment (and this summary of it) follows the structure recommended in the Guidance. It contains:

- **The Strategic Case** – what the case is for change and intervention, and what the options are for doing this.
- **The Economic Case** – how the options compare in terms of forecasts of demand, benefits and economic value for money to the public sector.
- **The Commercial Case** – what the commercial arrangements would be for the different options.
- **The Financial Case** – how affordable the different options are.
- **The Management Case** – how the different options would be implemented and managed, how risks would be managed and how transition would be managed for the different options.

3.2 The Strategic Case

Background and Introduction

3.2.1. The Strategic Case sets out the rationale for alternative bus delivery options in the Liverpool City Region and whether this is supported by a Case for Change and wider public policy objectives.

3.2.2. In the Assessment, the Strategic Case considers different bus service delivery options to realise the Combined Authority's Vision for Bus while supporting the Combined Authority's strategic transport priorities and the national bus strategy 'Bus Back Better'.

Strategic context: Bus as a key enabler of the Liverpool City Region's vision for growth

3.2.3. The Combined Authority has bold and ambitious plans for economic growth, including the delivery of 100,000 new jobs and for the Liverpool City Region to be a £50 billion economy (a near doubling from today's level) by 2040. This growth must be clean and inclusive, achieving net zero carbon emissions by 2040.

3.2.4. Targeted action on the main social and economic issues where the Liverpool City Region under performs relative to other city regions – namely gaps in wealth, business activity, jobs, productivity and skills, persistent unemployment and spatially concentrated deprivation – will be required to achieve those ambitious targets.

3.2.5. Transport, particularly buses, have a significant role to play in delivering clean growth and in tackling these issues, which is recognised in the Combined Authority's Transport Plan and Bus Strategy. The key priorities contained in the Combined Authority's Transport Plan are to support inclusive economic growth across a thriving city region and to exploit the city region's role as a global gateway. Two priority actions focused on improvements to bus services – to grow patronage and improve quality of service and to make use of devolved bus powers – are contained in the Combined Authority's Transport Plan:

- **Priority action 3.1** - Delivering growth in bus quality and patronage.
- **Priority action 3.2** - Testing devolved bus powers.

3.2.6. The importance of Local Transport Plans in reducing carbon in transport at a local level is referenced in the DfT's Transport Decarbonisation Plan. Bus journeys represent almost eight out of every ten public transport journeys in the Liverpool City Region, which means that bus must logically be at the forefront of the transport response. Further details are set out in Section 2 of the Strategic Case.

Bus Back Better: National Bus Strategy for England

3.2.7. In March 2021, the DfT launched the National Bus Strategy 'Bus Back Better', setting out its long-term vision for bus provision in England. The strategy details what future bus services should look like to passengers, and the role of authorities and bus operators to improve those services. Funding is available from DfT to improve bus services and authorities can competitively bid for it. To access Bus Back Better funding, authorities need to:

- Produce an annual BSIP; setting out whether current services meet the expectations of the Bus Back Better strategy; and
- Make an Enhanced Partnership (one of the regulatory options described in Section 5.5) for the same area as the BSIP by 1 April 2022 (except Mayoral Combined Authorities which have started the statutory process of Franchising bus services).

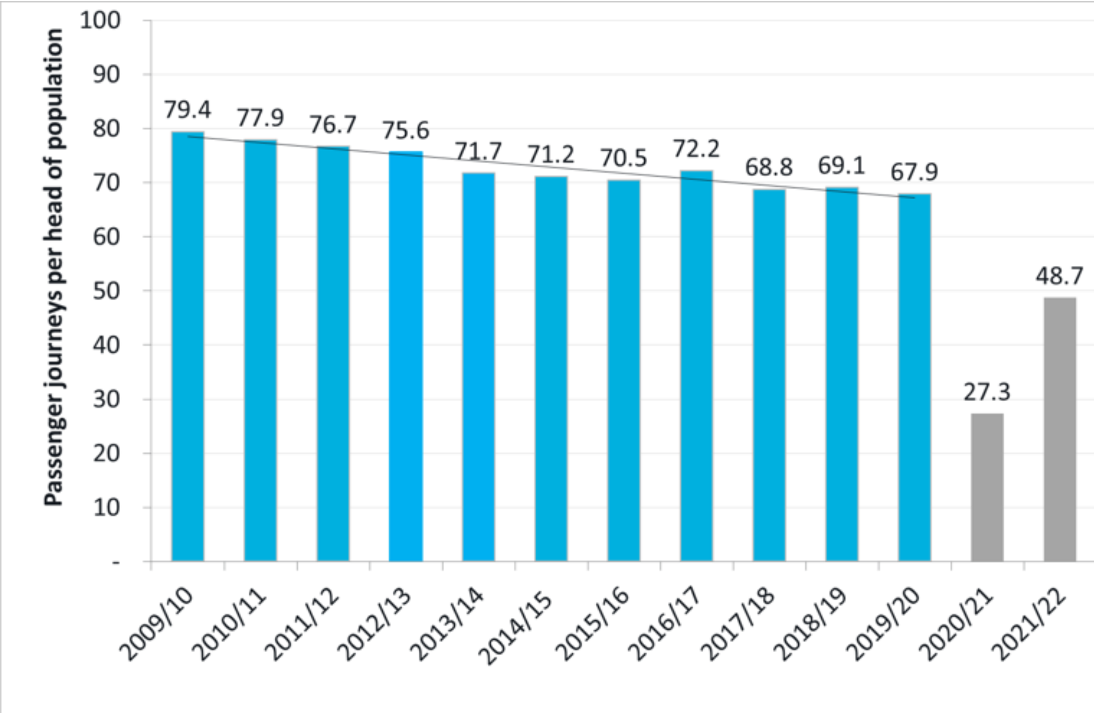
3.2.8. The Combined Authority was allocated £12.3m BSIP funding in 2022 to introduce a cap, making tickets more affordable.

The current and future role of bus

3.2.9. Bus use in the Liverpool City Region is notably higher than in neighbouring authorities. Bus services carried around 80% of the city region's public transport trips prior to the pandemic and are therefore of vital importance to the Liverpool City Region and its economy. Bus services play a key role in the delivery of the region's growth ambitions, through supporting increased productivity, reducing carbon emissions towards the goal of climate neutrality and enabling better access to opportunities as well as targeting transport-related social exclusion.

3.2.10. Notwithstanding the relatively high levels of bus usage in the Liverpool City Region outside of London, bus passenger volumes have shown a long-term decline, and DfT forecasts show that this underlying market decline will continue. Chart 5.1 shows that the number of bus journeys made per head of population in the Liverpool City Region declined from 79 to 68 in the 10 years from 2009/10 to 2019/20.

Chart 3.1 Bus passenger journeys per head, Liverpool City Region



3.2.11. According to the latest census information at the time of writing the Assessment (2011), public transport attracted 18% of travel to work trips in the Liverpool City Region, with buses carrying most of those trips. There is significant variation of bus use by geographical location within the Liverpool City Region, but the pre-pandemic bus network in the Liverpool City Region provided a wide coverage of frequent services broadly aligned with more densely populated areas and areas with higher levels of need.

Commercial and Supported Services

3.2.12. Bus services within the Liverpool City Region operate in a deregulated environment, meaning that private-sector bus operators plan and operate local bus services which are registered with the Traffic Commissioner. Operators can compete for passengers ‘on street’, seeking to differentiate themselves by the quality of service offered and fares available. Prior to the pandemic, commercial services made up approximately 85% of bus service kilometrage. Further details are set out in Section 3.3 of the Strategic Case.

3.2.13. Pre-pandemic, the bus service network coverage in the Liverpool City Region had been relatively stable. In part this stability has been secured through a combination of private- and public-sector actions, with many services no longer deemed commercially viable by their operators being subsidised as part of the supported bus network, for example. For five of the six Liverpool City Region local authorities (all except Halton Borough), Merseytravel, on behalf of the Combined Authority, procures, supports or lets additional bus services which are considered socially necessary but are not commercially viable for operators.

3.2.14. Factors such as passenger volumes, fares, route competition, mode competition, hours of operation and operating costs all impact upon bus service profitability. Services which are not commercially attractive for the operator to provide are either supported by Combined Authority or cease to operate. However, there have been network reductions as the Combined Authority's ability to fund supported services has been constrained, and the pandemic has brought changes in services across the Liverpool City Region.

3.2.15. In 2016, Merseytravel, Arriva and Stagecoach set up the Liverpool City Region Bus Alliance (the "Alliance") to improve bus travel for people across the Liverpool City Region within the constraints of the existing system. The underlying intention of the Alliance is to increase fare paying bus patronage along with customer satisfaction.

3.2.16. The Alliance allows Merseytravel and the Combined Authority to contribute to the strategic planning of the bus service network and enhances certainty of operator commitment to certain routes and fares.

3.2.17. As the Combined Authority had commenced the statutory Franchising process before the government's Bus Back Better strategy was launched, it was not required to make an Enhanced Partnership to access **Bus Back Better** funding. Therefore, the Alliance is the status quo and is treated as the Reference Case, against which the other delivery options are considered within the Assessment.

3.2.18. Since its inception, the Alliance has contributed to some improvements in passenger growth and customer satisfaction, demonstrating the benefits of coordinated planning and investment. However, there remain areas of significant customer dissatisfaction with regards to the cost of bus travel, punctuality of bus services, bus information and the perceived contribution of buses to poor air quality.

3.2.19. The trend of declining use and profitability of existing bus services is expected to continue, with impacts forecast to include a reduction in the number of commercial bus services and pressure for the supported network to expand to avoid bus services being lost altogether. The uncertainty regarding the recovery of bus patronage post-pandemic could accelerate and accentuate the forecast long-term decline in use of existing bus services. The Bus Back Better strategy and guidance for local authorities on developing BSIPs highlights that improved bus networks should be a key priority for supporting bus recovery for local authorities post-pandemic.

The Case for Change and need for intervention for the Combined Authority

3.2.20. Buses are vital to the functioning of the Liverpool City Region's economy. Maximising the potential for economic growth will require the bus service offer to be improved. The Combined Authority's Bus Strategy sets out a plan for network and service evolution in the Liverpool City Region, and to allow bus to fully play its part in delivering the Combined Authority's economic and social ambitions. However, there are several key challenges to the delivery of bus services that impede the achievement of this aim. The Case for Change forms the foundation of the justification to implement regulatory change within the context of bus service delivery in the Liverpool City Region.

Challenges to delivering the Combined Authority's Vision for Bus and BSIP

3.2.21. The delivery of the Liverpool City Region BSIP would facilitate the Combined Authority's delivery of its Vision for Bus. Therefore where the Strategic Case considers whether the Vision for Bus would be achieved, this also applies to the Combined Authority's BSIP. The challenges to delivery affecting each of the elements of the Combined Authority's Vision for Bus have been considered in turn:

- Network enhancements – maintaining something appropriately close to the pre-pandemic bus network is expected to require additional financial subsidy from the public sector.
- Fares and ticketing – the wide range of ticket options available, limited publicly available information about the cost of single and return bus fares and the additional expense of multi-operator fares can make it hard for potential users to understand the cost of bus travel and how to secure best value for their travel needs.
- Fleet and depots – most buses deployed within the Liverpool City Region are diesel powered, although some progress is being made with the introduction of a publicly owned hydrogen buses. The capital cost of low- and zero-emission buses has been a barrier to fleet replacement.
- Punctuality and reliability – poor punctuality and reliability have been raised as significant passenger concerns.
- Customer experience – a range of attributes which affect the customer experience were raised by passengers as priorities for improvement, including driver attitude, bus cleanliness and availability of information on/off board.
- Funding – the pandemic has led to public-sector finances being more constrained. This puts additional pressure on the efficiency of the bus network and makes it more challenging for the public sector to support a bus network under the current model.

3.2.22. There are certain areas which require a step change to deliver the Vision for Bus, as current arrangements cannot deliver the scale of change required to support the Liverpool City Region's ambitions. Further initiatives are needed, including network enhancements, fares and ticketing initiatives, and fleet renewal – which are more challenging in an operating environment overwhelmingly driven by commercial objectives and priorities.

3.2.23. In addition, several market imperfections in the delivery of bus services, including network economies, misaligned incentives, limitations of competition, profit-led decisions and inadequate attention to wider economic social and environmental benefits, mean that public intervention by the Combined Authority is needed to exercise greater influence on the outcomes to deliver the essential step change in bus services. Further details are set out in Section 4 of the Strategic Case.

3.2.24. A Case for Change therefore exists. Without regulatory changes to the delivery of bus services the Combined Authority's Vision for Bus could not be delivered in full and, for those limited aspects which could be delivered, has limited certainty around delivery. Transport has a significant role to play in tackling issues relating to economic and social under performance, and in facilitating the Liverpool City Region's recovery from the pandemic. With buses being at the heart of the Liverpool City Region's transport system, delivery of the Combined Authority's Vision for Bus is fundamental to delivering its clean growth ambitions.

Question 8. The Assessment concludes that the bus system is not performing as well as it should. To what extent do you agree or disagree with this statement?

Legislative tools are available to overcome current market challenges

3.2.25. The Assessment considers long-term service delivery options available to the Combined Authority under the Act to enhance the customer experience and moderate the long-term decline in bus patronage. The options assessed align with the government's Bus Back Better strategy and allow the Combined Authority to access government funding for bus.

3.2.26. As a local transport authority with powers to mitigate and overcome market imperfections relating to bus, it is appropriate for the Combined Authority to consider the potential contribution of the regulatory options available to it.

Scheme objectives

3.2.27. Each of the delivery options has been assessed against the policy objectives. The policy objectives build on the Case for Change and the need for intervention, providing a means to compare the options with the Reference Case. The following five policy objectives form the basis of the framework to compare the different regulatory options:

- **Objective 1:** Maximise the contribution of bus services to achieving the economic success and social capacity of the Liverpool City Region.
- **Objective 2:** Maximise the contribution of bus services to reducing the impact of travel on the natural environment.
- **Objective 3:** Harness competition's role in improving the offer to passengers and delivering best value for the Combined Authority for the services it procures.
- **Objective 4:** Maximise the passenger benefits of service coordination, ticket integration and information provision across the Liverpool City Region public transport network.
- **Objective 5:** Support implementation of measures that improve bus service delivery by addressing factors which may constrain the extent to which bus operators can commit to meeting quality or service level standards.

3.2.28. Five service delivery intervention options are available to the Combined Authority as a Mayoral Combined Authority which vary in their complexity, level of risk to the authority and the level of influence that the authority would be able to exert in shaping bus services. Section 6 of the Strategic Case sets out the detail of how delivery options were generated and refined. Following refinement, the Assessment considers the Proposed Franchising Scheme and an Enhanced Partnership as the most appropriate bus service delivery options and compares them against the Alliance (Reference Case).

Proposed Franchising Scheme

3.2.29. Combined Authorities with directly elected Mayors, such as the Liverpool City Region Combined Authority, are permitted by the Bus Services Act to introduce Franchising of bus services whereby operators bid for the right to operate services under local service contracts. The Act allows reasonable freedom to the Combined Authority in determining the nature of the Franchising scheme, including on the approach to sharing revenue from fares. Franchising also allows more flexibility in terms of incentivising high performance standards and taking appropriate enforcement action in the event of failure to meet those standards. This option would allow the Combined Authority to access government bus funding.

3.2.30. Under the Proposed Franchising Scheme proposed in the Assessment, the Combined Authority would take the revenue from fares and would be responsible for all decisions relating to service delivery (routes, vehicle specification, service frequency and fares). The Combined Authority would take responsibility for providing depots and fleet for contracts requiring many vehicles. Operators would deliver the services via service contracts with the Combined Authority.

3.2.31. The Proposed Franchising Scheme has the most potential to deliver the initiatives within the Vision for Bus, given that it gives the Combined Authority the greatest control over the bus network. As such, the Proposed Franchising Scheme has been assumed to deliver the following interventions:

- **Network enhancements** – including optimisation of routes, improvements of frequency and times of operation, including any modifications to existing commercial services within the Combined Authority's budget envelope, where Enhanced Partnership regulations did not allow for such changes.
- **Ticketing enhancements** – including the removal of certain price differentials between multi- and single-operator multi-trip tickets, improvement of the ticketing capability such as tap and go and a wholesale integration of all bus tickets in the Liverpool City Region, which would be a significant driver of passenger benefits. This would include integration into the wider transport network i.e. passengers could use tickets across transport modes.
- **Fares initiatives** – including a one-off reduction in all fares except multimodal fares (on a larger scale than assumed under Enhanced Partnership, as described later in the Economic Case) and no growth above inflation over time for all fares.
- **Clean fleet introduction** – including a full clean fleet by 2040. Under this option, fleet and depot ownership is anticipated to shift to the public sector, with the Combined Authority being the asset owner and manager. The Proposed Franchising Scheme would provide greater control over the decarbonisation goals under the Vision for Bus.

3.2.32. All other initiatives which can take place under the Proposed Franchising Scheme should funding be made available, such as bus priority measures, night bus network, branding and livery, or customer experience can also be delivered under an Enhanced Partnership, therefore have not been included for the purposes of the Assessment.

Question 9. Do you have any comments on the assumed interventions that can be delivered through the Proposed Franchising Scheme as outlined in the Strategic Case?

Enhanced Partnership

3.2.33. An Enhanced Partnership is a statutory partnership that allows transport authorities and bus operators to work collaboratively to set joint objectives to improve bus services (such as vehicle age, passenger information and fare-setting of multi-operator tickets), without breaching competition law. Under Enhanced Partnership, operators continue to take revenue from fares on commercial services and make decisions about how bus services are run. The joint objectives need to be negotiated and agreed with operators, who are unlikely to accept uncommercial initiatives that might limit the extent to which the Combined Authority's Vision for Bus initiatives can be implemented. The joint objectives apply to all operators who run services within the area of the Enhanced Partnership, if operators with a threshold level of commercial kilometrage agree. This option would allow the Combined Authority to access government bus funding.

3.2.34. An Enhanced Partnership that achieves the Vision for Bus would be dependent on successful negotiations with operators. There are specific requirements for obtaining operator support before an Enhanced Partnership Scheme can be implemented, which limits the certainty of the measures operators will agree to in practice and therefore the extent to which benefits may be realised. The joint objectives apply to all operators who run services within the area of the Enhanced Partnership, if operators with a threshold level of commercial kilometrage agree.

3.2.35. Arriva and Stagecoach have proposed an Enhanced Partnership as an alternative to Franchising (the areas of agreement are set out in Appendix 3 to the Assessment). However, these obligations have not been agreed with other bus operators within the Liverpool City Region, whose approval may be required before the Enhanced Partnership can be implemented. Also, some of the obligations are dependent upon receiving funding, therefore not all the obligations may be capable of delivery at the commencement of the operator-proposed Enhanced Partnership, which would limit the impact that it could make on bus services.

3.2.36. For the purposes of the Assessment, an 'ambitious' Enhanced Partnership has been assumed to deliver:

- **Network enhancements** – including optimisation of routes, and improvements of frequency and times of operation, where commercially viable for operators. Operators can remove services which are no longer profitable without agreement from the Combined Authority. These exclude any enhancements which require replacing any existing commercial route. The enhancements reviewed as part of the Assessment are more ambitious than those actually proposed by the bus operators in their draft Enhanced Partnership document.

- **Ticketing enhancements** – including the removal of certain price differentials between multi- and single-operator multi-trip tickets, and other initiatives in the bus operators' proposal (such as improvement of the ticketing capability, for example tap and go, QR readers), but excluding a wholesale integration of all bus and transport ticketing in the Liverpool City Region.
- **Fares initiatives** – including a one-off reduction in all fares except multimodal fares and no growth above inflation over time for all fares. Propositions from the Enhanced Partnership draft priorities document assume external funding is provided; therefore, the Assessment assumptions are more ambitious.
- **Clean fleet introduction** – including a full clean fleet by 2040. Under this option, fleet and depot ownership would remain under the private sector.

3.2.37. Other initiatives included in the operator-proposed Enhanced Partnership require external funding and could also be delivered under the Proposed Franchising Scheme (for instance, bus priority improvements, development of a night bus network, and reintroduction of early morning services), or they are not anticipated to materially impact the outcomes of the Assessment as they would be delivered under the Proposed Franchising Scheme with an equal or greater impact for passengers (for instance, consistent branding and livery, customer experience improvements such as a single bus app, or development of a customer charter).

Question 10. Do you have any comments on the assumed interventions that can be delivered through an Enhanced Partnership as outlined in the Strategic Case?

Conclusion of the Strategic Case

3.2.38. The Strategic Case sets out five policy objectives to form the basis of comparison between the delivery and achievement of passenger needs and Combined Authority policy.

(a) Maximise the contribution of bus services to achieving the economic success and social capacity of the Liverpool City Region

	EP	Franchising
Passenger efficiency benefits:	£247m	£252m
Economy benefits:	£97m	£108m
Non-monetised benefits:	Slightly beneficial	Beneficial
Potential support for wider Combined Authority ambitions and initiatives:	Slightly beneficial	Very Beneficial

3.2.39. Against the first policy objective, Franchising offers advantages in comparison to EP, including in terms of generating higher values of monetised benefits, a wider range and scale of non-monetised benefits, and material gains in terms of the benefit of the Combined Authority being able to align its specification of the bus network in support of achieving its wider economic and social policy ambitions.

(b) Maximise the contribution of bus services to reducing the impact of travel on the natural environment

	EP	Franchising
Greenhouse gas reduction:	£0.8m	£1.0m
Air quality emission reduction:	£0.2m	£0.3m
Non-monetised benefits:	Neutral	Neutral
Potential support for wider Combined Authority ambitions and initiatives:	Beneficial	Very beneficial

3.2.40. Against the second policy objective, Franchising offers the Combined Authority advantages in comparison to EP in that the Combined Authority could align its specification of the bus network in support of achieving its wider environmental ambitions.

(c) Harness competition's role in improving the offer to passengers and delivering best value for the Combined Authority for the services it procures

	EP	Franchising
Anticipated impacts on the level and capacity of competition for bus service delivery:	Beneficial	Beneficial

3.2.41. Against the third policy objective, both EP and Franchising offer advantages, but in different ways. An EP scheme allows the negotiation away of some of the downsides of predatory competition in the deregulated market, by allowing some protection to existing and new operators, while maintaining passenger benefits of on-street competition. Franchising requires competition between operators for different service contracts, to ensure that best value is achieved and to maximise the number of services which can be run for the budget available.

(d) Maximise the passenger benefits of service coordination, ticket integration and information provision across the Liverpool City Region public transport network.

	EP	Franchising
Revenue impact:	£10m	£19m
Non-monetised quality and integration benefits:	Beneficial	Very beneficial

3.2.42. Against the fourth policy objective, there is a balance between Franchising and EP, with Franchising delivering a much bigger benefit. EP offers the Combined Authority advantages in terms of generating higher values of monetised passenger quality benefits and revenues, but Franchising offers advantages in terms of a wider range and scale of non-monetised integration benefits. Franchising uniquely allows the Combined Authority to take a more integrated approach to the planning and delivery of its full public transport network, currently comprising bus, rail and ferry services, and wider travel options.

(e) Support implementation of measures that improve bus service delivery by addressing factors which may constrain the extent to which operators can commit to meet quality or service level standards

	EP	Franchising
The extent to which options mitigate constraints which limit what operators will agree to:	Slightly beneficial	Very beneficial

3.2.43. Against the fifth policy objective, both offer the Combined Authority some advantage in comparison to the Reference Case, allowing some protection to predatory competition and contractualising public-sector contributions and investments, the aim being to increase the level of bus operator commitment. Franchising removes these constraints, again offering the Combined Authority advantages in comparison with the EP option.

3.2.45. Against the five Policy Objectives, Franchising offers clear advantages over EP – scoring more highly against four of the objectives and being equal with EP on one.

Question 11. The Assessment concludes that Franchising is the best option for the Combined Authority to meet its strategic objectives for bus transport in the region. For each of the following objectives, to what extent do you think Franchising will help deliver it? [Not at all/Somewhat/Mostly/Fully/Don't know]

i **Objective 1** – Maximise the contribution of bus services to achieving the economic success and social capacity of the Liverpool City Region *(make the most of how bus services contribute to improving the economy and enable people to access opportunities and services).*

ii **Objective 2** – Maximise the contribution of bus services to reducing the impact of travel on the natural environment *(make the most of how buses can reduce the impact on the environment).*

iii **Objective 3** – Harness competition's role in improving the offer to passengers and delivering best value for the Combined Authority for the services it procures *(use competition between operators to help improve bus standards and services for passengers and get the most value for the cost to the public sector).*

iv **Objective 4** – Maximise the passenger benefits of service coordination, ticket integration and information provision across the Liverpool City Region public transport network *(give passengers a better experience with buses by making bus services more connected, improving how tickets are used across bus services and other public transport services, and providing better information about services and timetables).*

v **Objective 5** – Support the implementation of measures that improve bus service delivery by addressing factors which may constrain the extent to which bus operators can commit to meeting quality or service level standards *(support plans to improve bus service standards to make buses run on time more often).*

3.3. The Economic Case

Background and Introduction

3.3.1. The Economic Case sets out whether the benefits of intervention in bus service delivery outweigh the upfront and ongoing costs of delivering regulatory change, and so represent public-sector value for money. The Economic Case considers the options (the Proposed Franchising Scheme and an Enhanced Partnership) in terms of their impacts on wider society, appraising economic, social and environmental benefits in comparison to the common Reference Case. Each option has been considered in terms of the benefits that could result from the same level of public-sector spend on bus service delivery. The appraisal has been undertaken based on a forecast of revenue (by ticket type and service) and operating costs, by service – allowing an understanding of the distribution of impacts on different groups in society. Among these groups are passengers (including from areas with different socio-economic characteristics); other residents and travellers; operators (of different scales, both existing and new entrants); local transport authorities (LTAs) (including the Combined Authority and its neighbouring authorities); and central government.

3.3.2. The Economic Case for each reform option is derived from summing the discounted costs and benefits that flow from that option over the 40-year appraisal period of the Assessment. Non-monetised considerations also influence the conclusions of the Economic Case. The relative performance of each option has been appraised through a value for money assessment, which captures the monetised impacts, the non-monetised impacts that have been qualitatively assessed and consideration of uncertainty. These are considered alongside the 'Net Present Value' (NPV) and 'Benefit Cost Ratio' (BCR) to reach a considered opinion of which option performs best from an Economic Case perspective, relative to the Reference Case.

3.3.3. An account of the methodology is given in Sections 3, 4, 5 and 7 of the Economic Case in the Assessment.

Summary of option impacts

3.3.4. A summary of the anticipated key differences between the impacts of each option, including how those differences affect passengers, the public sector and operators, is set out below.

3.3.5. Reference Case

- For the Combined Authority – the operation of bus is assumed to continue with the status quo, with no strategic changes to services, the continuation of the current ticketing structure and fares increasing no more than RPI (Retail Price Index) in real terms. Significant additional funding would be required to support bus services if cuts to the network are to be lessened.
- For passengers – depending on the allocation of Combined Authority funding a reduction in bus services is expected. Fare reductions would benefit passengers and give rise to additional trips by bus; however, any material consequent reduction in passenger revenue would result in further service adjustments.
- For operators – the number of commercial services operated will be reduced as patronage continues to decline, as will margins earned in absolute terms. Greater measures will be required to maintain profitability, such as service withdrawals and/or fare increases. The need for the public sector to support services will increase.

3.3.6. While the existing Alliance is a suitable delivery option for the Reference Case to measure the two other delivery options against, this option would not allow the Combined Authority access to central government Bus Back Better funding and has therefore not been considered further as a potential delivery option in practice.

Proposed Franchising Scheme

3.3.7. The Proposed Franchising Scheme would represent a significant change in how bus services are delivered, with decisions on services, frequencies and fares made by the Combined Authority. Operators would compete for packages of services. The Combined Authority would take full revenue risk on bus services.

- **For the Combined Authority** – Franchising of bus services could provide much better value, dependent on successful measures to deliver sufficient and sustainable competition across the procurement of all services. There would be significant public-sector costs of delivering a Franchising system, and a considerable increase in ongoing costs, offsetting some of the gains from increased competition.

- **For passengers** – alongside the benefits to passengers of a potentially larger bus network delivered through savings resulting from lower margins due to the Combined Authority taking on revenue risk, the Proposed Franchising Scheme would remove any distinction between operators, with passengers being provided with a consistent and attractive offer of information, ticketing and quality. Bus services could also become better integrated with other public transport modes, for example complementing Merseyrail and ferry services.
- **For operators** – The Proposed Franchising Scheme provides opportunities to encourage competition by removing barriers to market entry. For larger incumbent operators, the Proposed Franchising Scheme could reduce some of its current market share and profit margin; however, it would no longer take revenue risk under this option. For other operators, the Proposed Franchising Scheme could provide relatively low-risk opportunities to increase market share or to enter the Liverpool City Region market.

3.3.8. The Proposed Franchising Scheme has potential to represent value for money for the public sector and therefore could be justified if the Combined Authority accept the associated increased level of risk. The Proposed Franchising Scheme would be the more expensive of the two intervention options considered 'upfront', but again with a reasonable likelihood of upfront costs being 'paid back' over time in passenger benefits unlocked through efficiency gains.

Question 12. Do you have any comments on the impacts of the Proposed Franchising Scheme on the Combined Authority, as set out in the Economic Case?

Question 13. Do you have any comments on the impacts of the Proposed Franchising Scheme on passengers, as set out in the Economic Case?

Question 14: Do you have any comments on the impacts of the Proposed Franchising Scheme on operators, as set out in the Economic Case?

3.3.9. Enhanced Partnership:

- **For the Combined Authority** – an Enhanced Partnership could address some of the downsides of operator integration, including optimisation of routes, and improvements of frequency and times of operation, where commercially viable for operators. Additional funding would be required to fund the costs of consulting on, negotiating, and delivering the Enhanced Partnership and its management and monitoring.
- **For passengers** – an Enhanced Partnership could extend to the removal of certain price differentials between multi- and single-operator multi-trip tickets, and more closely integrate ticketing, information, and timetables; however, this excludes the wholesale integration of bus tickets across the Liverpool City Region. A one-off reduction in all fares except multi-model fares would benefit passengers. However, any further material consequent reduction in passenger revenue would result in further service adjustments.

- **For operators** – an Enhanced Partnership could provide efficiency gains by limiting any 'over-bussing' of profitable corridors. However, for larger incumbent operators, an Enhanced Partnership would erode some of their advantages and ability to defend their services against competition. For other operators, an Enhanced Partnership could provide opportunities to increase market share or to enter the Liverpool City Region market.

3.3.10. Enhanced Partnership has the potential to represent public-sector value for money. It would be the cheaper of the two intervention options in terms of upfront costs, with a reasonable likelihood of these costs being 'paid back' over time in passenger benefits unlocked through efficiency gains.

3.3.11. However, the need to negotiate the Enhanced Partnership Scheme(s) limits the certainty of the measures operators will agree to in practice, and therefore the extent to which benefits may be realised. However, even if operators agreed to all measures proposed, an Enhanced Partnership would not deliver to the same extent as the Proposed Franchising Scheme. The Enhanced Partnership appraised in the Assessment does not assume that external funding is provided (unlike the Enhanced Partnership proposed by the operators), therefore agreeing the terms of any Enhanced Partnership Scheme(s) could be time-consuming and costly.

Summary of economic objectives across the Proposed Franchising Scheme and Enhanced Partnership

3.3.12. Section 5 of the Strategic Case sets out three objectives relevant to the Economic Case:

- **Objective 1:** Combining monetised and non-monetised aspects and consideration of the distribution of those benefits;
- **Objective 2:** An assessment of certainty in outcomes, partially informed by sensitivity testing but also referencing the nature and time profile of uncertainty around options; and
- **Objective 3:** Value for money, appraised in line with DfT's Transport Appraisal Guidance; these objectives have been considered – in line with value for money assessment guidance – over the 40-year appraisal period.

3.3.13. Against the three economic objectives, the Proposed Franchising Scheme creates greater economic value than the Enhanced Partnership option. The economic value for money rating of both delivery options is 'high'. The tables 3.1 and 3.2 summarise the results.

Table 3.1 Combining monetised and non-monetised aspects and consideration of the distribution of those benefits

	Enhanced Partnership	Proposed Franchising Scheme
Net Present Value (NPV) (rounded):	£2504m	£256m
Overall non-monetised impacts:	Beneficial	Very beneficial
Distributional benefit	Slightly beneficial	Beneficial

3.3.14. Against the first Economic Case objective, the Proposed Franchising Scheme offers the Combined Authority advantages in comparison to the Enhanced Partnership option, including in terms of generating a higher net monetised impact (the NPV, or benefits minus costs), a wider range and scale of overall non-monetised impacts, and advantages in terms of the Combined Authority being able to influence distributional outcomes in its specification of the bus network to align benefits with the areas of the city region in most need of them.

Table 3.2 An assessment of certainty in outcomes, partially informed by sensitivity testing but also referencing the nature and time profile of uncertainty around options

	Enhanced Partnership	Proposed Franchising Scheme
Uncertainty during transition:	Medium	High
Uncertainty during operation:	Low	Low
Uncertainty around evolution:	High	Low

3.3.15. Both the Proposed Franchising Scheme and an Enhanced Partnership have associated uncertainty, although on different time profiles. For the Proposed Franchising Scheme, uncertainty is highest over the 'transition' period of its introduction, when there is the potential for legal challenge and because the length of transition period needed means that the first contracts must be signed before the Combined Authority has achieved cost certainty for all services. Once in place and settled, the level of uncertainty is much reduced, including allowing the Combined Authority maximum flexibility to respond to changes in the market for bus travel and wider policy context.

3.3.16. For an Enhanced Partnership, there is some uncertainty over its initial introduction and what bus operators will agree for inclusion in the plan and schemes, although the two main operators have put forward an initial proposal which is a clear benefit. However, several proposals within that scheme are contingent on various factors (including funding) and there is no certainty that operators will not object to some of the proposals during the statutory objection procedures. The introduction of future schemes or renegotiation of the initial scheme(s) also leads to greater uncertainty.

Table 3.3 Value for money, appraised in line with DfT's Transport Analysis Guidance

	Enhanced Partnership	Proposed Franchising Scheme
Initial value for money category:	Medium-High	High
Value for money including wider impacts:	High	High
Adjusted value for money considering: Non-monetised impacts Distributional benefit Uncertainty	High	High

3.3.17. Against the final Economic Case objective, both the Proposed Franchising Scheme and an Enhanced Partnership can be seen to represent value for money to the public sector within the same category. The interpretation of this is that either choice would be a justified intervention for the Combined Authority to take, the decision of which is to be preferred being free to be informed by other considerations represented in the wider objectives.

3.3.18. Against the three Economic Case objectives, both the Proposed Franchising Scheme and an Enhanced Partnership show advantages against the Reference Case – that is the Combined Authority investment in either option would be outweighed by the resulting benefits. In terms of the quantum of net benefit remaining, the Proposed Franchising Scheme performs somewhat better and has advantages in terms of the influence it gives the Combined Authority over the distribution of benefits across the city region. Both options have associated uncertainty, more in the short term for the Proposed Franchising Scheme (during transition) and longer term for Enhanced Partnership when it comes to (re)negotiating the scheme(s) as the context changes.

Assessing uncertainty

3.3.19. Uncertainty is inherent to forecasting and is a key consideration in determining the social, economic and environmental impacts of each of the delivery options assessed in the Economic Case. In addition, the pandemic brought additional uncertainty to the future of bus (and all) transport. The two main areas of uncertainty are the following:

- Degree of recovery of bus patronage and long-term impacts due to changes in travel patterns and behaviour originated by the pandemic.

- Availability of funding and ability for the Combined Authority to increase spend to support an decreasingly commercial network.

3.3.20. As proposed by HM Treasury's Green Book (guidance on appraising and evaluating projects) and the DfT's Uncertainty Toolkit (guidance on analysing uncertainty in modelling and appraisal) the Assessment contains scenario development and assessment to appraise the performance of different delivery options under different forecasts of the future, using different assumptions for the key identified areas of uncertainty. The aim of this process is to test a wide range of potential futures to understand which option is the most appropriate way forward and bring about the best changes across a range of futures.

3.3.21. The modelling scenarios developed for the economic appraisal have been built by combining potential scenarios in each of the two main areas of uncertainty – the long-term impact of the pandemic and the Combined Authority's bus funding availability. These scenarios will support decision makers in understanding the relative performance of delivery options. The appraisal compares each of the six potential combinations of long-term pandemic impact (two scenarios) and funding (three scenarios) for the Proposed Franchising Scheme and Enhanced Partnership delivery options against the corresponding combination for the Reference Case. The characteristics of the scenarios under consideration are presented below:

- Recovery of bus patronage and pandemic long-term impacts
- A scenario where bus demand recovers to 85% of the demand trajectory that would have been forecast in the absence of the pandemic.
- A scenario where bus demand eventually fully recovers to the demand trajectory forecast in the absence of the pandemic.
- Availability of funding to support the bus network
- "Reduced" – a scenario where the Combined Authority is able to maintain the level of funding allocated in 2021/22 to buses in nominal terms (that is it does not grow in line with inflation).
- "Current" – a scenario where the Combined Authority is able to maintain the level of funding allocated in 2021/22 to buses in real terms (that is it grows in line with inflation).
- "Increased" – a scenario where the Combined Authority is able to steadily increase its level of funding to bus, such that by 2037/38 it is double 2021/22 levels, in real terms.

3.3.22. The baseline scenario for the Economic Case is current funding and 85% recovery to pre-pandemic demand projections. Greater detail on scenario development is set out in Section 3.7 of the Economic Case.

Comparison of forecasts for demand across the six selected scenarios

3.3.23. The tables summarise the forecasts of demand for each delivery option under each of the scenarios under consideration.

3.3.24. The results show that in all cases the Proposed Franchising Scheme outperforms Enhanced Partnership and the Reference Case, with bus services carrying more demand for all combinations of bus patronage impact and the Combined Authority funding.

Table 3.4 Summary of bus demand in 2036/37 across scenarios (millions)

Option	**85% of pre-pandemic demand trajectory**			**100% of pre-pandemic demand trajectory**		
Reference Case	Current funding	Increased funding	Reduced funding	Current funding	Increased funding	Reduced funding
Enhanced Partnership	56m	63m	54m	70m	78m	68m
Adjusted Value for Money considering:	58m	66m	55m	73m	82m	70m
Proposed Franchising Scheme	59m	68m	56m	75m	84m	71m

3.3.25. While there is uncertainty around the long-term impacts on demand, these results show that across the different scenarios the Proposed Franchising Scheme performs better than the alternative options, from this point of view. For the Proposed Franchising Scheme, demand ranges in 2036/37 between 56m and 84m passengers (compared to a range of 55m to 82m for Enhanced Partnership). Greater detail, including additional forecasts for revenue and costs forecasts, is set out in Section 6 of the Economic Case.

Summary of economic appraisal outputs for scenarios under consideration

3.3.26. Tables 3.5 and 3.6 present a summary of the value for money assessment for the monetised benefits for the Proposed Franchising Scheme and an Enhanced Partnership under the different scenarios assessed throughout the Economic Case.

Table 3.5 Value for money assessment – scenarios for the Proposed Franchising Scheme

	Recovery of 85% of pre-pandemic demand			**Full recovery of pre-pandemic demand**		
Supported Services Budget	Current funding	Increased funding	Reduced funding	Current funding	Increased funding	Reduced funding
NPV (rounded)	£256m	£398m	£203m	£426m	£637m	£425m
BCR	**1.9**	**2.4**	**1.7**	**2.2**	**3.2**	**2.2**

Table 3.6 Value for money assessment – scenarios for an Enhanced Partnership

	Recovery of 85% of pre-pandemic demand			**Full recovery of pre-pandemic demand**		
Supported Services Budget	Current funding	Increased funding	Reduced funding	Current funding	Increased funding	Reduced funding
NPV (rounded)	£254m	£408m	£191m	£309m	£535m	£309m
BCR	**1.8**	**2.3**	**1.6**	**1.8**	**2.7**	**1.8**

3.3.27. Across all scenarios, the Proposed Franchising Scheme delivers a higher NPV and a higher BCR than Enhanced Partnership. However, both options deliver high value for money in some scenarios. Therefore, from an economic perspective, both interventions would be justified and could be seen as delivering value for money for the public sector.

Option appraisal summary

3.3.28. The Proposed Franchising Scheme offers the Combined Authority advantages in comparison to an Enhanced Partnership, including in terms of generating a higher net monetised impact (the NPV, or benefits minus costs), a wider range and scale of overall non-monetised impacts, and advantages in terms of the Combined Authority being able to influence distributional outcomes in its specification of the bus network in aligning benefits with the areas of the city region which are most in need of them.

3.3.29. Both the Proposed Franchising Scheme and an Enhanced Partnership show advantages against the Reference Case – that is, the Combined Authority's investment in either option would be outweighed by the resulting benefits. In terms of the quantum of net benefit remaining, the Proposed Franchising Scheme performs somewhat better and has advantages in terms of the influence it gives the Combined Authority over the distribution of benefits across the city region. Both options have associated uncertainty, more in the short term for the Proposed Franchising Scheme (during transition) and longer term for Enhanced Partnership (when it comes to (re)negotiating the scheme(s) as the context changes). For more detail on the main impacts of economic performance of the Proposed Franchising Scheme and an Enhanced Partnership under the baseline scenario including monetised and non-monetised impacts see Sections 12 and 13 of the Economic Case.

Question 15. Based on the information given, do you agree Franchising will offer value for money to the public sector? Why do you think this?

3.4. The Commercial Case

Background and introduction

3.4.1. The Commercial Case of the Assessment considers and assesses:

- The proposed commercial models of the two shortlisted alternative bus delivery options considered in the Assessment (the Proposed Franchising Scheme and an Enhanced Partnership), including, where relevant, how any procurement would take place competitively, an assessment of the commercial roles, risks and responsibilities and the packaging of services; and
- The current Liverpool City Region bus market and the current commercial and tendered models of bus operation in the Liverpool City Region.

3.4.2. The Proposed Franchising Scheme would require more changes to the Combined Authority's existing commercial model than under an Enhanced Partnership, and an Enhanced Partnership would have fewer commercial implications for both the Combined Authority and operators. However, for a successful Enhanced Partnership to function it would need to be underpinned by a clear legal framework, including management of performance.

3.4.3. Between August and October 2021, the Combined Authority conducted a market engagement exercise and invited responses from current and prospective operators to test the commercial model for the Proposed Franchising Scheme and seek input from interested parties to inform the Combined Authority's understanding of the capabilities of the market. A summary of market engagement findings is included in the "LCRCA Bus Franchising Assessment: Market Engagement Supporting Paper". As a result of market views being incorporated in the Proposed Franchising Scheme, the Combined Authority has confidence that sufficient competition can be achieved under the proposed commercial proposition for Franchising.

The Combined Authority's Commercial Objectives

3.4.4. The Combined Authority's commercial objectives for the bus delivery options considered in the Assessment build on the policy and scheme objectives described in the Strategic Case. The delivery option should:

- **Public-sector influence** – achieve sufficient influence over bus network outcomes and certainty that the Combined Authority's investment will support its intended outcomes.
- **Best value** – achieve the best combination of price and quality, which will contribute to passenger affordability.
- **Driver of competition between bus operators** – facilitate strong competition on a 'level playing field' basis.
- **Appropriate risk allocation** – allocate risks to the public and private sectors according to who is most capable of managing them.
- **Ease of implementation** – be practical to implement and result in a sustainable model.
- **Recovery robustness** – allow the Combined Authority to manage the network effectively during times of disruption.

Question 16. Do you have any comments on the Combined Authority's commercial objectives as outlined in the Commercial Case?

Liverpool City Region Bus Market

3.4.5. The bus market in the Liverpool City Region comprises two large operators, who together provide the majority of commercial services, alongside a large number of smaller operators.

3.4.6. The position in terms of the assets used to provide services is as follows:

- **Fleet** – there are currently circa. 1,110 buses operating within the Liverpool City Region. Over 75% of all vehicles are over five years old and the average fleet age is nine years. The majority of fleet (80%) are diesel.
- **Depots** – these are where day-to-day operational control of the bus service takes place and are a base for drivers. There are seven depots in the Liverpool City Region with capacity in excess of 50 PVR (Peak Vehicle Requirement). These are owned between the two large operators.

VPA: 'The Alliance'

3.4.7. The Combined Authority and the two large operators are party to a VPA ('the Alliance'), which was set up in 2016 to increase bus patronage in the Liverpool City Region and improve punctuality and journey speeds. No small operators are currently part of the Alliance.

3.4.8. A key element of the Alliance was to ensure that the bus operators were committed to capital spend on improved buses. Most of the planned expenditure in 2020/21 comes from the Combined Authority with the two large operators contributing only a marginal amount.

3.4.9. The pandemic resulted in significant disruption for the bus network in the Liverpool City Region. A condition of the government's pandemic support was for bus operators to take all possible steps to respond positively and quickly to reasonable requests from LTAs to amend services and routes. The Alliance has provided a forum throughout the pandemic to liaise with operators and put in place measures to ensure a safe and reliable bus network.

3.4.10. While the Alliance commits members to service standards, without requiring significant financial risk for the Combined Authority, there are several challenges with the existing model. These are:

- **The Alliance does not include all operators**, and initiatives could be perceived as being against other operators' interests;
- **Strategic policy initiatives require the agreement of all Alliance members**, and the Alliance can only deliver outcomes based on consensus views;
- **Investment delivered through the Alliance is made up in the majority by the Combined Authority**, with circa 80% of total investment coming from the public sector and only 20% from operators;

- **The Combined Authority has limited ability under the Alliance** to hold operators to account if objectives are not achieved;
- **The Alliance exposes the Combined Authority** to revenue risk indirectly. If a commercial service ceases to be viable, the operator can amend the service or withdraw it completely and the Combined Authority must then decide whether to act; and
- **The Alliance** cannot address challenges for small- and medium-sized operators who are particularly susceptible to rising costs and uncertain revenues.

Current Combined Authority interventions

3.4.11. The Combined Authority currently makes several interventions in the Liverpool City Region bus market:

- **Tendered/supported services** – the Combined Authority provides financial support for additional bus services which are socially necessary but are not commercially viable or attractive for operators to run. Supported services make up circa 15% of bus service mileage and are mostly run by smaller operators. The two large operators account for less than 15% of supported service mileage. The Combined Authority spends £17.9 million per year on supported services (as at 2020/21). Expenditure is split between the letting of contracts (where services are not being provided by the market) and the direct passing of subsidies to commercial operators to encourage marginally viable services. In January 2020, the Combined Authority intervened to facilitate the reinstatement of commercial services with replacement operators when Halton Transport ceased operations.

- **Ticketing and concessions** – the Combined Authority promotes and manages a range of multi-modal and/or multi-operator tickets that supplement the single operator ticket products sold by individual bus operators. The Combined Authority currently makes concessionary payments to operators and has implemented initiatives to make travel for young people more affordable.
- **Depots and fleet** – The Combined Authority has introduced the 'Liverpool City Region Hydrogen Bus Pilot' (commencing in 2023) to create a new hydrogen refuelling station at St Helens and 20 hydrogen-powered buses. The pilot will be operated by Stagecoach and Arriva and will give the Combined Authority the opportunity to learn from the technology and its practical application for bus services fuelling.

Risk allocation and responsibility for bus services

3.4.12. The allocation of risk and responsibilities for bus services is split between the Combined Authority and operators:

- **Revenue risk** – Operators take revenue and operating cost risk on all commercial services. For supported services, the Combined Authority either receives fare revenue (where it pays operators to run the services) or makes de minimis payments to operators for running the services.
- **Fares and ticketing** – Fares and ticketing are currently set by individual operators. The Combined Authority promotes and manages a range of multi-modal and/or multi-operator tickets and operates six travel centres at bus stations in the Liverpool City Region, which provide information and ticket sales. Merseytravel's multi-

operator tickets supplement the ticket products sold by operators. The pricing of single operator tickets is set below the equivalent multi-operator tickets offered by the Combined Authority.

- **Bus staff and station provision** – All staff involved in the delivery of bus services are employed by individual operators. The Combined Authority currently employs a small number of staff to manage their interventions in the bus market. Bus stations are owned and managed by the Combined Authority and provided to operators with usage-based charges.
- **Service specifications and branding** – The Alliance contains a limited number of service requirements in respect of driver training and marketing. Any significant changes are at the discretion of individual operators.
- **Timetables and routes** – These are the operators' responsibility. If the frequency or timing of services is inadequate, the Combined Authority can pay for additional services.

3.4.13. There are several commercial risks associated with the current network arrangements. The primary risks are that a continued fall in patronage and increased costs may require further supported services, and the Combined Authority may be unable to achieve its Vision for Bus through the Alliance alone.

Commercial Model for the Proposed Franchising Scheme

3.4.14. In the current system the Combined Authority funds subsidised bus services through the Transport Levy. The amount expected to be used for bus services in the 2022/23 financial year is £68m. Based on current demand and revenue predictions it is expected that the costs for subsidised services will increase over time.

Commercial model for the Proposed Franchising Scheme

3.4.15. The Proposed Franchising Scheme would represent a change in market structure from the current deregulated market to one where services would be specified and procured by the Combined Authority.

Franchise design

3.4.16. This encompasses how the Liverpool City Region market would be broken down into individual franchises and the scope, size and length of franchise contracts. More detail on the franchise design is set out in Section 4 of the Commercial Case of the Assessment. The proposed structure was tested in a market engagement exercise whereby the Combined Authority shared various aspects of its proposed commercial model with operators to understand how different operators might respond and whether there were any issues that would prevent them bidding for contracts or increasing the cost.

Lotting strategy

3.4.17. The Combined Authority has considered how the network should be packaged under the Proposed Franchising Scheme. The bus network would be split into five geographical areas ('rounds'). Each round would consist of several 'lots' (groups of services). Lots are split into three categories: A (high-frequency services based around a specific depot); B (low-frequency services) and C (single school contracts). Table 3.8 of the Commercial Case sets out a breakdown of the proposed scale of each lot within each round.

3.4.18. This approach was adopted to meet the Combined Authority's commercial objectives, including to:

- Balance economies of scale with market flexibility and strong competition (a single franchise might maximise efficiency but would reduce flexibility and competition, while route-based franchises would reduce efficiency significantly).
- Create a healthy market at the outset of Franchising and in the steady state (B and C lots have been sized to attract small- and medium-sized operators).
- Account for the geography of the Liverpool City Region, operational considerations and depot strategy.
- Ensure ease of implementation and management by spreading bidding rounds.

Question 17. Do you have any comments on the lotting strategy for the Franchising contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Question 18. To what extent do you believe the proposed lotting strategy will attract small- and medium-sized operators?

Contract length

3.4.19. Large franchise contracts would be let for seven years following initial lots (which may take the form of slightly shorter or slightly longer contracts to regulate the flow of contracts coming to the market). This offers a sufficient period to be attractive to operators while avoiding uncertainty around long-term forecasting. Shorter terms are proposed for small franchise contracts and school contracts, which would be agreed on a contract-by-contract basis, providing greater flexibility, and reducing potential risk to both small and medium-sized operators and the Combined Authority. More detail on contract length is set out in Section 4.2.3 of the Commercial Case.

Question 19. Do you have any comments on the length of franchise contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?

Risk allocation and responsibility

3.4.20. The allocation of risks to those best able to manage them under the Proposed Franchising Scheme would change significantly from current arrangements. The key features of risk allocation are summarised below:

- **The Combined Authority would adopt revenue and patronage risk under gross cost contracts.** The Combined Authority would be responsible for revenue protection management and implementing a common fares and ticketing policy across all franchised services. The only exceptions to this would be cross-boundary services (which would operate under a Service Permit Regime) and non-franchised services which run wholly within the Liverpool City Region before all Liverpool City Region services are franchised. For these services, revenue risk would be taken by the private sector, but fare levels within the Liverpool City Region and other standards will still be set by the Combined Authority under the proposed permitting arrangement.

- **The Combined Authority would define and specify the bus network (service frequency, specification and quality).** A change mechanism would be developed to allow the network to flex with demand.
- **Operating cost risk would remain with operators as they are best placed to manage operational costs**, although the Combined Authority would take cost inflation risk.
- **All drivers and maintenance staff would be the operators' responsibility.** The Combined Authority would be required to undertake new operational functions (such as revenue management, management of ticketing/fare policies, timetabling, provision of arrival/departure data and central support functions (e.g., customer services)). The Combined Authority would operate all central customer service and support functions.
- **A rewards-based performance regime** would be used to incentivise operational performance and service quality.
- **The Combined Authority would control** the specification and branding of buses and related infrastructure/ticketing systems.

Question 20. Do you have any comments on the proposed allocation of risk between the Combined Authority and bus operators under the Proposed Franchising Scheme, as set out in the Commercial Case?

Performance Incentive Regime

3.4.21. The Combined Authority would incorporate a performance-based incentive regime into each franchise contract (offering financial incentives for meeting specific KPIs/performance metrics). The structuring of the performance incentive regime would be determined on a contract-by-contract basis and would cover areas such as service efficiency, bus standards (e.g., cleanliness), passenger satisfaction, driver performance, fares, revenue and monitoring and accident investigations (see Section 4.3.2 of the Commercial Case).

Question 21. To what extent do you agree or disagree that the Proposed Franchising Scheme would improve service quality?

Asset strategy for the Proposed Franchising Scheme

3.4.22. The commercial structure is in part determined by the ownership and control of the key assets that are used in running the bus service. The most important assets are the fleet and depots.

Fleet

3.4.23. The Combined Authority would provide zero-emission vehicles to operators for a peppercorn rental charge and operators would be responsible for maintaining the vehicles to specified standards and required to hand these back (subject to a range of contractual redelivery conditions) to the Combined Authority at the end of the franchise term. The Combined Authority would acquire zero-emission vehicles incrementally with an initial target of circa. 300 vehicles acquired by 2025. Post-2025, the Combined Authority would acquire zero-emission vehicles at a rate aligned with the natural rate of replacement for the Liverpool City Region bus fleet (i.e., replacing fleet every 15 years, at a rate of between 70-80 vehicles per year).

3.4.24. Table 3.10 of the Commercial Case sets out the forecast allocation of zero-emission vehicles between rounds.

3.4.25. The Combined Authority has several options for sourcing additional fleet for Category A lots. The Combined Authority's preferred option in relation to diesel fleet is to engage with existing operators to access existing fleet for the duration of the first phase contracts (either by acquiring or leasing the fleet). For some contracts, the Combined Authority would introduce a residual value (RV) mechanism that would guarantee the future value of franchisees' bus fleets when their franchises end and they do not win subsequent franchises, whereby the incoming operator would purchase the fleet for that guaranteed residual value. This would protect operators against the risk of having buses that they can no longer use. The specific mechanism(s) to be used by the Combined Authority for sourcing additional fleet would be finalised as part of the implementation of the Proposed Franchising Scheme. Further details of the proposals are set out in Section 4.3.11 of the Commercial Case.

Question 22. Do you have any comments on the approach to public ownership of the bus fleet under the Proposed Franchising Scheme, as set out in the Commercial Case?

Depot

3.4.26. Under the Proposed Franchising Scheme, the Combined Authority would seek to take control of strategic depots (either through acquiring or letting depots, or through developing new depots as required) and would provide these to operators of large franchises for the delivery of franchise operations. Without this an operator owning a depot in a particular area of the Liverpool City Region would have a significant competitive advantage compared to other operators (who would need to build or acquire a depot) and would present a barrier to entry for franchise bidders and hence reduced competition.

3.4.27. For Category A lots and where zero-emission vehicles are being used (and therefore new investment is required), the Combined Authority would seek to provide operators with a publicly owned/leased depot for the term of the franchise contract.

For smaller lots (where it is more straightforward to access depots) and where diesel fleet is primarily being used, operators could provide their own depots and incorporate the cost into their bid price.

3.4.28. The Combined Authority has undertaken a depot strategy exercise to assess potential sites that it may acquire and develop for depot use under the Proposed Franchising Scheme. The specific mechanism(s) to be used by the Combined Authority for procuring depots would be finalised as part of implementation of the Proposed Franchising scheme. Further details of the proposals are set out in Section 4.3.12 of the Commercial Case.

Question 23. Do you have any comments on the approach to depots under the Proposed Franchising Scheme, as set out in the Commercial Case?

Phasing and Implementation

3.4.29. The Combined Authority would franchise all routes over a 27-month period (from service commencement of Round 1 to service commencement of Round 4), which would enable the Combined Authority to achieve the benefits of Franchising relatively quickly, while ensuring that the procurement process is manageable.
It would also allow the Combined Authority to refine its contract and procurement processes based on experience gained in letting the earlier rounds and would ensure that the market would not be flooded with contracts at one time.

3.4.30. The Combined Authority's proposed implementation plan for the Proposed Franchising Scheme is set out in Section 4.4.2 of the Commercial Case. The Combined Authority has developed its plan to facilitate the involvement of small and medium-sized operators and remove barriers to entry.

Franchise Procurement Strategy

3.4.31. The Combined Authority's procurement process would be designed to maximise competition, ensure fair treatment of operators and equal opportunity to participate, and provide high-quality services within the Liverpool City Region.

3.4.32. The procurement would be governed by the Utilities Contracts Regulations 2016 ("UCR"). The Combined Authority proposes to establish a dynamic purchasing system ("DPS") under the UCR to pre-qualify prospective operators. This would 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. The pre-qualification selection criteria would vary according to the category of lot and would cover areas such as good standing, capability, capacity and track record.

3.4.33. For each round, the Combined Authority would issue an invitation to tender (or "ITT") to prospective operators that have been admitted to the DPS. The issue of the ITT would commence the bidding phase for that round.

3.4.34. For the bidding phase only the restricted procedure is available to the Combined Authority under the UCR. However, some pre-bid engagement on the specific terms of the franchise contracts for the early rounds may be required (through inviting comments at an early stage in the bid period and potentially revising and reissuing the terms) within the bounds of the procedure.

3.4.35. The Combined Authority proposes to engage in further detailed commercial engagement with prospective operators following any decision to pursue Franchising, prior both to finalising the general approach (before the Franchising programme kicks off with the first round) and to each subsequent round.

3.4.36. The Combined Authority would retain the option to limit the number of lots within a round that a single operator can bid for or win to enhance resilience of the market and facilitate strong competition. Any limit would apply on a round-by-round basis. The Combined Authority would confirm any limit applicable to any round(s) prior to inviting bids for the first round, so that prospective operators have as clear a view as possible across the whole Franchising programme

3.4.37. Further detail of the proposed procurement strategy has been outlined within Section 4.8 of the Commercial Case.

Cross-boundary services and the permit regime

3.4.38. **It i**s important to allow cross-boundary services to continue to operate, allowing bus travel between places outside the Liverpool City Region. These services are important to neighbouring authorities as they enable people living in those places to reach destinations within the Liverpool City Region. The Combined Authority would establish a Service Permit Regime for cross-boundary services alongside the introduction of the Proposed Franchising Scheme to apply once the first franchise contracts commence.

3.4.39. To be granted a service permit, a service would need to pass two statutory tests: first that the proposed service would benefit those making journeys on local services in the franchised area, and second, that the proposed service would not have an adverse effect on any local service that is provided under a franchise contract in the franchised area. The service permit application process would be designed to get the necessary information to allow The Combined Authority to consider those tests without placing an undue burden on operators. The Combined Authority would attach a condition to any service permit provided it consults bus operators on what sorts of conditions it would impose. It is proposed that such a consultation would take place after the Proposed Franchising Scheme is introduced.

3.4.40. The Combined Authority intends to align the requirements of the Service Permit Regime as much as possible with those of the Franchise Scheme to ensure a consistency of service across the Liverpool City Region and reduce confusion for customers to facilitate smooth running of cross-boundary services. Further detail on the Service Permit Regime in the context of cross-boundary services is set out in Section 4.7.5 of the Commercial Case.

Question 24: Do you have any comments on the impact of the Proposed Franchising Scheme or an Enhanced Partnership on the achievement of the objectives of neighbouring transport authorities, as set out in the Commercial Case?

Pensions considerations

3.4.41. The Bus Services Act protects the pension rights of staff who transfer under a Franchising arrangement by requiring 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. Operators under a Franchising scheme would not take on responsibility for benefits accrued pre-transfer, as liability for such benefits would remain with the incumbent operator. It would be the responsibility of the Combined Authority to ensure that contracts require operators to provide broadly comparable pension benefits and that such obligations can be enforced directly by the transferring staff.

3.4.42. The pensions implications of Franchising for each incumbent operator will depend on the nature and structure of their current pension arrangements. All but two current operators provide defined contribution (DC) pensions accrual only, and therefore the Proposed Franchising Scheme would have little impact on their pensions' arrangements. Where there is a defined benefit (DB) accrual (whether via an operator's own arrangement or as an admitted body under the Local Government Pension Scheme), there is a potential risk that the Proposed Franchising Scheme could trigger an exit debt in limited circumstances – see Section 4.9.2 of the Commercial Case. Two operators currently provide DB accrual. Section 4.9.2 of the Commercial Case considers the likelihood of an exit debt materialising.

Employment considerations

3.4.43. **In the event that the Combined Authority decided to proceed with the Proposed Franchising Scheme, the Combined Authority would consult the operators of the affected services and representatives of employees on the proposed criteria for determining whether a person's employment is principally connected with the provision of certain local services that cease to be provided in an area in which the Proposed Franchising Scheme becomes effective and on allocation arrangements in accordance with the Franchising Schemes and Enhanced Partnership Schemes (Application of TUPE) (England) Regulations 2017.**

3.4.44. The Assessment identifies that there is a process in the Act for determining which employees would be subject to being transferred and in broad terms based upon how much of their time they spend working on services that would be awarded to the incoming franchise operator.

3.4.45. It is also likely that some employees would transfer to the Combined Authority at the outset of the Proposed Franchising Scheme to deliver roles for which the Combined Authority would become responsible (for example, revenue protection). During the steady state of the Proposed Franchising Scheme, and should an incumbent operator not win a franchise, they would need to take part in a TUPE process, which provides legal protection for employees that may transfer to the incoming operator who had successfully bid for the franchise. More detail on this is given in Section 4.9.3 of the Commercial Case.

Question 25: If the Proposed Franchising Scheme were implemented, it is likely that some operator employees would be transferred to another operator or potentially the Combined Authority. Do you have any comments?

Conclusion: the Proposed Franchising Scheme

3.4.46. The Combined Authority has concluded that compared to the current bus arrangements, the Proposed Franchising Scheme would allow the Combined Authority to achieve greater control over the outcomes of the bus network, better enabling the delivery of its commercial objective and the Vision for Bus, in line with the Bus Back Better strategy.

3.4.47. The Combined Authority has set out several interventions and measures to ensure that the participation of small and medium-sized enterprises can be facilitated, and a competitive market can be achieved.

3.4.48. It is recognised that the Proposed Franchising Scheme would require a significant financial commitment from the Combined Authority and come with a range of financial and non-financial risks that would require careful management and delivery expertise. The Proposed Franchising Scheme would enable the Combined Authority to deliver its commercial objectives and the Vision for Bus by assuming these additional costs and risks.

3.4.49. The Proposed Franchising Scheme would require a commitment from the Combined Authority to manage the commercial risks associated with Franchising and ensure that a resourcing plan and appropriate mobilisation are provided to support delivery of the scheme in a way which minimises disruption to the network.

Commercial Model for Enhanced Partnership

3.4.50. An Enhanced Partnership is an agreement between the Combined Authority and local bus operators to work together to improve local bus services. It includes a clear vision of the improvements that the Enhanced Partnership aims to achieve (the ‘Enhanced Partnership Plan’) and accompanying actions to achieve them (set out in one or more ‘Enhanced Partnership Schemes’). A defined proportion of operators must agree to the Enhanced Partnership for it to be implemented.

3.4.51. Different bus corridors can have different Enhanced Partnership Schemes provided that the schemes still meet the overall Enhanced Partnership. Each Enhanced Partnership Scheme may be affected by the operators who run services on the relevant corridors, meaning that the benefits for each corridor may be different and less easy to manage from an the Combined Authority’s perspective.

3.4.52. An Enhanced Partnership is only achievable through market consultation and negotiation with operators. Not all operators operating in an area need to agree with an Enhanced Partnership Scheme's content, for the Enhanced Partnership Scheme to be made, but all operators running qualifying services have a right to object and, if either of the two objection criteria set out in the Enhanced Partnership Plans and Schemes (Objections) Regulations 2018 are satisfied, the Enhanced Partnership cannot be made (see Section 5.2 of the Commercial Case for further details).

Ambitious Enhanced Partnership

3.4.53. The Combined Authority has engaged with the main incumbent operators (Arriva and Stagecoach) and local authorities and a potential scope and objectives of an Enhanced Partnership that could help achieve the Vision for Bus in line with the national bus strategy was proposed. However, with Franchising being agreed as the leading preferred option, these conversations have not been concluded. Therefore, the assessment has assumed an 'Ambitious EP' to compare against Franchising, which reflects DfT guidance and is intended to be the best EP that the Combined Authority believes is realistically achievable, rather than the minimum position the Combined Authority would accept.

3.4.54. Operators within the Liverpool City Region have also proposed a form of Enhanced Partnership to the Combined Authority which, while having several benefits which exceed the current VPA proposition, is not as comprehensive as the Combined Authority's proposed ambitious Enhanced Partnership and require most of the investment coming from the public sector. A copy of the areas of agreement reached are attached in Appendix 3 to the Assessment.

3.4.55. Within the operator-proposed Enhanced Partnership, several areas are still subject to agreement between the parties and an acceptable allocation of funding from the Combined Authority. There is also limited commitment for operators to provide funding to support proposed operator-led obligations. The Assessment therefore focuses on the ambitious Enhanced Partnership proposed by the Combined Authority.

3.4.56. The key attributes of the ambitious Enhanced Partnership Scheme are:

- **Network** – the Enhanced Partnership would set the maximum frequency on routes and have a process for assigning these to interested operators.
- **Ticketing and fares** – single ticket prices would still be set individually by operators, but multi-trip tickets would be valid on all operators' services.
- **Fleet** – there would be the same pace of change to update the fleet to zero-emission vehicles, and the same funding would be available from the government as under the Proposed Franchising Scheme. However, vehicles and depots would continue to be owned by operators under the Enhanced Partnership.
- **Livery, branding and marketing** – there would be a gradual move to a common "metro brand" of tickets, marketing materials and livery under the Enhanced Partnership.

Risk Allocation and Responsibility for Bus Services

3.4.57. Although the terms of the proposed Enhanced Partnership Scheme(s) have not been agreed with operators, the ambitious Enhanced Partnership has been established with a set of attributes that the Combined Authority considers would provide the Vision for Bus. While the Combined Authority can propose an Enhanced Partnership Scheme for all or part of the network, the Enhanced Partnership Scheme cannot be imposed on operators (other than the operators whose commercial mileage is not sufficient to meet the objection threshold). It is therefore likely that there would be a level of negotiation around what is to be included in any Enhanced Partnership Scheme, and the final solution may be less than the optimal position taken with the ambitious Enhanced Partnership.

3.4.58. Table 3.13 of the Commercial Case sets out the proposed allocation of risk and responsibilities between the Combined Authority and operators under the ambitious Enhanced Partnership:

- **Revenue risk** – operators would retain revenue risk on all commercial services. The Combined Authority would continue to provide supported services and would retain revenue risk on all supported services.
- **Route registration** – the Combined Authority would have control over route registration. While operators would have the right to shape and object to the route specifications through the process of negotiating the Enhanced Partnership Scheme, The Combined Authority would have the power to grant or revoke an operator's licence to run a route.
- **Service specifications**– the Enhanced Partnership would impose greater control over service specifications than under the Alliance. The Enhanced Partnership Scheme could require operators to run a minimum number of services, along a specific route(s), impose a given standard of buses or specific energy source (e.g., hydrogen or electric).
- **Performance incentive mechanism** – the Enhanced Partnership would be expected to contain limited performance standards and KPIs (such as frequency of services, reliability, standard of buses and passenger satisfaction). However, the performance regime would not be formally linked to a payment mechanism in the same way as under the Proposed Franchising Scheme.
- **Fares and ticketing** – the Enhanced Partnership would be expected to make ticketing simpler and provide a mandate that tickets are valid for a specific route (or routes) regardless of the operator. It is also assumed that it would be possible to introduce some form of alignment on multi-trip products (such as weekly, monthly, or annual season tickets) through an agreement with operators.
- **Fleet** – the Enhanced Partnership does not offer any major advantages in terms of delivering the fleet initiative over and above the current the Combined Authority network. The options of (i) leaving fleet investment to market forces, and (ii) the Combined Authority investing in fleet, would apply to the Enhanced Partnership and present a similar set of challenges.
- **Depot** – it is expected that the provision and ownership of depots would remain with the private sector.

Phasing and Implementation of an Enhanced Partnership Scheme

3.4.59. There are several stages required to propose, negotiate, agree and implement an Enhanced Partnership Scheme, commencing with the need to invite operators in the area to which the Enhanced Partnership relates to participate in the preparation of the plan and scheme. Given the requirement for negotiation with operators to reach an agreement on a set of principles and operator commitments, the timeline for agreement and implementation of an Enhanced Partnership Scheme is unclear. However, it is anticipated that the Liverpool City Region Enhanced Partnership option would be implemented in a shorter period (circa three years) than under the Proposed Franchising Scheme (circa five + years).

Enhanced Partnership procurement strategy

3.4.60. Given that the ownership, management and operation of bus services, and related assets are retained by private sector operators, no procurement is envisaged as part of the proposed Enhanced Partnership option. However, if the Combined Authority wishes to provide funding for fleet it will have to carefully consider how this is structured.

Pension and employment considerations

3.4.61. Given that the ownership, management and operation of bus services, and employment of staff are retained by private sector operators, no pensions or TUPE arrangements are envisaged as part of the proposed Enhanced Partnership option.

Conclusion: the Proposed Enhanced Partnership

3.4.62. The Combined Authority has concluded that the creation of a successful Enhanced Partnership would be dependent on successful negotiations with operators to define and agree an Enhanced Partnership Plan and relevant Enhanced Partnership Scheme(s). There are specific requirements for obtaining operator support before an Enhanced Partnership Scheme can be implemented, and there is a risk for the Combined Authority that an effective agreement cannot be concluded.

3.4.63. Negotiations could result in an Enhanced Partnership that helps to implement some aspects of the Combined Authority's Vision for Bus than under the Alliance. However, this is dependent on the willingness of the incumbent operators to include these in the Enhanced Partnership. To date, several operators have proposed an Enhanced Partnership scheme which does not provide all the attributes of the ambitious Enhanced Partnership and includes several caveats, particularly with respect to operator obligations. In the Combined Authority's view this operator-proposed Enhanced Partnership would provide a fewer number of attributes than the ambitious Enhanced Partnership and provide less value for money.

3.4.64. The Combined Authority has concluded that even the ambitious Enhanced Partnership does not provide the level of control that the Proposed Franchising Scheme does (as, under the Enhanced Partnership, commercial risks still sit with operators). To implement changes to the network, the Combined Authority would in many circumstances face similar challenges to the status quo

Question 26: The Commercial Case concludes that the Combined Authority would be better able to meet its commercial objectives through the Proposed Franchising Scheme compared to an Enhanced Partnership. To what extent do you agree or disagree with this? Why do you agree/disagree with this?

3.5.The Financial Case

Background and Introduction

3.5.1. The Financial Case assesses the financial implications for the Combined Authority of the shortlisted delivery options (the Proposed Franchising Scheme and an Enhanced Partnership). It considers:

- The net cost of each option (including an affordability analysis);
- A forecast of how income and costs would change for each option compared to the Reference Case (including the implementation costs for each option);
- The funding requirement for each option (both capital investment and additional revenue) and the proposed funding sources to meet those requirements; and
- The key financial risks, sensitivities and mitigations for those risks.

3.5.2. The Combined Authority would collect all revenues from fare -paying passengers (farebox revenue) under the Proposed Franchising Scheme and would use that revenue, together with public sector funding, to fund the operation of the Proposed Franchising Scheme. Under an Enhanced Partnership, operators would continue to receive farebox revenue and public funding would be used in respect of transitional and implementation costs.

3.5.3. Under the Reference Case, there is forecast to be a continual reduction in demand for bus services, increasing real costs of providing bus services, a reduction in the viability of commercial services and a reduction in the scale of the network (see Section 4.4 of the Financial Case).

3.5.4. The financial forecast for all options uses the same modelling framework as the Economic Case.

Franchising affordability

3.5.5. The Financial Case considers the extent to which the Combined Authority could afford to meet the costs of implementing, the transition to and the operation of the Proposed Franchising Scheme. It does this by forecasting farebox revenues, operating costs and other sources of income and funding that the Combined Authority would receive under the Proposed Franchising Scheme.

Sources of Income

3.5.6. Under the Proposed Franchising Scheme, the Combined Authority is assumed to collect passenger fare revenue from franchised services and pay operators to run services in accordance with franchise service contracts. There would be no supported services as all services would be franchised.

3.5.7. The ongoing income sources for the Combined Authority included for the Proposed Franchising Scheme are:

- Bus farebox revenues from franchised services that the Combined Authority would receive from assuming revenue risk;
- Bus farebox revenues from supported services that the Combined Authority would receive from the transitional period to the Proposed Franchising Scheme only; and
- Commercial revenues and sundry income (for example, on-bus advertising).

It is assumed that the Combined Authority would continue to receive the transport levy (as is the case for all regulatory options).

Expenditure – ongoing

3.5.8. The Combined Authority's operating costs for the Proposed Franchising Scheme are derived in the same manner as under the Reference Case, with the following adjustments:

- **Franchise payments to operators for providing the franchised services** – this would be calculated based on the costs that operators incur and include driver costs, fuel costs, fleet depreciation (where provided by the operators), insurance, maintenance, overheads, and operator margin.
- **Capital maintenance costs** – initial development and implementation costs are included within the transition costs. Ongoing costs are required to replace these assets at the end of their useful economic life.
- **Management costs** – incremental ongoing costs to the Combined Authority of £2.3m per annum, including incremental staff and ongoing management costs. These costs are reflective of inputs from the Management Case.
- **Debt-servicing** – servicing of any debt relating to the Combined Authority's fleet and depot investment.

Expenditure – transitional period and capital investment

3.5.9. In summary:

- **Management costs** – increase from circa £2.2m per annum prior to implementation in 2026 to £4.5m per annum under the Proposed Franchising Scheme, reflecting an increase from 90 to 210 FTE (Full Time Equivalent) staff.
- **Fleet acquisition** – from 2026 onwards, the Combined Authority would acquire 70-80 zero-emission vehicles per annum, reflecting the natural rate of replacement for buses in the Liverpool City Region. The overall required investment in fleet is estimated to be £252.5m until 2039 (in 2020/21 prices). Fleet acquisition costs would be financed by borrowing (see Table 4.10 and the financing costs section below). See Table 4.7 of the Financial Case for further detail regarding fleet acquisition costs.
- **Depot acquisition and investment** – the overall required investment in depots is estimated to be circa £62m (in 2020/21 prices), comprising £14.8m acquisition costs and £47.3m of development and fit out costs. Depot investment costs would be financed by borrowing (see Table 4.10 and the financing costs section below). See Table 4.8 of the Financial Case for further detail regarding depot investment costs.
- **Transition costs** – a transition period (2023 to 2026) would follow any mayoral decision and would require the Combined Authority to commence with procurement, contract awards and mobilisation of operators over the phased rollout of franchised services. The forecast implementation costs are summarised in Table

4.9 of the Financial Case and are estimated to amount to £27.4m (in 2020/21 prices). This includes the consultancy and management of transition, early mobilisation and procurement resource, early mobilisation of additional management, IT and provision for risk. Transition costs are assumed to be drawn from reserves, and repaid over a period of 15 years (without interest).

- **Financing costs** – the Combined Authority intends to fund the capital expenditure associated with the Proposed Franchising Scheme through financing (such as Public Works Loan Board (PWLB) borrowing), as this is likely to be more cost-effective than what could be achieved by operators. The Combined Authority is assumed to borrow some or all of the funding required for the transition period. The total interest costs for fleet and depot are estimated to be £151.3m (in nominal prices).

3.5.10. To accommodate the level of borrowing anticipated, the Combined Authority may need to agree an increase in their existing borrowing cap. The Combined Authority will also need to consider any Minimum Revenue Provision ("MRP") implications of additional borrowing used to finance capital expenditure (see Section 5.8.2.2 of the Financial Case).

Question 27: The investment costs anticipated by the Combined Authority in transitioning to and delivering the Proposed Franchising Scheme have been set out in the Financial Case. Do you have any comments on these anticipated costs?

Financial results

3.5.11. Table 4.11 in the Assessment sets out the forecast cash flow for the Proposed Franchising Scheme.

3.5.12. The income and expenditure components of the Financial Case have been modelled annually to forecast the net expenditure position for the Proposed Franchising Scheme under a "Core Scenario" of assumed budget and demand (see Section 3.2.1 of the Financial Case). The Core Scenario assumes that demand remains at 85% of pre-pandemic levels and the transport levy increases 2% per annum from the 2022/23 budget.

3.5.13. The results show:

- A substantial saving under the Proposed Franchising Scheme against the transport levy. Over the whole of the appraisal period (2024 to 2039), the transport levy required is 8% less than the budget available for the Core Scenario (see Figures 4.8, 4.10 and 4.12 of the Financial Case), primarily due to the public sector's lower cost of financing assets;
- That while passenger numbers will still continue to fall under the Proposed Franchising Scheme, the reduction will be smaller than for the Reference Case. On average, over the appraisal period from 2027-2039 (after the full implementation of franchised services), the Proposed Franchising Scheme provides 4.3% more passenger journeys in the Core Scenario compared with the Reference Case (see Figure 4.9 of the Financial Cases. If demand returns to 100% of the forecast level before the pandemic, the Proposed Franchising Scheme provides on average 7%

more passenger journeys compared with the Reference Case (See Figures 4.9 and 4.11 and Table 4.20 of the Financial Case);

- Between 2.8%-6.2% less transport levy funding will be required for the Proposed Franchising Scheme than under the Reference Case to provide the same service levels (see Figure 4.10 and Table 4.19 of the Financial Case), primarily due to the public sector's lower cost of financing assets;

Sources of funding

3.5.14. Section 5.5 of the Financial Case sets out a range of credible additional capital and revenue funding sources. There are three principal categories of potential funding:

- **Transport Levy:** the primary source of funding available to support the net expenditure gap generated from bus activities. The budgeted transport levy received for 2022/23 is £99.352m, and £66.3m of this is expected to be used for bus services in 2022/23.
- **Local authority controlled mechanisms:** a range of local authority-controlled mechanisms could be used to make more funding available for bus services, such as a Council Tax Precept (a separate ring-fenced charge on the council tax bill of council taxpayers), an increase to the Mersey Tunnels toll charge and a Business Rate Supplement.
- **Central government funding:** Central government currently provides a funding subsidy to commercial and tendered services in the form of the BSOG. The Combined Authority may be eligible and/or have the ability to apply for government funding in the form of grants, subsidies or funds.

Question 28: The Financial Case sets out the potential sources of funding available to the Combined Authority to deliver the Proposed Franchising Scheme. Do you have any comments?

3.5.15. The Financial Case assumes that only the transport levy would be available to fund services (along with fares from passengers). This level of funding would allow the Combined Authority to repay the net transitional funding requirement of £154m and the Financial Case concludes the Combined Authority could afford to make and operate the Proposed Franchising Scheme.

Sensitivity Analysis

3.5.16. Sensitivity testing has been performed to test the financial impact of potential changes to assumptions included in the financial model. These look at areas of uncertainty in long-term forecasts and 'exogenous' factors that would be to a large extent outside the control of the Combined Authority.

3.5.17. The financial effects of different sensitivities, both 'upsides' and 'downsides', are set out in the Financial Case in Section 5.7. The results of the sensitivity tests are reported prior to any mitigating actions that the Combined Authority would need to undertake under downside scenarios. The affordability forecast is sensitive to changes in assumptions, including:

- Additional reductions in passenger demand;
- An increase/decrease of PWLB interest rates; and
- An increase/decrease in capital expenditure costs.

3.5.18. These factors would likely affect bus services whether or not the Proposed Franchising Scheme, or one of the other options, were to be introduced. If costs of running bus services increased, or revenues fell, the bus operators, or the Combined Authority in a franchised market, would need to react.

3.5.19. Some assumptions, however, are specific to the Proposed Franchising Scheme. A significant assumption is the profit margin that franchised operators would earn. If all franchised operators required higher margins compared to the assumed level of 7.5%, then this would increase the overall cost of the services to the Combined Authority. Figure 4.17 of the Financial Case compares the forecast level of passenger journeys where the anticipated margin is increased to 9%. Section 3.2.3 of the Financial Case provides further information to support the margin used.

Financial Risk

3.5.20.The Proposed Franchising Scheme carries more direct financial risk to the Combined Authority compared to other options as it is taking on farebox revenue risk and responsibility for the bus network. If patronage and the farebox revenue were to reduce from the forecast or if costs were to increase, then this shortfall would need to be met from other sources, or the level of service would need to reduce. Under a partnership, it would be operators to a large extent who make choices (as at present) as to whether services would be reduced or cut and what would happen to fares.

3.5.21. Section 45.6 and Table 4.12 of the Financial Case sets out the financial risks to the Combined Authority of the Proposed Franchising Scheme. For example, it considers the risk that there is insufficient funding to cover the costs of the Proposed Franchising Scheme and bus services. This risk has been tested within the Financial Case and the alternative scenario modelling shows that the Proposed Franchising Scheme can still provide benefits even if there is a lower level of funding available. However, franchise contracts would need to be flexible enough to provide reduced services if there was a cut in funding.

3.5.22. The mitigations available to the Combined Authority for each financial risk are set out in Table 4.12 of the Financial Case. The mitigating responses would be both operational (through reducing the size of the network and/or increasing fares) – and financial (by allocating more funding to supported services).

Conclusion: Proposed Franchising Scheme

3.5.23. The Proposed Franchising Scheme would require an initial up-front investment of £154m for fleet, depot and transition costs during the transition period, which can be repaid from the Transport Levy and fares.

3.5.24. The Financial Case also sets out a range of credible additional capital and revenue funding sources that could provide for additional services. The Financial Case concludes that the Combined Authority could afford to introduce and operate the Proposed Franchising Scheme based on the availability of the Transport Levy and fares.

Enhanced Partnership Affordability

3.5.25. The Financial Case considers the extent to which the Combined Authority could afford to meet the costs of implementing, the transition to, and the operation of an Enhanced Partnership. If a successful Enhanced Partnership can be negotiated with operators, it should be possible to reconfigure the network to avoid duplication of services, allowing more beneficial services to be run as supported services compared with the Reference Case.

3.5.26 It is important to recognise that any changes to the network under Enhanced Partnership could only be achieved with the agreement of operators.

Sources of income

3.5.27 Operators would continue to receive farebox revenues for running commercial services. The ongoing income sources for the Combined Authority under an Enhanced Partnership are:

- Revenue from supported services (tendered contract services);
- Bus Services Operators Grant (the element relevant to supported services);
- Additional (sundry) income resulting from ex-boundary services, services to Liverpool Airport, as well as contributions for school routes; and
- Payments from operators to use the Combined Authority owned bus stations.

3.5.28. It is assumed that the Combined Authority would continue to receive the Transport Levy (as is the case for all regulatory options).

Expenditure – ongoing

3.5.29 Under an Enhanced Partnership scheme, the Combined Authority's gross expenditure profile includes the following operating costs:

- English National Concession Travel Scheme (ENCTS) payments to operators of commercial services;
- Payments to operators for supported services (both de minimis and tendered services payments);
- Capital maintenance costs (bus stations and real-time information equipment);
- The Combined Authority staff costs (including contract, network and data and compliance staff);
- General administration and office costs;
- The Combined Authority publicity and marketing costs;
- TravelSafe payments; and
- Enhanced Partnership-specific costs (implementation costs and ongoing costs to administer the Enhanced Partnership Scheme(s)).

3.5.30. In addition to the costs for the Reference Case, the Enhanced Partnership also requires £557k of additional staff costs annually (in 20/21 prices) due to the increased involvement of Combined Authority in ongoing management of the partnership with operators.

Expenditure – transitional period

3.5.31. Transitioning to an Enhanced Partnership scheme is assumed to have a series of direct cost implications for the Combined Authority such as market consultation and negotiations with operators, scheme design, and to manage and administer the Enhanced Partnership following implementation.

3.5.32. In summary:

- Transitional costs – the cost of external advisors during the three year implementation period is estimated to be £1,500,000 (in 2020/21 prices). The recurring costs of renegotiating the Enhanced Partnership every three years following implementation is estimated to be £500,000 (in 2020/21 prices) per annum.
- Financing costs – transitional costs are assumed to be drawn from reserves, and repaid over a period of 15 years (without interest).

3.5.33. The Enhanced Partnership option assumes that the Combined Authority does not undertake any capital investment in fleet and depots, and that these will continue to be provided by the private sector (except for any fleet currently owned by the Combined Authority).

Financial results

3.5.34. Table 4.16 in the Financial Case sets out the forecast cash flow for an Enhanced Partnership.

3.5.35. The income and expenditure components of the Financial Case have been modelled annually to forecast the net expenditure position for Enhanced Partnership under a "Core Scenario" of assumed budget and demand (see Section 6.4.1 of the Financial Case). The Core Scenario assumes that demand remains at 85% of pre-pandemic levels and the transport levy increases 2% per annum from the 2022/23 budget.

3.5.36. The results show:

- The Enhanced Partnership option as modelled is affordable within the proposed budget for the Core Scenario. On average the cost is almost identical to the Reference Case (see Figure 4.19 of the Financial Case);
- While passenger numbers will continue to fall under Enhanced Partnership, the reduction will be smaller than for the Reference Case. On average, for the period from 2027-2039, Enhanced Partnership provides 3.4% more passenger journeys (see Figures 4.20 and Table 4.20 of the Financial Case). If demand returns to 100% of the forecast level before the pandemic, Enhanced Partnership provides on average 4.6% more passenger journeys compared with the Reference Case (see Figure 4.22 and Figure 4.24 of the Financial Case); and
- If demand returns to 85% of the forecast level before the pandemic, there is an almost identical transport levy required for Enhanced Partnership and the Reference Case to provide the same service levels (see Figure 4.19 and Figure 4.21 of the Financial Case).

Sensitivity analysis

3.5.37. Sensitivity testing has been performed to test the financial impact of potential changes to assumptions included in the financial model. These look at areas of uncertainty in long-term forecasts and 'exogenous' factors that would be to a large extent outside the control of the Combined Authority

3.5.38. The financial effects of different sensitivities, both 'upsides' and 'downsides,' are set out in the Financial Case at Section 6.6. The results of the sensitivity tests are reported prior to any mitigating actions that the Combined Authority would need to undertake under downside scenarios. The affordability forecast is sensitive to changes in assumptions, including:

- Additional reductions in passenger demand; and
- Increases in management costs.

Financial risk

3.5.39. Enhanced Partnership carries less direct financial risk to the Combined Authority compared to the Proposed Franchising Scheme as operators retain farebox revenue risk for commercial services and primary responsibility for the bus network.

3.5.40. Section 65 and Table 4.17 of the Financial Case set out the financial risks to the Combined Authority of an Enhanced Partnership. These risks have been subjected to sensitivity testing within the Financial Case (see below).

3.5.41. The mitigations available to the Combined Authority for each financial risk are set out in Table 4.17 of the Financial Case. The mitigating responses would be both operational (for example, revising the bus network through

Conclusion: Enhanced Partnership

3.5.42. The Financial Case reports that the net deficit over the appraisal period would be £1.8m for an Enhanced Partnership. In the Financial Case, the repayment of this is funded from the transport levy.

Comparison of options under differing scenarios

3.5.43. The following table shows the average saving over the Assessment period for both Franchising and EP in comparison to the Reference Case.

Table 3.7 EP and Franchising savings compared to Reference Case

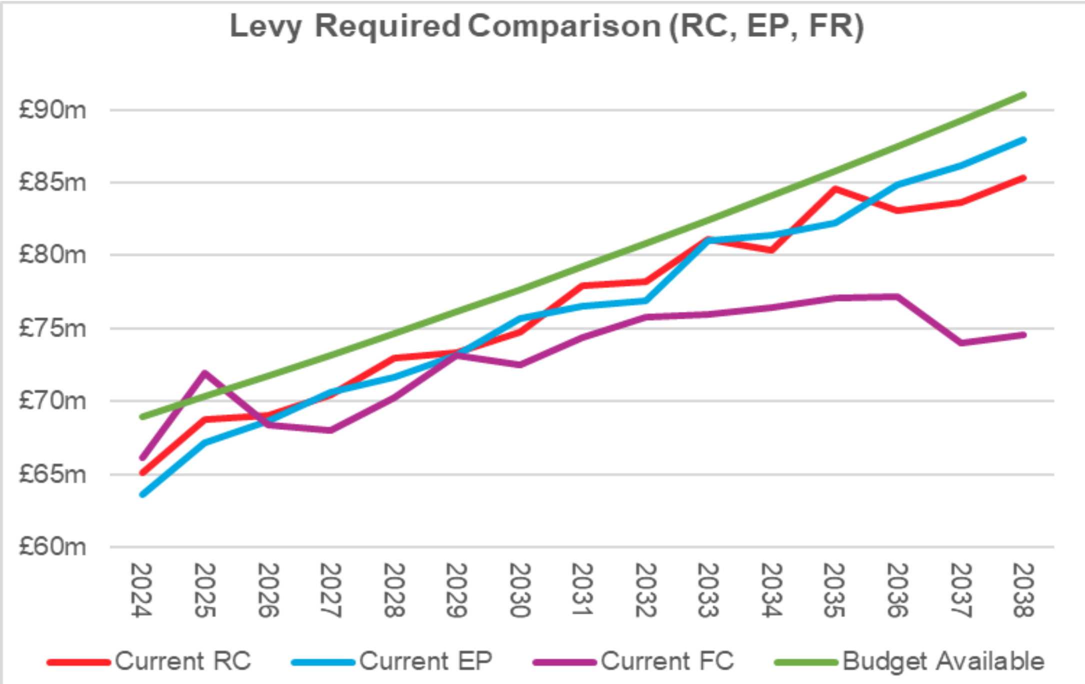
Funding Scenario	Demand Scenario	% Savings compared with Reference Case	
		EP	Franchising
Current	100	0.3%	-3.6%
Current	85	0.2%	-4.8%
Increased	100	-0.1%	-4.4%
Increased	85	-0.6%	-3.5%
Reduced	100	0.3%	-2.8%
Reduced	85	-0.8%	-6.2%

3.5.44. This shows a consistent pattern:

- EP uses slightly less funding on average than the Reference Case across all six scenarios (only exceeding the average cost of the Reference Case for one scenario) – this is consistent with the economic forecasting model targeting a similar level of spend for each of the three delivery options;;
- Franchising consistently uses less funding than the Reference Case and the EP Option in all scenarios – which is explained by the lower financing costs of fleet in the public sector.

3.5.45. The following chart shows the comparison of costs of each option under the Core Scenario.

Chart 3.2 Cost comparison across all options



3.5.46. This shows that all three options are affordable within the forecast budget (see Section 7.2 of the Financial Case for further details).

3.5.47. The following table shows a comparison of the additional passenger journeys provided, on average, across the appraisal period by each of Franchising and EP, compared with the Reference Case:

Table 3.8 EP and Franchising passenger journeys compared to Reference Case

Funding Scenario	Demand Scenario	% Additional passengers compared with Reference Case	
		EP	Franchising
Current	100	4.6%	7.0%
Current	85	3.4%	4.3%
Increased	100	5.7%	8.3%
Increased	85	4.9%	6.1%
Reduced	100	4.0%	6.8%
Reduced	85	2.8%	3.4%

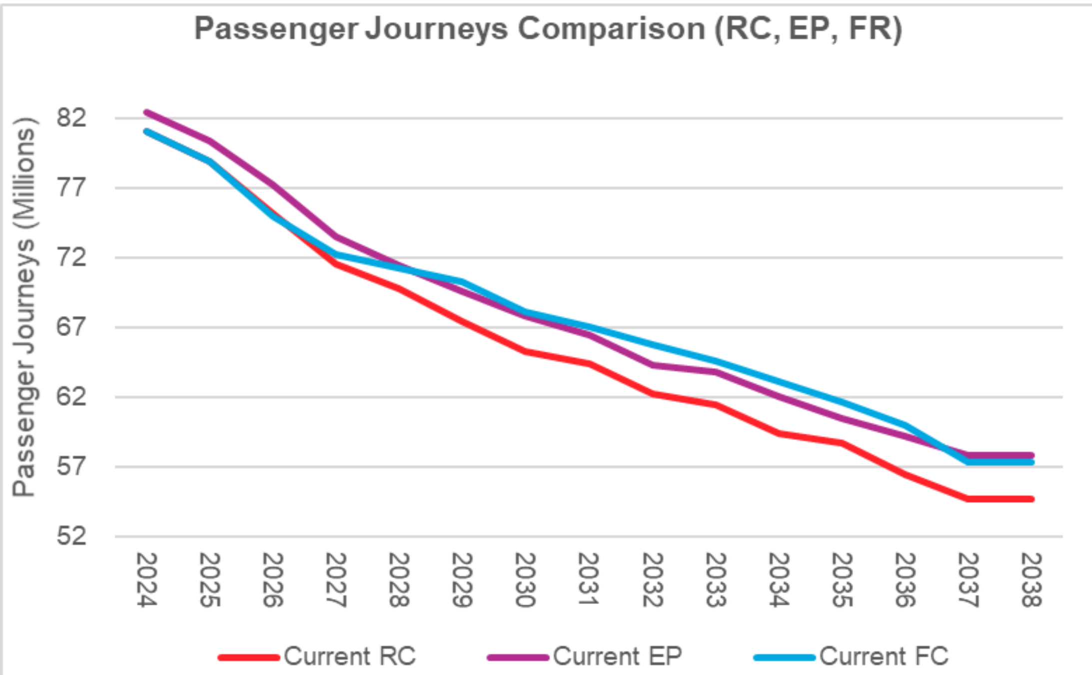
3.5.48. This shows a consistent pattern:

- Both options provide more passenger journeys than the Reference Case; and,
- Franchising offers more passenger journeys than EP.

3.5.49. These increases in journeys are achieved with lower spend than the Reference Case.

3.5.50. The following chart shows the comparison of ridership for each option under the Core Scenario.

Table 3.3 Demand Scenario comparison across all options



3.5.51. This shows that there is a consistent ranking of the three delivery options once Franchising is fully implemented. This ranking is maintained under all of the different scenarios.

Financial Case conclusion

3.5.52. Against the Financial Case objectives, the Proposed Franchising Scheme shows advantages over both Enhanced Partnership and the Reference Case for running more services (and therefore carrying more passengers) for the same funding – even allowing for recovery of upfront investment in transition and increased direct management costs. Enhanced Partnership allows more services and passengers than the Reference Case, with lower transition and ongoing costs than the Proposed Franchising Scheme.

3.5.53. Both the Proposed Franchising Scheme and an Enhanced Partnership are forecast to be within the budget available to the Combined Authority. Under the Proposed Franchising Scheme, the Combined Authority takes revenue risk and can recover its upfront and ongoing costs from within the revenue surplus. Based on the assumptions within the Assessment, the overall cost of service delivery would be less than Enhanced Partnership when allowing for the relative increase in the number of bus services.

3.5.54. The Proposed Franchising Scheme would result in a higher level of direct financial risk for the Combined Authority. It introduces significant new responsibilities for the Combined Authority, which would require careful management. Under Enhanced Partnership, the direct financial risk that the Combined Authority takes is limited, which corresponds to the services it chooses to support and manage to its available budget. However, the public sector already takes a significant level of financial risk indirectly (with bus services only continuing through 2020/2021 because of public subsidy) and an Enhanced Partnership will not change this.

Question 29: The Financial Case concludes that the Proposed Franchising Scheme carries more direct financial risk to the Combined Authority compared to an Enhanced Partnership but offers the Combined Authority greater control over the way buses are run, resulting in greater benefits. Do you have any comments on the Combined Authority taking on this financial risk?

3.6. The Management Case

Background and introduction

3.6.1. The Management Case assesses the extent to which the Combined Authority (through its executive body, Merseytravel) could deliver and operate the Proposed Franchising Scheme and Enhanced Partnership models of bus service delivery. It then compares the two options against each other in the context of current bus service arrangements. Consideration is given to the competencies required to deliver each option in a sufficiently robust manner, how the transition between operating models would be achieved, and how the differing risk profiles of each option would be managed.

3.6.2. In producing the Management Case, attention has been given to the Franchising Guidance, the objectives of the DfT's Bus Back Better strategy, and the Treasury's Green Book.

Managing Franchising operations

3.6.3. Under the Proposed Franchising Scheme, the Combined Authority would take on additional responsibilities, such as network design (due to their role in tendering the whole bus network), network operations (in relation to managing services and franchisee performance monitoring), setting commercial pricing strategies, and overall customer relations and experience. While the bus services would be operated by franchisees, Merseytravel's role in system-wide strategic management and customer interfacing would present a step-change from the current bus service arrangements.

3.6.4. The Combined Authority would take the revenue risk for all bus services under the Proposed Franchising Scheme, which is a significant change from its current model and the revenue risk it assumes in respect of supported bus services only. The strategic advantages to the Combined Authority adopting a Franchising scheme are set out in Table 5.12 of the Assessment.

3.6.5. To proactively manage the risks that arise in the delivery and management of the Proposed Franchising Scheme, the Combined Authority has developed a Franchising Risk Register which is set out in Appendix 1 to the Management Case. The Risk Register ensures that operational risks are identified and understood, and the Project Delivery Team would be responsible for intervening and escalating matters to the Project Board as part of the risk management process.

3.6.6. The Combined Authority and Merseytravel would need to rely on its governance structures to ensure that the outputs and outcomes under the Proposed Franchising Scheme are met on time and on budget. The governance structures that would apply under the Proposed Franchising Scheme are set out in Section 7.2 of the Management Case. These would be especially important under a Franchising model to ensure the realisation of its benefits and due to the additional revenue risk that accompanies it

3.6.7. The Combined Authority's current operations and structure would require significant changes to deliver the Proposed Franchising Scheme. Table 5.2 of the Management Case sets out The Combined Authority's proposed team structures, its current competencies and whether any additional resource or specialist expertise is needed to meet the requirements of the Proposed Franchising Scheme. In developing the new outline team structure, the Combined Authority consulted with various stakeholders, including Transport for London, Transport for Greater Manchester and Translink.

3.6.8. The Proposed Franchising Scheme team structure envisages that eight "Core Teams" will be required to deliver the scheme, which would be supplemented by several "Support Teams" performing existing functions within the Combined Authority, with new or enhanced capabilities. The Support Teams would deliver legal, procurement, risk, sales, marketing, communications, finance and accounting, HR and IT functions.

3.6.9. The Core Teams and their primary responsibilities under the Proposed Franchising Scheme would be:

- **Strategic Projects and Bus Service Improvement Programme Team** – responsible for overall programme management, developing bus strategy, reporting against BSIP requirements, innovation and improvement.

- **Commercial Team** – responsible for developing and implementing commercial objectives (such as pricing and ticketing strategies) and demand management. The Commercial Team would be the direct link between franchisees and other Combined Authority functions and have responsibility for specifications for all fleet requirements.
- **Operations Team** – responsible for carrying out the day-to-day operational decision-making and compliance role to ensure contractual requirements are being met. They would be responsible for revenue protection, control room management, network standard and safety monitoring and managing planned and unplanned disruptions.
- **Bus Planning and Development Team** – responsible for network planning and design, including developing service specifications for all franchise services. Responsibility for developing and implementing the Service Permit Regime and service registration functions would sit within this team. They would also be heavily involved in coordinating planned disruptions (roadworks and major events) which impact the bus network, and wider stakeholder engagement. The team would work with the Contract Management Team on contingency planning to replace any failing franchisees.
- **Contract Management Team** – responsible for procuring, evaluating, and awarding franchise contracts, including managing contract documentation, variations, disputes, contingency planning and data analysis. The Contract Management Team would also lead on operator performance review meetings, monitoring service delivery against contractual requirements and enforcing contracts where necessary.
- **Customer Experience Team** – responsible for customer engagement and contact, feedback, and complaints. The Customer Experience Team would act as an intermediary between customers and franchisees, managing stakeholders, and running consultations and surveys.
- **TravelSafe Team** – responsible for promoting safer travel on the bus network by gathering crime and anti-social behaviour data and undertaking targeted activities to improve customer and staff safety.
- **Hubs Team** – responsible for the management of bus stations within the Liverpool City Region.

3.6.10. The Combined Authority would require a total of 210 full-time roles to make up the Core Teams, as well as 11.5 full-time roles in the Support Teams. Following the transfer to The Combined Authority of roles no longer required by operators under a Franchising model, and the restructuring set out in Figure 5.1 of the Assessment to deliver the competencies described above, a net incremental headcount of 53.5 full-time roles would be required for the Proposed Franchising Scheme. This equates to a total annual resourcing cost of £4,092,500 per annum for the Core Teams and £356,750 per annum for the Support Teams.

Question 30: The Assessment shows how Merseytravel would manage Franchising in the Liverpool City Region.
To what extent do you agree with these plans?

Transition and Implementation of the Proposed Franchising Scheme

3.6.11. Under the Proposed Franchising Scheme, the Combined Authority intends to franchise all routes over a three-year period from the commencement of the first franchise contracts in four Franchising rounds as described in Section 4.4 of the Commercial Case. The objective of this phased approach would be to minimise the length of the transition period, where deregulated and franchised services run concurrently, while ensuring the procurement process is manageable and lessons can be learned from initial Franchising rounds

3.6.12. The Combined Authority has developed a transition plan to manage this process. The key elements include:

- The implementation process, and the provision of services during the notice period of the Alliance;
- How to ensure continuity of service in the transition phase when there is a mixture of franchised and unregulated services;
- How to enable/ensure that operators can mobilise their drivers, fleet and maintenance arrangements in time to deliver an effective service, and how to ensure that the Combined Authority's approach to transition does not disadvantage certain operators (new market entrants, who may take longer to mobilise); and
- How to ensure that the Combined Authority has all the required staff and processes in place to manage the contracts, and undertake other activities required under the Proposed Franchising Scheme (for example, network planning and timetabling).

3.6.13. As the Combined Authority would implement the Proposed Franchising Scheme across the entire Liverpool City Region when franchised services commence, a Service Permit Regime would need to be put in place for as-yet non-franchised bus services, as well as services which are not intended to be franchised (such as cross-boundary services).

3.6.14. The Service Permit Regime would allow different requirements to be set for different types of service, which could include specifications regarding acceptance of operator's tickets, conditions of travel and service requirements. Contingency plans would also be developed if any operator decides to withdraw commercial services before the Proposed Franchising Scheme is fully mobilised to ensure disruption to passengers is mitigated should this occur. Separately to any Franchising process, the Combined Authority would need to consult on and implement the Service Permit Regime and engage with relevant stakeholders.

3.6.15. Alongside the transition plan, the Combined Authority would also deploy an implementation programme if the Franchising model is chosen. This would enable the Combined Authority to have all the relevant management systems in place to meet the needs of Franchising and the Service Permit Regime. Figure 5.3 in the Management Case sets out a high-level implementation plan for the Proposed Franchising Scheme. The key elements of the implementation programme would be:

- **The mobilisation and expansion** of the Strategic Projects and Bus Service Improvement Programme Team to support the move to franchise contracts;
- **The work of the Bus Planning and Development Team** (supported by the Combined Authority's internal risk function and the wider the Combined Authority bus team) in evaluating the risk of any bus services being withdrawn by operators prior to the start of the Proposed Franchising Scheme and putting in place procedures to ensure that replacement services can be provided so that there is no loss of any parts of the bus network in the Liverpool City Region;

- **The establishment of the franchise operating model** and the design of the franchise contracts to provide for large, medium and small franchises so that there are entry points for local as well as regional bus operators;
- **The creation of the procurement process** (including relevant documentation to support the process) and the phased procurement of operators for those franchise opportunities;
- **The establishment of the Service Permit Regime** and the management of applications for service permits alongside the introduction of the new franchises; and
- **The mobilisation of the franchises.**

3.6.16. To successfully deliver the Vision for Bus, the transition from a deregulated bus market to the Proposed Franchising Scheme must run smoothly. The Franchising process would therefore require operators to submit comprehensive mobilisation plans, setting out how they will work with Combined Authority to transition to Franchising.

3.6.17. Due to the fundamental changes that would be required to deliver the Proposed Franchising Scheme, the implementation and transition phases present particular risks to the Combined Authority. These implementation and transition risks have been identified and set out in detail in Table 5.14 of the Management Case and are accompanied by details of the consequences of the risk materialising and the mitigation measures that would be put in place in respect of each risk.

3.6.18. Ongoing monitoring and active franchise management by the Combined Authority would also play a key role in performance management and ensure that the benefits of Franchising are realised in line with the Vision for Bus. These potential benefits of Franchising are set out in Table 5.12 of the Assessment, with further detail provided in the Economic Case.

3.6.19. The Proposed Franchising Scheme objectives would be benchmarked by Merseytravel (in line with criteria important to bus passengers and the Combined Authority), with the Combined Authority determining whether these are being met. Data would be supplied by operators and collected by the Combined Authority through its contract management system and customer feedback. This would enable the Combined Authority to take corrective action, for example through performance mechanisms within franchise agreements or by variations to the agreements themselves, if underperformance against the Scheme Objectives is identified.

Question 31: Do you have any comments on the approach to managing franchised operations under the Proposed Franchising Scheme as set out in the Management Case?

Conclusion: Proposed Franchising Scheme

3.6.20. To implement the Proposed Franchising Scheme, significant changes to the current bus operating framework would be needed. The Combined Authority would be required to undergo significant organisational change to manage its new responsibilities in network planning and procuring the entire Liverpool City Region bus network. The Management Case identifies an additional net headcount of 53.5 would be required for the Combined Authority to manage the Proposed Franchising Scheme.

3.6.21. Following a mayoral decision to franchise it is envisioned that the Proposed Franchising Scheme could be fully implemented in approximately five years. This would be achieved through a phased implementation plan, the growth in capacity and expertise of the Combined Authority and robust risk management processes. Due to the increased risks associated with Franchising, the Risk Register and associated governance structures developed by the Combined Authority would be central to the success of this delivery option if chosen. The Management Case demonstrates that the Combined Authority would be able to manage the transition to and the operation of a Franchising scheme if one is implemented.

Managing Enhanced Partnership operations

3.6.22. Under the Enhanced Partnership model (see Section 2.3 of the Economic Case for a description of this model) the Combined Authority's management structure would also require changes due to the extension of their responsibilities, albeit to a lesser extent compared with a Franchising model.

3.6.23. An Enhanced Partnership model could only be progressed with the agreement of the majority of operators. For network design, the Combined Authority would manage discussions with operators over the designation of routes within the Enhanced Partnership Scheme(s), and their interface with non-Enhanced Partnership routes.

3.6.24. Additional responsibilities for the Combined Authority would include the management of transitional arrangements including contingency planning, network operation and monitoring of services to ensure they meet the objectives of the Enhanced Partnership, managing multi-operator ticketing schemes, developing and adopting common branding for Enhanced Partnership Scheme(s), performance monitoring of Enhanced Partnership against BSIP requirements and implementing changes, and managing customer and stakeholder relations jointly with operators.

3.6.25. It should be noted that, unlike the Franchising model, the revenue risk would remain with the operators, although the Combined Authority would be required to deliver infrastructure enhancements which could affect revenue streams. The Enhanced Partnership model would not include specific performance monitoring, although some elements of performance management would occur through the network operation.

3.6.26. The required competencies and capacities of each team in the Combined Authority to deliver an Enhanced Partnership is set out in Table 5.3 of the Assessment. While some teams require additional expertise and capacity, such as the Strategic Projects and Bus Services Improvements Programme Team, the Commercial Team, and the Contract Management Team, many teams would not require expansion to deliver an Enhanced Partnership.

3.6.27. However, there is a level of uncertainty in these structures because the full scope of the Enhanced Partnership would not be known until it has been agreed with the operators. If a certain number of operators object to a proposal, then it cannot be included in the Enhanced Partnership, which would impact on the Combined Authority's resourcing requirements.

3.6.28. The Combined Authority's team structure based on an 'ambitious' Enhanced Partnership is set out in Figure 5.2 of the Management Case, with the Core Teams and their responsibilities as follows

- **Strategic Projects and Bus Services Improvement Programme Team** – overall programme management, developing and negotiating the ambitious Enhanced Partnership strategy with operators, managing transition arrangements, reporting, and driving innovation and improvement;
- **Commercial Team** – developing and implementing commercial objectives (service performance requirements, pricing, and ticketing strategies), data analysis, and branding;
- **Operations Team** – day-to-day performance of operators and oversight of

compliance with Enhanced Partnership Scheme(s), revenue protection, safety regime monitoring, and planned and unplanned disruptions;

- **Bus Planning and Development Team** – implementing the Enhanced Partnership Scheme(s) and developing and designing the supported bus network with operators, the bus service registration function and planned disruptions;
- **Contract Management Team** – management of the Enhanced Partnership Schemes, service delivery, executing variations, waivers and amendments to contracts, and managing dispute and escalation procedures. The Contract Management Team would also be responsible for enforcing the requirements and obligations of the Enhanced Partnership Scheme(s);
- **Customer Experience Team** – engagement with wider stakeholders and operators, continuing the Combined Authority's role in customer engagement and contact (acting as an intermediary with operators), and undertaking consultations and surveys;
- **TravelSafe Team** – promoting safer travel on the bus network by gathering crime and anti-social behaviour data and undertaking targeted activities to improve customer and staff safety;
- **Hubs Team** – responsible for the management of bus stations within the Liverpool City Region.

3.6.29. The total headcount required to deliver an ambitious Enhanced Partnership would be 100 across the Core Teams, and eight in the Support Teams (see Table 5.7 and Table 5.8 in the Assessment). This is a net increase of 15 full-time roles. The total resourcing cost across the Core Teams under this model would be £2,480,500 and £262,250 for the Support Teams – an increased cost of £365,250. This reflects the fewer responsibilities that would be held by the Combined Authority when compared to the Proposed Franchising Scheme.

Transition and implementation of an Enhanced Partnership

3.6.30. While the transition to an Enhanced Partnership would be less complex compared with the Proposed Franchising Scheme, the Combined Authority would still need to ensure that appropriate resourcing and competencies are in place to manage the operator licensing regime and Enhanced Partnership Schemes. It is anticipated that an Enhanced Partnership would not involve any formal operator procurement exercises, instead relying on operator engagement to transition from the existing Alliance.

3.6.31. As part of this transition, the Combined Authority would need to put contingency measures in place if any operator decides to withdraw commercial services due to the Enhanced Partnership being adopted. The Contract Management, Bus Planning and Development, and Commercial Teams would also be required to support the negotiation and consultation strategies for the Enhanced Partnership Plan and Enhanced Partnership Scheme(s) as may be required (depending on operator negotiating stance).

3.6.32. The transition to an Enhanced Partnership would depend on the form that the Enhanced Partnership would take, so any transition plan would need to be flexible to accommodate this. The key elements of the Combined Authority's implementation programme are as follows:

- **Establishment of an Enhanced Partnership Engagement Board,** in compliance with clause 3.10 of the Enhanced Partnership Guidance, due to the size and complexity of the Enhanced Partnership option. This is expected to consist of Merseytravel, operators, representatives of passenger groups, local businesses, the LEP (Local Enterprise Partnership) and local authorities adjacent to the Combined Authority;

- **Engagement with operators to determine the operational requirements of the Enhanced Partnership Plan and Enhanced Partnership Scheme(s),** including keeping all operators advised of progress (whether they are engaged in the process or not) and dealing with any relevant objections from operators to either the Enhanced Partnership Plan or any specific Enhanced Partnership Scheme(s);
- **Engagement with other parties on the Enhanced Partnership Engagement Board** and taking account of their views when discussing proposals with the operators;
- **Consultation on the Enhanced Partnership Plan and Enhanced Partnership Scheme(s)** as required by the Transport Act and Enhanced Partnership Guidance;
- **Negotiation of agreements** with operators in relation to the Enhanced Partnership Scheme(s); and
- **The mobilisation of the Enhanced Partnership.**

3.6.33. In developing the Enhanced Partnership Plan and Enhanced Partnership Scheme(s), the Combined Authority would need to ensure that processes are conducted fairly, so particular operators are not disadvantaged to avoid breaching the Competition Act. The Combined Authority would also be responsible for the consultation of the Enhanced Partnership Plan and Enhanced Partnership Scheme(s) with statutory consultees and considering what wider consultation may be needed.

3.6.34. If the Enhanced Partnership model is chosen, the Combined Authority would implement and monitor the delivery of the Enhanced Partnership Plan and Enhanced Partnership Scheme(s). Figure 5.4 of the Management Case sets out a high-level implementation plan showing how this would be achieved, with the key points being:

- Following a decision of the Combined Authority to create an Enhanced Partnership Plan and Enhanced Partnership Scheme(s), the start of consultation and negotiation with operators and other relevant stakeholders (which cannot be less than 28 days from the date on which the Combined Authority issues a notice that an Enhanced Partnership Plan and Scheme has been prepared);
- The detailed design, implementation and phasing in of the staffing resources required to manage the Enhanced Partnership operating model;
- The detailed design and implementation of the Combined Authority systems required to support the management of the Enhanced Partnership operating model; and
- Additional costs and resources required to transition from the current operating regime to the Enhanced Partnership operating model.

3.6.35. It is anticipated that agreeing the requirements of an ambitious Enhanced Partnership with operators may be challenging. This draws on the significant amount of time that Merseytravel spent negotiating the VPA with operators between July and December 2021 to determine the scope of the Enhanced Partnership. Any delay or protracted negotiation would have an impact on the timescales of the implementation plan.

3.6.36. While an Enhanced Partnership builds upon the Combined Authority's current responsibilities in managing the Alliance, an ambitious Enhanced Partnership would result in significant changes to parts of the existing framework. The Combined Authority would undertake detailed engagement with operators in arranging the Enhanced Partnership Plan and Enhanced Partnership Scheme(s), and this collaborative approach would be required to mobilise the Enhanced Partnership model effectively.

The Combined Authority's role would then consist of monitoring the delivery of the Enhanced Partnership Plan and Enhanced Partnership Scheme(s) to ensure that the benefits of an Enhanced Partnership are achieved (as set out in Table 5.13 of the Management Case) in line with the Vision for Bus.

3.6.37. The implementation of and transition to an Enhanced Partnership also involves significant risk, albeit that the revenue risk remains with the operators (unlike under the Proposed Franchising Scheme). The risks identified by the Combined Authority in relation to an Enhanced Partnership are set out in Table 5.15 of the Management Case and a Risk Register has been created to manage these. The identified risks are accompanied by an analysis of the consequences of each risk materialising, alongside the proposed measures that would be put in place to mitigate them.

3.6.38. To realise the benefits of an Enhanced Partnership, governance arrangements must also be clear and enforceable. The existing governance frameworks that Merseytravel and the Combined Authority use to manage the operation of the VPA would be transferable to any Enhanced Partnership. If an Enhanced Partnership is adopted, minor amendments would be made to the existing Merseytravel governance structure to reflect the expansion of operators who would be party to and provide services under the Enhanced Partnership. The governance structures are set out in section 7.2.4.2 of the Management Case.

Conclusion: Enhanced Partnership

3.6.39. If the Enhanced Partnership option is selected, a new operating framework would need to be put in place to support its delivery. The Combined Authority would be required to take on additional responsibilities and increase capacity within its Core and Support Teams and would be able to rely on existing experience in managing the Alliance.

3.6.40. The Management Case identifies that an additional net headcount of 15 would be needed to plan and implement the Enhanced Partnership. It is estimated that an Enhanced Partnership would take approximately six to 12 months to implement following a Combined Authority decision.

3.6.41. However, the process in establishing an Enhanced Partnership and obtaining the agreement of operators is uncertain and could significantly impact on implementation times. While the Combined Authority issues the draft Enhanced Partnership Plan and Enhanced Partnership Scheme(s), it remains subject to a statutory objection procedure for operators that could result in the ambitious Enhanced Partnership not being delivered. There is a risk that a less-than-optimum Enhanced Partnership could be provided which does not fully deliver the Vision for Bus.

3.6.42. The Management Case demonstrates that the Combined Authority would be able to manage the transition to and the operation of an Enhanced Partnership solution jointly with the operators on behalf of the Combined Authority

Question 32: Overall, to what extent do you support or oppose the introduction of Franchising?

Question 33: Do you think Franchising will improve and support the delivery of future improvements for the bus network in the Liverpool City Region? If so, why?

Question 34: Do you have any concerns about Franchising?

LIVERPOOL CITY REGION COMBINED AUTHORITY

METRO MAYOR LIVERPOOL CITY REGION

4. Equality Impact Assessment

4. Equality Impact Assessment

4.1.1. Under the Equality Act (2010), the Combined Authority is required in the exercise of its functions to have due regard for the need to:

- Eliminate unlawful discrimination, harassment and victimisation
- Advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it
- Foster good relations between those who have a relevant protected characteristic and those who do not

4.1.2. Relevant protected characteristics are age; disability; gender reassignment; pregnancy and maternity; race; religion; sex; and sexual orientation. The Combined Authority also recognises socio-economic factors as relevant within this assessment.

4.1.3. The draft analysis of the potential impacts of the **Proposed Franchising Scheme** on people who have relevant protected characteristics (Draft Equality Impact Assessment) is available for consultees to view. The analysis concludes that the Proposed Franchising Scheme would have a high positive impact on children and young people, older people, people with physical and sensory impairments and those with a low socio-economic status and a medium impact on women and people from a variety of ethnic backgrounds. The assessment does not identify any groups that would suffer any adverse impact.

4.1.4. To maintain and progress the Combined Authority's commitment to equality in future phases of the project, the following actions will be implemented

- Develop a Bus Passenger Charter, through the lens of equality, diversity and inclusion setting out how we will make bus journeys safer and accessible for all those with protected characteristics.
- Through our Travelsafe strategy and transport capital programmes we will work in partnership to ensure we improve safety and accessibility on our public transport system, actively responding to the needs and incorporating feedback received from people with protected characteristics.
- Build on the best practice of co-designing transport services with local people and embedding accessibility into design of all new transport plans to deliver on access for all.
- Ensure all our public transport services are safe and accessible for people with protected characteristics.
- Make better use of the equalities monitoring data we hold on people who use our services as evidence to inform future policy and programme design and wherever possible, put corrective action in place to narrow participation gaps in the programmes and services we deliver.

LIVERPOOL CITY REGION COMBINED AUTHORITY

METRO MAYOR LIVERPOOL CITY REGION

5. Outcome of the Independent Audit

5. Outcome of the independent audit

5.1.1. Following preparation of the Assessment, the Act requires an authority to obtain a report from an independent audit organisation on its Assessment.

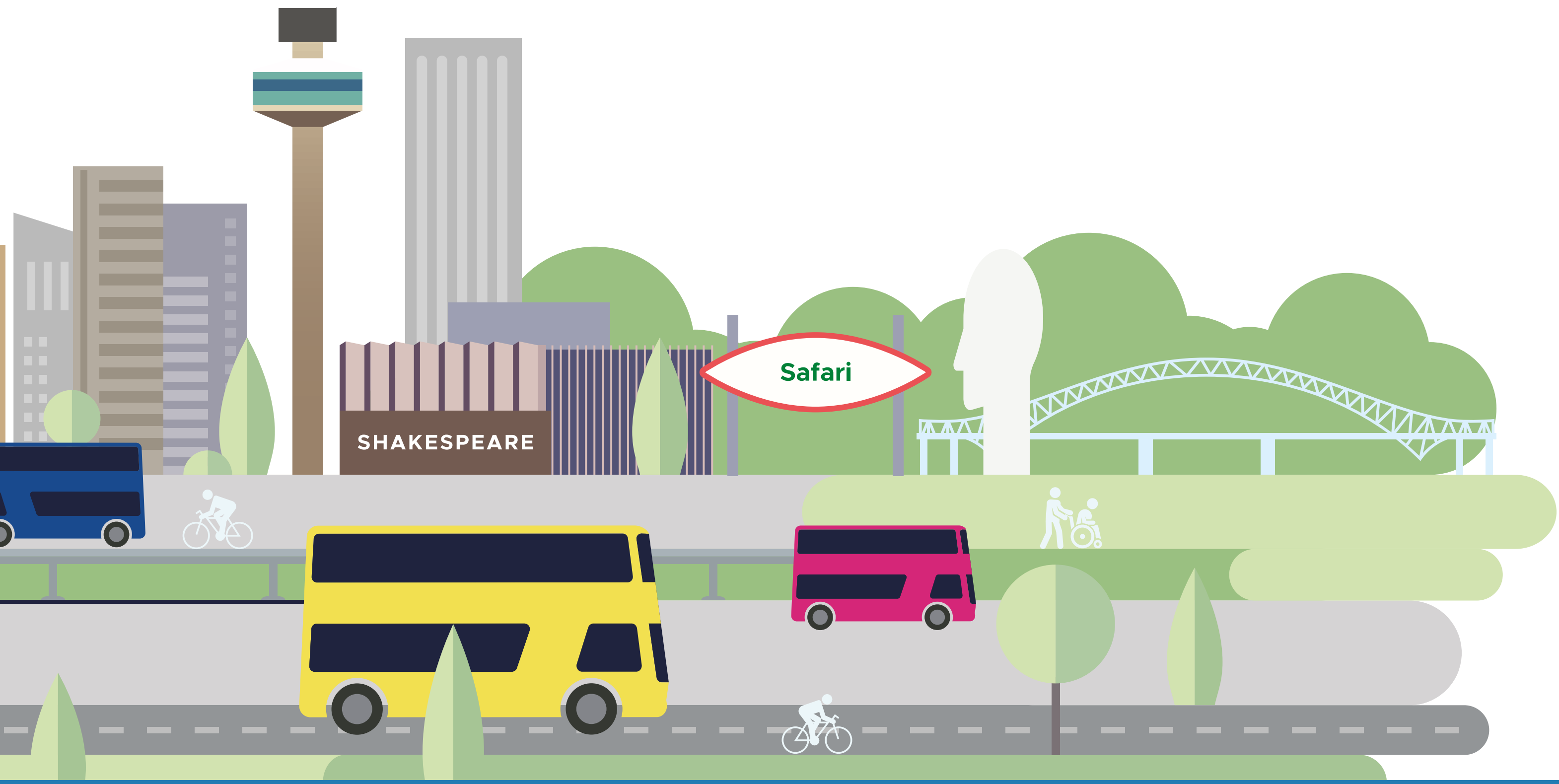
5.1.2. In July 2022, KPMG ("the Independent Auditor") were instructed to prepare the report on the Assessment on behalf of the Combined Authority (through Merseytravel). KPMG's commentary report was issued on 23 February 2023, and revised in April 2023, and subject to its workscope, the Act and associated guidance, the Independent Auditor has given the opinion that:

- The information relied on in considering whether the Combined Authority would be able to afford to make and operate the Proposed Franchising Scheme, and in considering whether the Proposed Franchising Scheme would represent economic value for money, is of sufficient quality.
- The analysis of that information in the Assessment is of sufficient quality.
- The Combined Authority had due regard to the guidance issued under section 123B of the Act in preparing the Assessment.

5.1.3. It should be noted that, while undertaking its analysis, the Independent Auditor identified a number of observations in relation to the Assessment which are set out in the commentary report. None of these issues are considered by the Independent Auditor to be sufficiently material to affect their opinion. The full text of the audit report and the scope of the opinion is attached in Appendix 3

5.1.4. The Proposed Franchising Scheme includes several changes to the draft scheme which was provided to the Auditor (including in response to the audit).

5.1.5. Following the completion of the independent audit, the Assessment was updated to address a number of the observations made by the Independent Auditor and which were not considered by the Independent Auditor to be sufficiently material to affect the opinion given in its audit report.



Appendix 1

Short and Long Form Questionnaires

Long Form Questionnaire

1. Do you have any comments on the proposal that the Proposed Franchising Scheme should apply to the entire Liverpool City Region?
2. Do you have any comments on how we have split the geographical areas of the Liverpool City Region into five rounds in the Proposed Franchising Scheme?
3. The Proposed Franchising Scheme sets out a timescale for mobilisation. Do you think this is about right, too long or too short?
4. Do you have any comments on the date on which the Proposed Franchising Scheme is currently planned to be introduced?
5. Do you have any comments on the dates proposed for franchise contracts to first be entered into in the Proposed Franchising Scheme?
6. Do you have any comments on the local services that are proposed to be franchised in the Proposed Franchising Scheme?
7. Do you have any comments on the services which are exempt from regulation under the Proposed Franchising Scheme?
8. The Assessment concludes that the current bus system is not performing as well as it should. To what extent do you agree or disagree with this statement?
9. Do you have any comments on the assumed interventions that can be delivered through the Proposed Franchising Scheme as outlined in the Strategic Case?
10. Do you have any comments on the assumed interventions that can be delivered through an Enhanced Partnership as outlined in the Strategic Case?
11. The Assessment concludes that Franchising is the best option for the Combined Authority to meet its strategic objectives for bus transport in the region. For each of the following objectives, to what extent do you think Franchising will help deliver it? [Not at all/Somewhat/Mostly/Fully/Don't know]
    - i) **Objective 1** – Maximise the contribution of bus services to achieving the economic success and social capacity of the Liverpool City Region. *(Make the most of how bus services contribute to improving the economy and enable people to access opportunities and services).*
    - ii) **Objective 2** – Maximise the contribution of bus services to reducing the impact of travel on the natural environment. *(Make the most of how buses can reduce the impact on the environment).*
    - iii) **Objective 3** – Harness competition's role in improving the offer to passengers and delivering best value for the Combined Authority for the services it procures. *(Use competition between operators to help improve bus standards and services for passengers and get the most value for the cost to the public sector).*
    - iv) **Objective 4** – Maximise the passenger benefits of service coordination, ticket integration and information provision across the Liverpool City Region public transport network. *(Give passengers a better experience with buses by making bus services more connected, improving how tickets are used across bus services and other public transport services, and providing better information about services and timetables).*
    - v) **Objective 5** – Support the implementation of measures that improve bus service delivery by addressing factors which may constrain the extent to which bus operators can commit to meet quality or service level standards. (Support plans to improve bus service standards to make buses run on time more often.)

12. Do you have any comments on the impacts of the Proposed Franchising Scheme on the Combined Authority, as set out in the Economic Case?
13. Do you have any comments on the impacts of the Proposed Franchising Scheme on passengers, as set out in the Economic Case?
14. Do you have any comments on the impacts of the Proposed Franchising Scheme on operators, as set out in the Economic Case?
15. Based on the information given, do you agree Franchising will offer value for money to the public sector? Why do you think this?
16. Do you have any comments on the Combined Authority's commercial objectives as outlined in the Commercial Case?
17. Do you have any comments on the lotting strategy for the Franchising contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?
18. To what extent do you believe the proposed lotting strategy will attract small and medium-sized operators?
19. Do you have any comments on the length of franchise contracts under the Proposed Franchising Scheme, as set out in the Commercial Case?
20. Do you have any comments on the proposed allocation of risk between the Combined Authority and bus operators under the Proposed Franchising Scheme, as set out in the Commercial Case?
21. To what extent do you agree or disagree that the Proposed Franchising Scheme would improve service quality?
22. Do you have any comments on the approach to public ownership of the bus fleet under the Proposed Franchising Scheme, as set out in the Commercial Case?
23. Do you have any comments on the approach to depots under the Proposed Franchising Scheme, as set out in the Commercial Case?
24. Do you have any comments on the impact of the Proposed Franchising Scheme or an Enhanced Partnership on the achievement of the objectives of neighbouring transport authorities, as set out in the Commercial Case?
25. If the Proposed Franchising Scheme were implemented, it is likely that some operator employees would be transferred to another operator or potentially the Combined Authority. Do you have any comments?
26. The Commercial Case concludes that the Combined Authority would be better able to meet its commercial objectives through the Proposed Franchising Scheme compared to an Enhanced Partnership. To what extent do you agree or disagree with this? Why do you agree/disagree with this?
27. The investment costs anticipated by the Combined Authority in transitioning to and delivering the Proposed Franchising Scheme have been set out in the Financial Case. Do you have any comments on these anticipated costs?
28. The Financial Case sets out the potential sources of funding available to the Combined Authority to deliver Franchising. Do you have any comments?
29. The Financial Case concludes that the Proposed Franchising Scheme carries more direct financial risk to the Combined Authority compared to an Enhanced Partnership but offers the Combined Authority greater control over the way buses are run, resulting in greater benefits. Do you have any comments on the Combined

Authority taking on this financial risk?

30. The Assessment shows how Merseytravel would manage Franchising in the Liverpool City Region. To what extent do you agree with these plans?

31. Do you have any comments on the approach to managing franchised operations under the Proposed Franchising Scheme as set out in the Management Case?

32. Overall to what extent do you support or oppose the introduction of Franchising?

33. Do you think Franchising will improve and support the delivery of future improvements for the bus network in the Liverpool City Region? And why?

34. Do you have any concerns about Franchising?

Short Form Questionnaire

1. The Assessment concludes that the current bus system is not performing as well as it should. To what extent do you agree or disagree with this statement?

2. The Assessment concludes that Franchising is the best option for the Combined Authority to meet its strategic objectives for bus transport in the region. For each of the following objectives, to what extent do you think Franchising will help deliver it? [Not at all/Somewhat/Mostly/Fully/Don't know]

i) Objective 1 – Maximise the contribution of bus services to achieving the economic success and social capacity of the Liverpool City Region. *(Make the most of how bus services contribute to improving the economy and enable people to access opportunities and services).*

ii) Objective 2 – Maximise the contribution of bus services to reducing the impact of travel on the natural environment. *(Make the most of how buses can reduce the impact on the environment).*

iii) Objective 3 – Harness competition's role in improving the offer to passengers and delivering best value for the Combined Authority for the services it procures. *(Use competition between operators to help improve bus standards and services for passengers and get the most value for the cost to the public sector).*

iv) Objective 4 – Maximise the passenger benefits of service coordination, ticket integration and information provision across the Liverpool City Region public transport network. *(Give passengers a better experience with buses by making bus services more connected, improving how tickets are used across bus services and other public transport services, and providing better information about services and timetables).*

v) Objective 5 – Support the implementation of measures that improve bus service delivery by addressing factors which may constrain the extent to which bus operators can commit to meet quality or service level standards. *(Support plans to improve bus service standards to make buses run on time more often).*

3. Based on the information given, do you think Franchising will offer value for money to the public sector? Why do you think this?
4. The Financial Case sets out the potential sources of funding available to the Combined Authority to deliver Franchising. Do you have any comments?
5. The Assessment shows how Merseytravel would manage Franchising in the Liverpool City Region. To what extent do you do you agree with these plans?
6. Overall, to what extent do you agree with or oppose the introduction of Franchising?
7. Do you think Franchising will improve and support the delivery of future improvements for the bus network in the Liverpool City Region? And why?
8. Do you have any concerns about Franchising?

Appendix 2

Locations where you can see and respond to the consultation

Correct at time of going to press – please check opening times with service providers

You can view hard copies of the:

- Consultation Document and Appendices (this document)
- Consultation Summary Document and Appendices
- Questionnaire
- Business Case Assessment and supporting documentation
- Equality Impact Assessment on the Proposed Franchising Scheme

Merseytravel Centres and other Associated Locations

Birkenhead Travel Centre - Birkenhead Bus Station, Claughton Road, CH41 6RT

Bootle Travel Centre - Bootle Bus Station, Washington Parade, Bootle, L20 4RE

Huyton Travel Centre - Huyton Bus Station, Huyton Hey Road, Huyton, L36 5SB

Liverpool One Travel Centre - Liverpool ONE Bus Station, 1 Canning Place, L1 8LB

Queen Square Travel Centre - Queen Square Bus Station, Liverpool, L1 1RG

Seacombe Ferry Terminal – Victoria Place, Wirral, CH44 6QY

St Helens Travel Centre - St Helens Bus Station, Bickerstaffe Street, WA10 1DH

Halton

Ditton Library - Queens Avenue, Widnes WA8 8HR

Halton Direct Link (Runcorn) - Rutland House, Halton Lea, Runcorn, WA7 2ES

Halton Direct Link (Widnes) - Brook Street, Widnes, WA8 6NB

Halton Lea Library - Halton Lea, Runcorn, WA7 2PF

Runcorn Library - Granville Street, Runcorn, WA7 1NE

Widnes Library - Victoria Square, Widnes, WA8 7QY

Knowsley

Halewood Library - The Halewood Centre, Roseheath Drive, Halewood, L26 9UH

Huyton Library - Civic Way, Huyton, L36 9GD

Kirkby Library - Norwich Way, Kirkby, L32 8XY

Prescot Library - The Prescot Centre, Aspinal Street, Prescot, L34 5GA

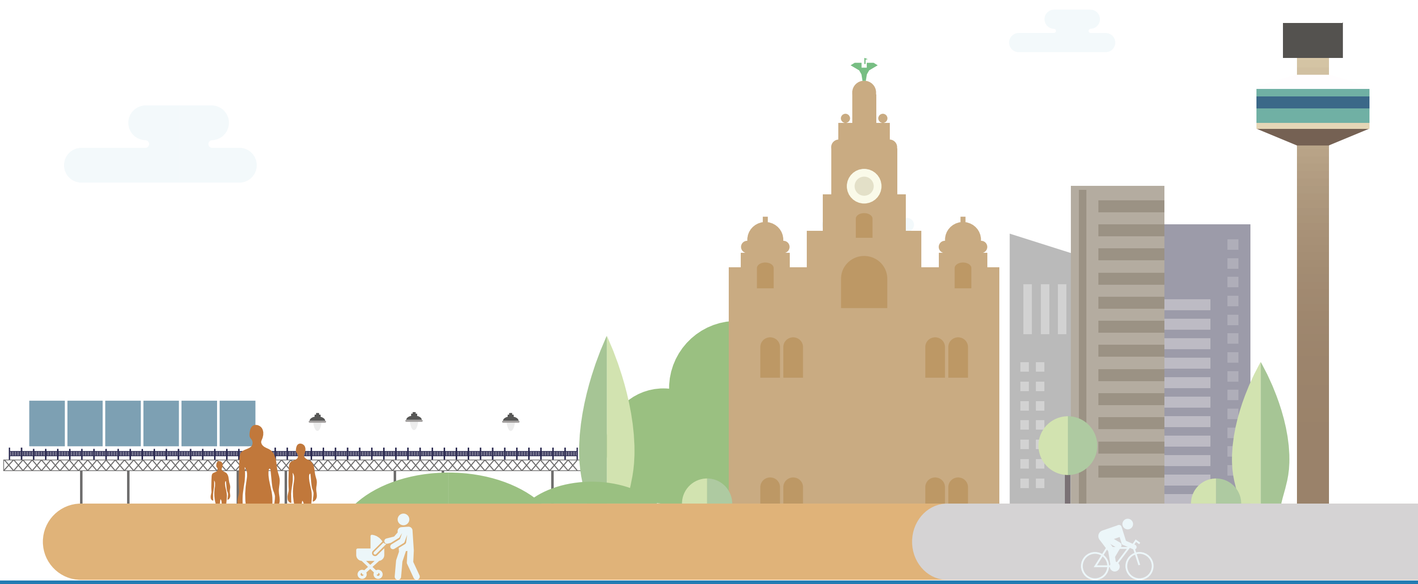
Stockbridge Village Library - The Withens, Stockbridge Village, L28 1AB

Liverpool

Allerton Library - Allerton Road, L18 6HG
Breck Road Library - 8-10 The Mall Breck Road, L5 6PX
Central Library - William Brown Street, L3 8EW
Childwall Library - Childwall Fiveways, L15 6UT
Croxteth Library - The Communiversity, Altcross House, Altcross Road, L11 0BS
Dovecot Library - Back Dovecot Place, L14 9BA
Fazakerley Library - Formosa Drive, L10 7LQ
Garston Library - Bowden Road, L19 1QN
Kensington Library – Kensington, L7 2RJ
Lee Valley Library - Childwall Valley Road, L25 2RF
Norris Green Library - Townsend Avenue, L11 5AF
Old Swan Library - Prescot Road, L13 5XG
Parklands Library - Conleach Road, L24 0TY
Sefton Park Library - Aigburth Road, L17 4JS
Spellow Library – County Road, L4 3QF
Toxteth Library - Windsor Street, L8 1XF
Wavertree Library - Picton Road, L15 4LP
West Derby Library - West Derby Road, L13 7HQ

Sefton

Bootle Library - 220 Stanley Road, Bootle, L20 3EN
Crosby Library - Crosby Road North, Waterloo, L22 0LQ
Formby Library - Duke Street, Formby, L37 4AN
Meadows (Maghull) Library – Hall Lane, Maghull, L31 7BB
Netherton Library - Glover's Lane, Netherton, L30 3TL
Southport Library - Lord Street, Southport, PR8 1DJ



St. Helens

Chester Lane Library - Four Acre Lane, St Helens, WA9 4DE

Eccleston Library – Broadway, Eccleston, WA10 5PJ

Garswood Library - School Lane, Garswood, WN4 0TT

Haydock Library - Church Road, Haydock, WA11 0LY

Moss Bank Library - Bowness Avenue, St Helens, WA11 7EQ

Newton-le-Willows Library - Crow Lane East, Newton-le-Willows, WA12 9TU

Parr Library - Fleet Lane, Parr, St Helens, WA9 1SY

Peter Street Library - Peter Street, St Helens, WA10 2EQ

Rainford Library - Church Road, Rainford, WA11 8HA

Rainhill Library - View Road, Rainhill, L35 0LE

St Helens Library - The World of Glass, Chalon Way East, St Helens, WA10 1BX

Thatto Heath Library - Thatto Heath Road, St Helens, WA10 3QX

Wirral

Bebington Library - Civic Way, Bebington, CH63 7PN

Beechwood Library - 8 Beechwood Drive, Greenfields, Beechwood, CH43 7ZU

Birkenhead Central - Borough Road, Birkenhead, CH41 2XB

Eastham Library - Mill Park Drive, Eastham, CH62 9AN

Greasby Library - Greasby Road, Greasby, CH49 3AT

Heswall Library - Telegraph Road, Heswall, CH60 0AF

Leasowe Library - Millennium Centre, Twickenham Drive, Leasowe, CH46 1PQ

Moreton Library - Pasture Road, Moreton, CH46 8SA

Rock Ferry Library - 259 Old Chester Road, Rock Ferry, CH42 3TD

Seacombe Library - St Paul's Road, Seacombe, Wallasey, CH44 7AN

St James Library - St James Centre, Laird Street, Birkenhead, CH41 7AL

Upton Library - Ford Road, Upton, CH49 0TB

Wallasey Central Library - Earlston Rd, Wallasey, CH45 5DX

West Kirby Library - The Concourse, West Kirby, CH48 4HX

LIVERPOOL CITY REGION
COMBINED AUTHORITY

METRO MAYOR
LIVERPOOL CITY REGION

Appendix 3

Independent Auditor's report

Report on the Liverpool City Region Combined Authority Bus Franchising Outline Business Case

February 2023

(Revised April 2023)

Document Classification KPMG Confidential

Notice: About this Report

- This Report has been prepared on the basis set out in our contract reference "1. Bus Reform Commentary Report 1580560 - signed" with the Liverpool City Region Combined Authority (the "**Client**") dated 20 September 2022 (the "**Agreement**"), and should be read in conjunction with the Agreement.
- Nothing in this Report constitutes a valuation or legal advice.
- We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the Agreement.
- This Report has not been designed to be of benefit to anyone except the Client. In preparing this Report we have not taken into account the interests, needs or circumstances of anyone apart from the Client, even though we may have been aware that others might read this Report. We have prepared this Report for the benefit of the Client alone.
- This Report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Client) for any purpose or in any context. Any party other than the Client that obtains access to this Draft Report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through the Client's Publication Scheme or otherwise) and chooses to rely on this Draft Report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this Report to any party other than the Client.
- In particular, and without limiting the general statement above, since we have prepared this Report for the benefit of the Client alone, this Report has not been prepared for the benefit of any other local authority nor for any other person or organisation who might have an interest in the matters discussed in this Report, including Bus Operators, those who work in the transport sector or those who provide goods or services to those who operate in the transport sector.
- Please note that the Agreement makes this Report confidential between the Client and us. It has been released to the Client on the basis that it shall not be copied, referred to or disclosed, in whole or in part, without our prior written consent. Any disclosure of this Report beyond what is permitted under the Agreement may substantially prejudice this firm's commercial interests. A request for our consent to any such wider disclosure may result in our agreement to these disclosure restrictions being lifted in part. If the Client receive a request for disclosure of the product of our work or this Report under the Freedom of Information Act 2000 or the Freedom of Information (Scotland) Act 2002, we would ask that in accordance with recommended practice, they let us know and not make a disclosure in response to any such request without consulting us in advance and taking into account any representations made.

Contents

1 Executive Summary

This Commentary Report is made in accordance with the terms of our call off contract dated 20 September 2022 (the "Engagement Letter") (under the Crown Commercial Services Management Consultancy Framework 3). The purpose is to report to Liverpool City Region Combined Authority ('LCRCA') in connection with its requirement for KPMG LLP to comment on the authority's assessment of its proposed bus franchising scheme (the 'Assessment') as prepared in accordance with the Transport Act 2000 (as amended by the Bus Services Act 2017 (together the Act)). The Report is prepared to comply with section 123D of the Act and as a result, this Report may not be suitable for any other purpose other than that set out in the Act.

1.1 Background and Conclusion

In 2018 as permitted by, and in accordance with the Bus Services Act 2017, LCRCA commenced a process to assess the potential benefits and viability of reform of its local bus market through franchising. This has been delivered in the form of a Business Case having regard to HMT's Green Book guidance, Transport Act 2000[1] and the specific bus franchising guidance provided by the Department for Transport under Transport Act 2000[2]. The first draft of the Business Case was issued internally within LCRCA in 2020. Work was paused briefly in 2020 during the COVID-19 pandemic before recommencing in April 2021.

The purpose of this document (KPMG's "Commentary Report") is to report to Liverpool City Region Combined Authority ('LCRCA') in connection with its commissioning of KPMG LLP to comment on LCRCA's Business Case of its proposed bus franchising scheme (which LCRCA refers to as the '"Assessment") as prepared in accordance with the Transport Act 2000 (as amended by the Bus Services Act 2017 (together the Act)).

As required by the Act, KPMG's Commentary Report considers the following aspects of LCRCA's Assessment:

> '(a) The information relied on by the authority or authorities in considering the matters referred to in section 123B(3)(d) or (e) is of sufficient quality,
>
> (b) the analysis of that information in the assessment is of sufficient quality, and
>
> (c) the authority or authorities had due regard to guidance issued under Section 123B in preparing the assessment.'[3]

The Report has also considered whether the Assessment has been prepared having regard to The Bus Services Act 2017 Franchising Scheme Guidance ('the Guidance') issued by the Department for Transport ('DfT') pursuant to Section 123B(5) of the Transport Act 2000.

The Guidance sets out certain areas to consider in concluding whether the quality of information or analysis is of sufficient quality and our Commentary Report sets out our findings in each of those areas. The Guidance does not set out a framework for materiality in the context of considering each of the above aspects, nor how to conclude whether due regard has been had to guidance issued under section 123B. In particular, as the Assessment is based on

[1] UK Legislation, *Bus Services Act 2017* (2017) [link]
[2] Department for Transport, *The Bus Services Act 2017 Franchising Scheme Guidance* (2017) [link]
[3] Department for Transport, *The Bus Services Act 2017 Franchising Scheme Guidance* (2017) [link]

assumptions, significant judgement is required to be applied by LCRCA in developing its Assessment. We have therefore set out detailed commentary on LCRCA's approach to preparing its Assessment having regard to the Act, and made our opinion based on a specific methodology that has been agreed with LCRCA, and is set out in the Commentary Report.

Subject to the above and the work undertaken accordingly, our opinion is that:

a) the information relied on by LCRCA in considering the matters referred to in section 123B(3)(d) or (e) is of sufficient quality

b) the analysis of that information in the assessment is of sufficient quality, and

c) LCRCA has had due regard to guidance issued under section 123B in preparing the Assessment.

It should be noted that whilst undertaking our analysis, we identified a number of observations in relation to the Assessment which are set out in this Commentary Report. None of these issues are considered to be sufficiently material to affect the opinion given above.

Please note that our opinion is not provided in accordance with, or having regard to any formal assurance standards, and therefore does not constitute and audit or review under UK or International auditing standards

1.2 Definition of Scope

The agreed restrictive scope of the work is set out below, and in Section 2 which details the Approach and Methodology followed by KPMG.

LCRCA recognises and accepts that the ability of KPMG to deliver the services in a timely and complete manner is in all means subject to relevant information being made available by LCRCA to KPMG in a timely and complete manner. KPMG has been reliant on the information provided by LCRCA and on the assumptions made and provided by LCRCA and will not consider the impact of potential future changes in the UK bus market on LCRCA's business case.

KPMG's Report does not constitute a formal opinion or a statutory audit under the Local Audit and Accountability Act 2014, Accounts and Audit Regulations Act 2015 or the Local Audit (Public Access to Documents) Act 2017, nor have the procedures used by KPMG to perform the work constitute an audit or review in accordance with any generally accepted auditing standards. Accordingly, no assurance has been provided or expressed. Furthermore, KPMG has not performed any procedures to consider, or otherwise establish the reliability of, any of the information to which its services relate.

LCRCA should note that this Report or any product of KPMG's services does not constitute recommendations to LCRCA as to whether or not LCRCA should proceed with any particular course of action.

Where applicable this Report also sets out KPMG's recommendations to LCRCA to address deficiencies and weaknesses that KPMG has identified in undertaking its work. Whilst KPMG has used its knowledge and experience to identify or comment on potential additional and/or alternative sources of data that LCRCA could use in its analysis and business case, KPMG provides no guarantee that all possible sources of data will be identified.

For the avoidance of doubt, KPMG is not required to and does not comment or provide an opinion on the suitability or appropriateness of LCRCA's preferred option. This Report is provided solely for the benefit of LCRCA. KPMG acknowledges that LCRCA may rely on the contents of this Report and that the Report may be used by LCRCA in accordance with the provisions of the Bus Services Act 2017.

For the avoidance of doubt, KPMG's work has not involved a review of all the unique formulae within the models and is not expected to comment on the accuracy of the models or identify all errors within the models.

To the fullest extent permitted by law, KPMG does not accept or assume responsibility to anyone other than to LCRCA for its Report or for any conclusions it has formed.

1.3 Summary of Findings

KPMG has identified a number of observations in LCRCA's Business Case for Bus Franchising. The key observations are summarised below.

1.3.1 Key observations

This Report highlights the following observations in relation to data selection or modelling that would benefit the robustness of the business case, but which we do not consider to be material issues.

A summary of the key observations made in this Report can be found below. Please note this list is not exhaustive, and only includes an extract of points discussed throughout the Report.

- **Transport Levy**. LCRCA has documented this risk in the 'Funding Scenarios' section under 3.1.2 (Financial Case). LCRCA's business case assumes that the current Transport Levy arrangements would be the main source of funding to cover the financial shortfall arising from the provision of bus services across all options under assessment. LCRCA has noted a commitment by constituent authorities to meet the increase in the Levy by 2% per annum. However, there remains a potential risk if the increase in costs rises above LCRCA's ability to fund its bus operations and LCRCA's assumed ability to reduce costs in such scenario may be limited. There is a potential risk that the costs that the LCRCA is underwriting through the franchising model may fall outside of this range forecasted for the levy. A more detailed explanation is included in Section 5.2.3.
- **Elasticities.** In the Economic Case and Modelling and Appraisal Assumptions note, a lower elasticity has been assumed (-0.4 in the morning peak and -0.5 for the evening peak), which falls outside the DfT's recommended elasticities range of –0.7 to -0.9. LCRCA has included an explanation that this is because the Black Book indicates that trips made in the peak tend to be for work and education purposes, and so tend to be relatively fixed in time and space, hence peak elasticities should be lower than off-peak elasticities. A more detailed explanation is included in Section 3.1.2.4.
- **Aggregate / composite downside sensitivity analysis.** Whilst a sensitivity analysis has been undertaken for individual parameters, it has not assessed the overall downside impact across all parameters simultaneously. These scenarios could reflect a situation where a number of cost headwinds occur simultaneously and would allow

LCRCA to assess the level of revenue risk that it could carry under franchising. This is further discussed in Section 4.4.

The DfT issues specific guidance regarding the preparation of business cases for bus franchising (pursuant to the Bus Services Act 2017). KPMG's commentary is structured to reflect this guidance per the following sub-sections.

1.3.2 The data used by LCRCA in the preparation of the Business Case

Whether the data used is from reputable sources, used selectively or comprehensively and is relevant and up to date.

Whilst the data used to support LCRCA's Business Case appears to meet the guidance as set out by DfT, there are specific areas where improvements can be made, as detailed in Section 3: Commentary on Data.

KPMG has identified four potential areas of improvement:

1. **Assumptions or data points that were referenced but were not possible to consider as the supporting evidence files were not provided.** For example, LCRCA's costs specific to Franchising (Financial Case, Table 4.9) includes the provision for risk which was discussed and agreed at a workshop between LCRCA and its Business Case development supplier consortium. The evidence to support this calculation of risk provision has not, however, been provided.

   KPMG's full observations related to this theme are provided in Section 3.1.2.1.

2. **Assumptions that have a quantifiable impact on the economic or financial models, but rely on partial and insufficient sourcing or justification.** For example, the provision for risk assumptions used in Table 4.9 of the Financial Case is higher than the values provided in the source – Annex E '211220 Metro Mayor Presentation Dec 2021 V2'. Additionally, no supporting evidence has been provided for IT provisional cost, e.g. change in software and management systems. The difference in the assumptions used and the values provided in the source requires justification or explanation.

3. KPMG's full observations related to this theme are provided in Section 3.1.2.2.

4. **Assumptions that have a quantifiable impact on the business case figures, which may benefit from being updated**. For example, PWLB interest rate sensitivity has been applied over a January 2022 rate that would benefit from being updated. There is inconsistency in the date of these references in the Business Case.

   KPMG's full observations related to this theme are provided in Section 3.1.2.3.

5. **Assumptions or data points that do not have a direct quantifiable impact on the economic or financial model but lack a clear, specific reference or citation**. For example, the base dates for each cost category in the financial model differ slightly.

Operator payments and supported services revenue have a 2018/19 base year, depot and fleet investment are from 2019/20 and transitional costs are from 2020/2021.

Additionally, data related to journey speeds and reliability has not been included, but a rationale has been provided to explain that LCRCA's Case for Change is not based upon service performance specifically, including journey speeds and reliability, and as such does not include specific data on these elements. The Assessment does however LCRCA indicated that they have considered how measures to address journey speeds and/or reliability could be introduced under the regulatory options.

KPMG's full observations related to this theme are provided in Section 3.1.2.4 and Section 3.1.

1.3.3 LCRCA's analysis included in the Business Case

Whether the mathematical modelling of the analytical methods used to calculate the impacts of the options is accurate.

The modelling used for the development of LCRCA's Business Case adopts recognisable logic and calculation methods. **There are, however, areas where additional analysis would be of benefit to the robustness of the Business Case** and these are discussed in detail in Section 4: Commentary on Modelling, for example, consideration of measures required under an Equality Impact Assessment ('EIA') to meet commitments to equality and non-discrimination, such as better lighting or CCTV. This would have the potential of increasing patronage as different groups may feel safer or more able to travel by bus. There is no direct impact on either the Financial or Economic Cases as the costs for these measures are unknown and would require a look at the existing bus shelters.

1.3.4 The process undertaken by LCRCA in preparing the Business Case

Whether the preparers of LCRCA's Business Case had due regard to guidance and process in preparing the assessment.

LCRCA has followed and addressed most of the areas as set out in the DfT Guidance, although areas of improvement are identified. These are detailed in Section 5: Commentary on Process, and a summary is provided below.

1. **Strategic Case:** The Strategic Case addresses the requirements in DfT's guidance for franchising, such as options generation as outlined in Section 5.2.1. The Strategic Case is supported by survey results from the Big Bus Debate published in 2019 and may not be representative of the issues customers face in the post-COVID world. Hence, the case for change could benefit from more recent data on customer issues and satisfaction levels to make a stronger case for intervention. Areas for improvement for further enhancement are set out in Section 5.2.1.

2. **Economic Case:** The Economic Case follows the DfT guidance and compares the shortlisted options of Enhanced Partnership and Franchising against a 'business as usual' scenario i.e. the counterfactual 'do nothing' scenario.

3. **Financial Case:** The Financial Case addresses the DfT's guidance. **However, an area of improvement is that, whilst a sensitivity analysis has been undertaken for individual parameters, it has not assessed the overall downside impact across all parameters simultaneously.**

4. **Management Case:** LCRCA has outlined many relevant implications of franchising on management of the bus network, specifically the need to invest in people, processes, and systems. **Opportunities exist to consider additional risks in respect to potential unintended consequences from service cuts in the event that central government funding (BSOG funding) is unavailable. Areas for improvement to incorporate this risk, among other factors, in the sensitivity analysis are set out in Section 5.2.**

2 Approach and Methodology

2.1 Purpose of KPMG's work

As specified in Bus Services Act 2017 Guidance, KPMG read LCRCA's Franchising Business Case to assess the process followed, and relevance and suitability of the information used in the analysis. To do so, KPMG adopted a methodology, agreed with LCRCA in the commencement of its engagement, to consider and comment on:

1. Whether the data used by LCRCA in the preparation of its Business Case is from reputable sources, used selectively or comprehensively and is relevant and up to date.

2. Whether the mathematical modelling of the analytical methods used to calculate the impacts of the options is accurate.

3. Whether the preparers of the Business Case had due regard for guidance and process in preparing the assessment.

This Report is split into three sections covering: Data, Modelling and Process. Each section can be read in isolation but there are links and interrelations between each section and, therefore, it is recommended that the Report be read in its entirety.

In this Methodology and Approach section we detail:

1. The structure used to present the findings.

2. Our approach to evaluating the criteria as set out above.

2.2 Data

2.2.1 Structure

The data section of the Report is structured in the following manner:

1. We first considered if the minimum data sources were included in LCRCA's Outline Business Case ('OBC'), as required by the DfT's Guidance.

2. We then considered data or assumptions that impact quantifiable aspects of the Business Case that we are unable to comment on without access to a primary data source, or proof of a request and receipt of data from relevant counterparties.

3. We then considered data or assumptions that impact quantifiable aspects of the Business Case, and that rely on partial - but not sufficient - sourcing or justification.

4. We then considered data or assumptions that impact quantifiable aspects of the Business Case that may benefit from being updated.

5. We then considered potential issues with the data that do not impact quantifiable aspects of the Business Case.

6. Finally, we suggested additional potential sources that could be used to strengthen the Business Case.

2.2.2 Methodology

Aim: To consider whether the data used is from reputable sources, used selectively or comprehensively and is relevant and up to date.

Process:

1. We first read all documents and data sources sent to us from LCRCA to identify what data and modelling had been used in the Business Case, Appraisal Specification Report (ASR) and Economic Appraisal Spreadsheet.

2. We then identified every instance where data was used and identified if we had access to the source of the data.

3. Where we did not have access to the primary source or reference, we requested this data source from LCRCA.

4. Having received more data sources and references, we considered the source and whether we understood such source to be reputable. Where it was not, we identified alternative sources that could be used instead to support the relevant analysis.

5. We then considered if the source was up to date. This required determining if pre-COVID-19 data was appropriate to use depending on the specific area of concern. Where not appropriate to use pre-COVID-19 data, we suggested using more up-to-date sources. We considered sources and original datasets to identify if more up to date versions were available. Where available, we identified the more up to date source and communicated it to LCRCA.

6. We then considered if the data was used selectively or comprehensively. This required looking at the data in the context of its original source. This also required considering the use of pre-COVID-19 data and determining if it could be used in the OBC, or if post-COVID-19 data would provide a more comprehensive and accurate view.

7. We then considered if the specific data point was critical to the quantifiable aspects of the OBC such as the modelling used in the Economic Case. Where it was critical to this aspect, we identified it as so, where not we identified it as a lower priority.

8. In a number of circumstances – set out in Section 3.1.2.1, 3.1.2.2, 3.1.2.3 of this Report – we were not provided with data sources or clear references by LCRCA. For some of these areas we identified and suggested sources that could be used. Where we were unable to locate a relevant source, we have communicated the specific areas to LCRCA as data

points we could not establish a source for.

2.3 Modelling

2.3.1 Structure

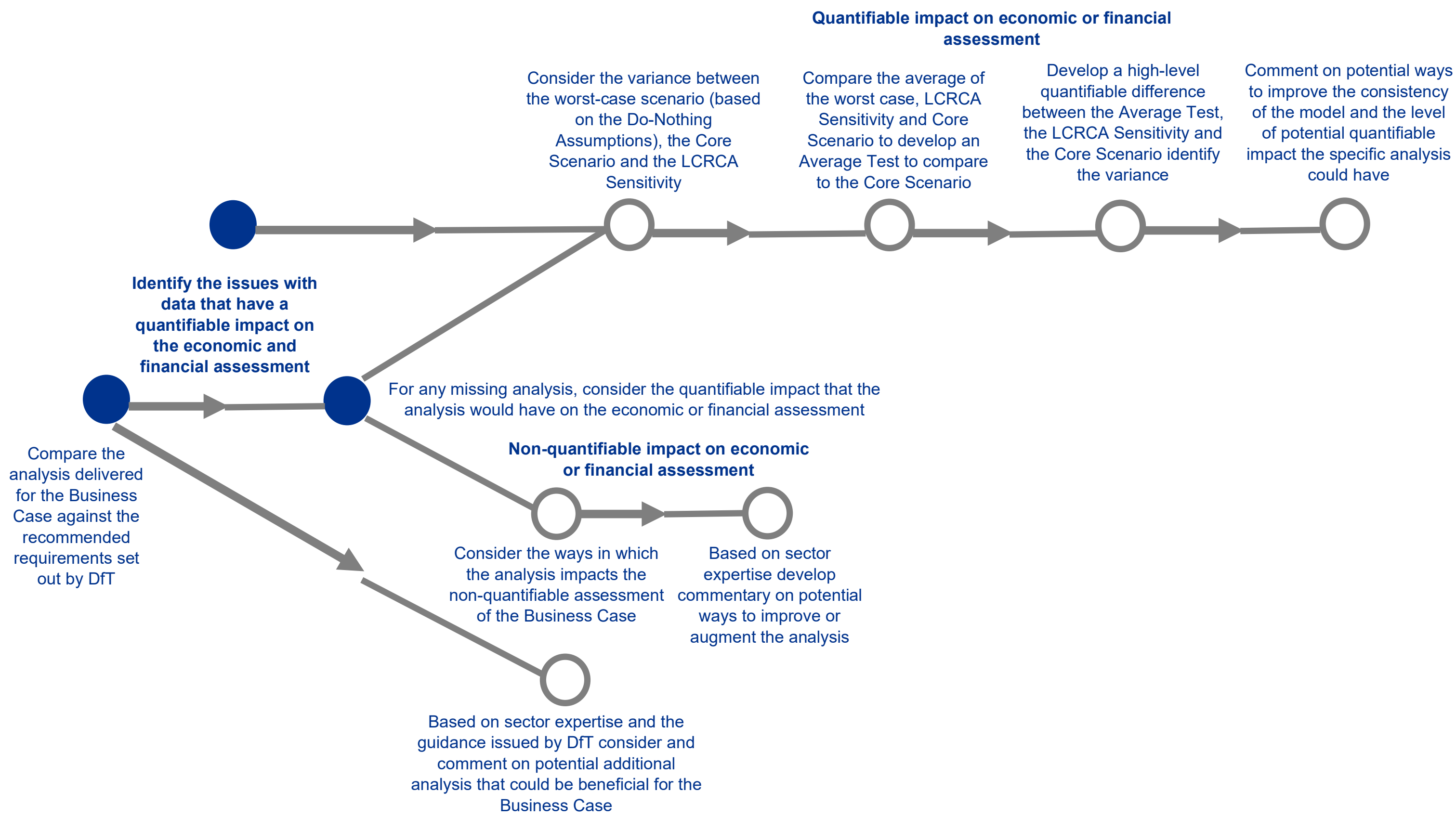
Process:

1. We identified, based on the Guidance issued by the DfT, if the required analysis has been included in the Business Case.
2. We developed commentary of areas of the modelling that:
   - Have been identified as requiring additional data or sources and/or do not appear to be consistent with the analysis; and,
   - Have a quantifiable impact on the Business Case in relation to the financial and economic impacts.
3. We developed commentary of areas of the modelling that have been identified as requiring additional data or sources and/or do not appear to be consistent with the analysis but do not have a quantifiable impact on the Business Case economic or financial modelling.
4. We developed commentary on areas that could be improved within the Business Case.

2.3.2 Methodology

We approached the process as outlined in Figure 1.

Figure 1. Approach to model testing



2.4 Due Regard to Process and Guidance

2.4.1 Structure

Process:

Our commentary on whether LCRCA's approach had due regard to process and guidance is based on a comparison of LCRCA's approach to the Bus Services Act 2017 123B. This comprised the following:

1. A commentary on whether LCRCA has included the elements as identified in the Bus Services Act 2017 (123B).

2. A commentary on whether LCRCA has included the elements as identified in the Guidance issued by DfT.

3. Provision of commentary on the extent to which LCRCA has given due regard to the processes as set out in the Bus Services Act 2017 and the Guidance.

2.4.2 Methodology

We approached the process as follows:

1. We identified where LCRCA followed the guidance as set out by DfT and indicated the section where it predominantly appears.

2. Where analysis was not in the Business Case, a short description of this is included in Table 8.

3. We developed commentary that outlines where the Business Case did follow the process and, also, where the Business Case could benefit from incorporating additional analysis.

3 Commentary on Data

3.1 Summary

The Guidance from DfT provides a list of data that is expected in the Business Case. KPMG read the documents provided to us, identified the sources of data, and requested these from LCRCA. We then considered the reliability and timeliness of data sources, whether data was selectively included, and quantifiable impacts of the use of data in the Business Case.

In relation to journey speeds and reliability, DfT's Guidance states in 1.30 that "In developing the assessment, an authority or authorities should draw on information about the current and predicted future performance of local bus services. This should include information about trends in patronage, journey speeds and reliability […]". Data related to journey speeds and reliability has not been included, but a rationale has been provided to explain that LCRCA's Case for Change is not based upon service performance specifically, including journey speeds and reliability, and as such does not include specific data on these elements. LCRCA indicated that they have considered how measures to address journey speeds and/or reliability could be introduced under the regulatory options.

Regarding housing data, DfT's Guidance states in Section 1.29 that *"[…] The objectives may include, but not be limited to, economic growth, housing, social mobility, skills, employment and environmental objectives*". This statement suggests that inclusion of these objectives in the Business Case is recommended, but not mandatory. Therefore, we include this point merely as an observation, rather than as a matter of compliance.

In addition to this, regarding the technological developments, DfT's Guidance states in 1.31 that "*In developing the case for change, an authority or authorities should ensure that they specifically consider […] any external or wider trends (such as technological developments and innovation in smart cities or personal travel) which could impact on local bus services in the area and the potential implications*". This statement suggests that its inclusion can strengthen the business case. Although LCRCA has included the technological developments that it plans to implement to increase patronage and customer relationship management, no supporting data or sources have been provided.

There are also several areas where KPMG's consideration of the Business Case has been limited due to inability to access the data, data which is insufficiently sourced, data which is out of date and requires updating, and data with non-quantifiable impacts on the Business Case. Further detail is provided in Section 3.1.2.

We have also included Areas for Improvement in Section 3.2 where LCRCA could enhance the strength of its Business Case by using more up to date data sources.

3.1.1 DfT Guidance on Data Categories

The Guidance from DfT specifically provides a list of data in the Business Case to develop a compelling case for change that may include, but are not be limited to, the following categories listed in Table 1. KPMG has identified the sections in which LCRCA makes use of data in all the areas identified in the guidance.

Table 1. Summary of data and sources in the business case

Type of Data identified in DfT's Guidance	Sources used in the Business Case
Economic Growth Data	Regional gross value added (balanced) by industry: city and enterprise regions, Office for National Statistics, 2021 (**Strategic case**, Section 2.3) ONS Mid-Year Population Estimates, Office for National Statistics Regional GVA, 2019 (**Strategic case**, Section 2.3) TAG Databook July 2021 for UK GDP growth, Gov.uk, 2021 (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change') The Black Book (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change') TEMPRO v7.2 Planning Data, National Trip End Model (NTEM) version 7.2, Department for Transport, March 2017 (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change') Subregional productivity: labour productivity indices by UK ITL2 and ITL3 subregions, Office for National Statistics, July 2021 (**Strategic case**, Section 2.3)
Housing Data	**Sources have not been provided for this data category. Including this information in the Business Case is not mandatory as per DfT but one of the suggested categories as it would strengthen the Case for Change.**
Social mobility data	ONS Mid-Year Population Estimates, ONS Regional GVA, 2019 (**Strategic case**, Section 2.3)
Skills and Employment data	TEMPRO v7.2 Planning Data, National Trip End Model (NTEM) version 7.2, Department for Transport, March 2017 (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change') Liverpool City Region Spatial Development Strategy, MHCLG Indices of Multiple Deprivation, 2019 (**Strategic case**, Section 2.3) Liverpool City Region Labour Market Profile, Office for National Statistics Business Register and Employment Survey, 2020 (**Strategic case**, Section 2.3)

Type of Data identified in DfT's Guidance	Sources used in the Business Case
Environmental data	"Does exposure to air pollution increase the risk of dying from the coronavirus (COVID-19)?", Office for National Statistics, August 2020 (**Strategic case**, Section 2.4) Building Back Better – Improving our Air Quality, LCRCA, 2020 (**Strategic case**, Section 2.4) Towards a Green Future for Liverpool City Region (2019) (**Strategic case**, Section 2.4) Liverpool City Council Clean Air Plan Strategic Outline Case, AECOM, 2019 (**Strategic case**, Section 2.4)
Local Bus Service information	Basemap for 2019 Route line data, TNDS/ NCSD, 2019 LCRCA: Report of the Interim Director of Integrated Transport, Key Route Network (KRN), Progress Update, September 2020
Regional bus service information	WU03UK dataset, Census, 2011 (**Strategic case**, Section 3.2) On bus commercial services data, provided by operators, 2018/19 (**LCR Modelling and Appraisal Assumptions**, Section 'Demand Forecasting') Number of commercial buses and their average age, provided by LCRCA and operators, 2021. (**Strategic case**, Section 3.6) Market Share for Bus Operators in the LCRA, provided by LCRCA and operators, 2022/23 (**Strategic case**, Section 3.3)
Current and future performance of local bus services	On-bus revenue and journeys data, provided by Merseytravel and the Liverpool City Region operators, 2018-19. (**LCR Modelling and Appraisal Assumptions**, Section 'Demand Forecasting') LCRCA Bus Services – Income and Expenditure, Merseytravel Statement of Accounts FINAL, 2018-19 (**Strategic case**, Section 2) Elasticities data, The Black Book (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change')
Patronage	Table BUS0110a, Department for Transport, 2020 (**Strategic case**, Section 3) WU03EW dataset, Census, 2011 (**Strategic case**, Section 3)

Type of Data identified in DfT's Guidance	Sources used in the Business Case
Journey Speeds	**Sources have not been provided for this data category, which is a requirement as per DfT guidance. However, an explanation has been provided in Section 3.7 of the Strategic Case.**
Reliability	**Sources have not been provided for this data category, which is requirement as per DfT guidance. However, an explanation has been provided in Section 3.7 of the Strategic Case.**
Fares	Vision for Bus, Merseytravel (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change')
Ticketing	Vision for Bus, Merseytravel (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change') Nexus research (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change')
Environmental performance of buses	Data received from A2B, Arriva, Al's, Cumfybus, Eazibus, Hattons (age data only), HTL, Maghull Coaches, MD Bus, Ogden (age data only), Peoples Bus, Selwyns, and Stagecoach (as of 2020) (**Strategic case**, Section 3.6)
Passenger engagement information	Big Bus Debate, LCRCA, 2019 **(Strategic Case Table 1.7). However, this includes the results until 2019 and may not be representative of the issues customers face in the post-COVID world**
Local travel patterns and demand	WU03EW dataset, Census 2011 (**Strategic case**, Section 3) WP703EW data, Census 2011 (**Strategic case**, Section 3) Department for Transport, Domestic transport use by mode: Great Britain, since 1 March 2020 (**Strategic case**, Section 3.8)
Geographical information	TEMPRO v7.2 Planning Data, National Trip End Model (NTEM) version 7.2, Department for Transport, March 2017 (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change') TAG Databook, July 2021 (**LCR Modelling and Appraisal Assumptions**, Section 'Drivers of future demand change')

Type of Data identified in DfT's Guidance	Sources used in the Business Case
Current bus market competition	KPMG, Local Bus Market Study, Report to the Department for Transport, January 2016 (**Strategic case**, Section 4.3) Market Share for Bus Operators in the LCR, provided by LCRCA and operators, 2019 (**Strategic case**, Section 3.3)
Information on technological developments in the region and future projects	**Supporting sources have not been provided for this data category, however LCRCA has covered technological developments in the Strategic Case that it plans to implement to increase patronage and customer relationship management.**
Evidence of engagement with wider neighbouring local authorities	Greater Manchester's Transport Strategy 2040, 2021 (**Strategic case**, Table 1.3A) Cheshire West and Chester's Local Transport Strategy, 2017-2030 (**Strategic case**, Table 1.3A) Cheshire West & Chester BSIP, 2022 (**Strategic case**, Table 1.3A) Cheshire & Warrington Bus Strategy, 2017 (**Strategic case**, Table 1.3A) Lancashire County Council's Local Transport Plan, 2011-2021 (**Strategic case**, Table 1.3A) Lancashire's BSIP, October 2021 (**Strategic case**, Table 1.3A) Warrington's Local Transport Plan 4, 2019 (**Strategic case**, Table 1.3A) Warrington's BSIP, October 2021 (**Strategic case**, Table 1.3A) Cheshire & Warrington Bus Strategy, 2017 (**Strategic case**, Table 1.3A) Warrington's Strategic Economic Plan, 2017 (**Strategic case**, Table 1.1) Data requests were sent to Warrington Borough and Halton Borough as well as operators.

3.1.2 Observations related to the data that impact quantifiable aspects of the Business Case

Within the Economic, Financial and Management Cases, **we have identified limitations related to our ability to comment on the data used and referenced**. These limitations span:

1. Use of data or assumptions that we are unable to comment on without access to the primary data source, or proof of a request and receipt of data by LCRCA. We discuss this in detail in Section 3.1.2.1

2. Use of data or assumptions relying on partial but not sufficient sourcing or justification. We discuss this in detail in Section 3.1.2.2

3. Use of data that requires updating. We discuss this in detail in Section 3.1.2.3.

4. Issues with the data that do not impact quantifiable aspects of the Business Case. We discuss this in detail in Section 3.1.2.4.

3.1.2.1 Use of data or assumptions that we are unable to consider without access to a primary data source, or proof of a request and receipt of data by LCRCA.

Table 2. Summary of business case sections which we are unable to comment on without access to primary data source or proof of a request and receipt of data.

Type of data	Section	Data Used	Observation / Explanations
Proposed network enhancements	Demand Forecasting	Details of the proposed network enhancements by service routes	Proof of receipt of data from operators on some elements of proposed network enhancements has not been provided. For example: • For some services, the future Peak Vehicle Requirements • Data related to service route changes - removal of a service or addition of a new service • For new services, an indication of the likely level of subsidy (low, medium or high) **Without access to this data, we are unable to look at the presumed impact of such enhancements on the business case appraisal.**

Type of data	Section	Data Used	Observation / Explanations
Cost	Section 5.5. Management Costs under 'Financial Model Databook'	Additional cost of employment	The LCRCA's Business Case assumes 30% additional cost of employment to apply to the incremental cost above the Reference Case under the Enhanced Partnership option. **This assumption represents a large impact on operating cost forecast, and in the ultimate instance, in the financial viability for each of the scenarios tested. Given the significance of the item this is a large, unsourced assumption.**
Franchising Specific Costs	Table 4.9: LCRCA costs specific to Franchising under 'Financial Case'	Provision for risk	The provision for risk was discussed and agreed at a workshop between LCRCA and its Business Case development supplier consortium. **Evidence has not been provided to support the calculation of the risk provision as discussed at the workshop.**

3.1.2.2 Use of data or assumptions relying on partial but not sufficient sourcing or justification.

Table 3. Summary of business case sections that include data or assumptions relying on partial but not sufficient sourcing or justification.

Type of data	Section	Data Used	Observations/Explanations
LCRCA costs specific to Franchising	Table 4.9: LCRCA costs specific to Franchising (20/21 prices) under 'Financial Case'	Provision for risk and IT provisional costs	Provision for risk assumptions used in the Financial Case are different from the values provided in the source. Table 4.9 of the Financial Case sets out the assumed costs associated with the implementation and ongoing administration costs of a Franchise scheme, to be incurred over the 3-year implementation period. The provision for risk assumption in this table is higher than the supporting evidence provided by LCRCA – Annex E '211220 Metro Mayor Presentation Dec 2021 V2'. Additionally, no supporting evidence has been provided for IT provisional cost, e.g. change in software and management systems. **The difference in the assumptions used and the values provided in the source requires justification or explanation.**

Type of data	Section	Data Used	Observations/Explanations
Alternative funding	Alternative funding scenarios	Varying levels of funding available	In addition to the alternative revenue scenarios, the analysis considers varying levels of funding available. All scenarios assume 85% of the demand forecast level pre COVID-19. Justification provided for assuming the reduced and increased levy scenario respectively is based on internal LCRCA assumptions. **However, it is unclear whether the choice of percentage levels is based on likelihood of the funding levels occurring.**
Operating costs	Section 5.3.2. Franchising Specific Costs under Financial case	Increase for management costs	Rationale has been provided in the databook, but not in the Financial Case itself, for the rates of change between FTE numbers and cost increases for management, i.e. from c. £2.2m p.a. prior to implementation in 2026 to £4.5m (>100% increase) p.a. under Franchising, while FTEs increase from 90 to 165.5 (<100%).
Transition costs	Table 4.9: LCRCA costs specific to Franchising (20/21 prices) under Financial case	Provision for risk	**No explanation has been provided as to how this provision has been estimated.**

Type of data	Section	Data Used	Observations/Explanations
Passenger journeys	Section 8.2 of the Financial Case	Assumptions on passenger journeys under franchising	Section 8.2 of the Financial Case states that "Franchising provides more passenger journeys for a similar cost to the other options." The model reflects the fact that franchising enables 0.2% more journeys than EP. **The statements made around cause/effect (what drives what) might be confounded and would benefit from clarification to explain why passenger volumes are higher in the Franchising option for a given budget (via Levy), such as, for example, money being reinvested into running more services.**

3.1.2.3 Use of data that may benefit from being updated

Table 4. Summary of business case sections that include data which may benefit from being updated

Type of data	Section	Data Used	Observations / Explanations
Operating cost	Operating cost forecasting under 'LCR Modelling and Appraisal Assumptions'	Future year cost growth	The Operating Cost Model indexes Fuel and BSOG costs using the Diesel Price Index. The values for this are sourced from the January 2023 WebTAG data book. However the 'Duty' and 'VAT' portions of the index use values from one year later than expected, e.g. the 2010 Duty value applied is actually the 2011 value from the WebTAG data book. **Note that the same applies to the Petrol Price Index; however, this is not used in the model.**
PWLB interest rate	Table 4.13: Sensitivity Scenarios	PWLB interest rate sensitivity	PWLB interest rate sensitivity has been applied over a January 2022 rate that would benefit from being updated. **There is inconsistency in the date of these references in the Business Case.**

3.1.2.4 Observations related to data that do not impact quantifiable aspects of the Business Case

Within the Strategic Case, most of the data used and referenced appears to be relevant, up to date, from a reputable source and used comprehensively. However, some areas could benefit from improvements as follows:

There are specific sections of the Strategic Case where more up to date data could be used or included.

1) Figures 1.3 and 1.4 in the Strategic Case illustrate bus frequency for Liverpool City Region. The text mentions that Figure 1.3 has been built on a pre-COVID-19 Routeline dataset and could use current information on bus frequency. This is particularly relevant given that another statement follows in present time which reads 'The analysis shows that the City of Liverpool has good accessibility (within 40 minutes' travel time) to the city centre'. **This statement around accessibility in the City of Liverpool may be difficult to ascertain when the accessibility figures presented are based on out-of-date information relating to 2019 and may not be representative of the current network features.** LCRCA has provided a partial justification for this in the business case which reads "The pre-pandemic network remains a reasonable baseline illustration of LCR bus network accessibility. The service pattern during/after COVID-19 continues to stabilise, including allowing for the influence of increased Operator subsidy."

2) **The sources provided for some of the socio-economic challenges in Table 1.1 are from 2019 or earlier.** For example, the unemployment rate in the business case is quoted from 2019 at 4.2%. More recently, for the year 2021, the rate is 5.6% based on "Regional labour market: Modelled unemployment for local and unitary authorities" published by the Office of National Statistics. There are multiple factors that may explain this uptick in unemployment, with COVID-19 pandemic being one of the factors. Hence, updating these datapoints in the business case would better reflect the current socioeconomic situation in LCRCA.

In a few instances, more recent data has become available since the business case files were shared and could be used. For example, Section 3.1 includes data on journeys, but this data is sourced from Census 2011 while the latest census information included in Census 2021 is available. LCRCA's rationale is that the data from Census 2021 is unrepresentative and not applicable as Census Day was during a COVID-19 lockdown.

Within the Management Case we identified instances where **there is limited or no supporting evidence provided in support of assertions.** Tables 5.5-5.9 of the Management Case provide an estimated salary cost breakdown but does not specify that these are internal assumptions based on best practices and benchmarking. The Management Case would benefit from outlining the LCRCA's assumptions and process of arriving at these figures.

Within the Commercial Case we also identified instances where **there is limited or no supporting evidence provided in support of assertions.** For example, in Section 5 of the Commercial case, it is stated that "A copy of the areas of agreement are attached in Appendix 3 to this assessment." However, Appendix 3 consists of screenshots from a "Feedback Session" outlining LCR's aspirations for the EP and is therefore inconsistent with the text in the Commercial Case.

Within the Financial Case, we noted that the base dates for each cost category of the financial model differ slightly. For example, inputs from Steer's model (e.g., operator payments, supported services revenue) are from 2018/19 base year while LCRCA's inputs (e.g., depot and fleet investment, transitional costs) are from 2019/20 and 2020/21. The models convert inputs from different base years to allow for direct comparison. This would benefit from justification or explanation; however, this does not impact the outputs of the models.

In the Economic Case and Modelling and Appraisal Assumptions note, a lower elasticity has been assumed (-0.4 in the morning peak and -0.5 for the evening peak), which falls outside the DfT's recommended elasticities range of –0.7 to -0.9. LCRCA has included an explanation that this is because the Black Book indicates that trips made in the peak tend to be for work and education purposes, and so tend to be relatively fixed in time and space, hence peak elasticities should be lower than off-peak elasticities.

3.2 Areas for Improvement

3.2.1 Additional potential sources to strengthen the Business Case

Additional sources that LCRCA could use to strengthen the evidence base are summarised below.

Table 5. Summary of the suggested additional data sources

Type of data	Suggested source	Observations/Explanations
Local bus service information / journeys	Census 2021	Relevance of bus for LCRCA residents is referenced to data included in Census 2011. The Office for National Statistics has recently published Census 2021 data[4], which reflects latest statistics with regard to travel to work statistics and constitutes a more recent sample of such information. For the purpose of this analysis, LCRCA has considered Census 2021 as unrepresentative on account of Census Day falling during a COVID-19 lockdown.

[4] Office for National Statistics (2022), *Census 2021: Labour market and travel to work* [link]

Type of data	Suggested source	Observations/Explanations
Recent demand (volume) actuals	Department for Transport	The DfT compiles annual and quarterly bus journey statistics. This data can be useful to validate the current demand projections, particularly for those years which are currently forecast in the business case and for which there are actual numbers (i.e. 2019/20, 2020/21 and 2021/22). Whilst annual data is not disaggregated at route level (rather at a local authority level) this data could still be used to estimate actual recovery rates from pre-pandemic volumes and compare against current assumptions. Suggested datasets may include but are not limited to 'BUS0109: Passenger journeys on local bus services by local authority: England' and 'BUS0110: Passenger journeys on local bus services per head of population by local authority: England'[5].

[5] Department for Transport, *Statistical data set: Local bus passenger journeys (BUS01)* [link]

Type of data	Suggested source	Observations/Explanations
PWLB interest rates	UK Debt Management Office	Latest market trends reflect an inflationary environment alongside recession forecasts. This is likely to induce central bank interest rates to higher values, which will have an impact on borrowing costs for the options tested. Whilst a high degree of uncertainty remains on the future direction of interest rates, there is more recent data available than that currently included in the business case, and which should be analysed to understand the implications to the different option outcomes. Currently, there is inconsistency in the date of references in the Business Case.

3.3 Conclusion

Areas for improvement across the data suite have been described in Section 3.2. Overall, the improvements identified are focused on ensuring the use of more up-to-date sources for aspects related to local bus service information in order to strengthen the evidence base. However, overall, the observations in relation to data selection are not considered to be material issues in terms of the guidance issued by the Department for Transport for this type of project.

4 Commentary on Modelling

4.1 Summary

As described in the Approach and Methodology Section, KPMG has commented on LCRCA's assessment of the calculations which support the Business Case, considering the following specific areas:

1) Commentary on whether LCRCA has undertaken the requisite analysis, as defined by the DfT in its guidance.
2) Commentary on areas of the modelling that have been identified in Section 3: Commentary on Data as requiring additional data or sources and/or do not appear to be consistent with the analysis, considering:
    a) Areas that have a quantifiable impact on the Business Case in relation to the financial and economic impacts; and,
    b) Areas that do not have a quantifiable impact on the Business Case economic or financial modelling
3) Commentary on areas that could aid in improving the Business Case with a specific focus on evaluating the long-term financial sustainability of the project

4.2 Modelling in the Business Case

The guidance for the development of the Bus Franchising business cases includes a series of analyses that the DfT recommends that authorities undertake to support development of their Business Cases. The table below outlines the required analysis and if/how LCRCA has undertaken this analysis in its Business Case.

Table 6. LCRCA's approach to analyses in the Business Case

Area of Business Case and Analysis Identified in the Guidance	LCRCA's approach
Developing the Case for Change	
Analysis on the economic, social, employment and environmental impact of bus reform	Net zero, clean air and pollution impacts are outlined in Section 2.4.1 to 2.4.3 of the Strategic Case. The economic, employment, social and environmental impacts are set out in the Economic Case, Section 2.5.1. The monetised economic impacts are set out in Section 8, environmental

Area of Business Case and Analysis Identified in the Guidance	LCRCA's approach
	impacts in Section 9 and social impacts in Section 10.
Assessment of the current bus market in relation to the needs of passengers	This assessment is included in Sections 2.5.2 and 2.5.3 of the Economic Case.
Implications of technology on the bus market in the region	Section 5.4 of the Economic Case discusses the transition to Zero Emission Buses
Analysis of passenger views to identify the 'case for change'	Section 4 of the Strategic Case describes the 'case for change', which includes views sourced from the 'Big Bus Debate' passenger forum. Section 3.7 outlines the key findings of that study.
Options Assessment including engagement with local stakeholders including bus operators	Options Assessment is a theme throughout the Cases, with consideration of a Franchising or EP model. In particular, Section 2.3 of the Economic Case describes the options appraised.
Strategic Case	
Analysis on how options help to achieve local policy objectives	Section 5.2 sets out local policy objectives and how the Business Case will support them.
Economic Case	
Environmental costs and benefits	The impact of interventions is outlined in Section 2.5 of the Economic Case including environmental impacts. Section 7 and Section 9 set out the approach and outputs of the monetised environmental impacts of the two delivery options considered.

Area of Business Case and Analysis Identified in the Guidance	LCRCA's approach
Transport impacts of different options	Section 7.2.2 outlines the Marginal External Impacts associated with vehicle movements i.e., congestion, greenhouse gas emissions, local air quality impacts, accidents, noise, infrastructure costs and indirect tax. Section 8.3. of the Economic case outlines Transport User Benefits for other modes as a result of the proposed interventions.
Options impact assessment including: Passengers Groups in Society Local Operators	Sections 8, 9, 10 and 11 of the Economic Case presents the appraisal of impacts on the economy, environment, society and public accounts respectively. However, different passenger groups are not assessed with respect to options impact in the Economic Case. The impact on private sector transport operators is considered in Section 8.4 of the Economic Case.
Covid-19 Recovery Assessment	The recovery of bus patronage and COVID-19 long term impacts is considered in Section 3.7.2 of the Economic Case.
Specific analysis on the impact on the following: Bus Users Fare box revenue BSOG Operating Costs Capital Costs Bidding and administration costs Implementation Costs Operator Margins	**Bus Users** Commuter and other monetised Bus User benefits are assessed and presented for both shortlisted options in Section 10.2 of the Economic Case. **Fare box revenue** The approach to forecasting revenue for each of the delivery options is set out in Section 4.2 of the Economic Case. The revenue forecasts for each of the Reference Case, EP and Franchising options are presented in Section 6.2. **BSOG** BSOG payments for the Reference Case are presented in Section 5.2 of the Economic Case.

Area of Business Case and Analysis Identified in the Guidance	LCRCA's approach
Environmental impact of bus services Ongoing financial sustainability assessment Sensitivity analyses on options	Table 11.1 of the Economic Case states that there is no difference in BSOG payments between the EP and Franchising options in comparison to the Reference Case because ZEVs are assumed for all delivery options. **Operating Costs** Sections 5.2 and 5.3 of the Economic Case outline the components of operating cost for the Reference Case and the Operating Cost Impact of Network Interventions. Sections 6.3 and 6.5 present an overview of the key results from forecasting revenue and operating costs under each of the delivery options as well as the two demand scenarios (85% and 100% of pre-COVID demand trajectory). **Capital Costs** It is noted in Section 2.3 of the Economic Case that LCRCA intends to provide more reliable bus services by simplifying the range of ticketing products available and by implementing smart ticketing. Total cost attributed to investment in ZEV under Franchising is quoted to be £265m in Section 11.2 of the Economic Case. It is not clear from the text of the Economic Case how this cost has been derived, and how it will be funded or financed. However, capital costs associated with implementing smart ticketing have not been presented nor evidently incorporated into the economic appraisal calculations. **Bidding and Administration Costs** Section 8.4.2 of the Economic Case outlines the approach to bidding costs. Ongoing administration costs for both delivery options are noted in Section 11.2. **Implementation Costs**

Area of Business Case and Analysis Identified in the Guidance	LCRCA's approach
	Implementation costs for the two considered delivery options are outlined in Section 5.5 of the Economic Case. **Operator Margins** Forecast operator margin for the Reference Case and the two considered delivery options is outlined in Section 6.4.2 of the Economic Case. **Environmental impacts** The impact of interventions is outlined in Section 2.5 of the Economic Case including environmental impacts. Section 7 and Section 9 set out the approach and outputs of the monetised environmental impacts of the two considered delivery options. **Ongoing financial sustainability assessment** The financial assessment of the Franchising and Enhanced Partnership options over the appraisal period has been discussed in Sections 5.4, 5.5 and 6.4 of the Financial Case, respectively. Particularly, funding for the Franchising option has been discussed in Section 5.6 of the Financial Case. **Sensitivity analyses on options** Sensitivity testing is presented in Section 12.4 of the Economic Case. A financial element of sensitivity testing is presented in Sections 5.7 and 6.6 of the Financial Case for the Franchising and Enhanced Partnership options, respectively. **Explanation of the appraisal period** Section 3.8 of the Economic Case set out the approach to the establishing the appraisal period.
Financial Case	
Impact on authority capital and revenue requirements	Capital costs are covered in Sections 5.3.2.1 to 5.3.2.4. Revenue is discussed in Section 5.2.

Area of Business Case and Analysis Identified in the Guidance	LCRCA's approach
Bus Service Operator requirements	This is discussed in Section 5.2.
Financial impact on bus users	**Financial impact on bus users are discussed in the Economic Case.**
Impact on fare box revenue	This is discussed in Section 5.2 and cash flows are presented in Table 4.11.
Impact on operator operating costs	Analysis on the impact on operators' operating costs has not been included in the Financial Case, however there is a cross-reference from Section 5.3.1 Operating costs to Section 6.3 in the Economic case.
Impact on operator capital costs	Section 5.3 of the Financial Case presents the anticipated impact on Operator capital costs.
Impact on bidding and administration costs	These are included in implementation costs in 5.3.2.4.
Impact on implementation costs	Implementation costs are laid out in Section 5.3.2.4.
Impact on operator margins	There is discussion of operator margins and their impact on LCRCA's expenditure in Section 5.7.3 as well as a discussion on expected margins in Section 3.2.3. Operator margins are calculated in the Financial Model.
Environmental Impacts	**Environmental impacts are discussed in the Economic Case.**

Area of Business Case and Analysis Identified in the Guidance	LCRCA's approach
Long term sustainability assessment	The financial assessment of the Franchising and Enhanced Partnership options over the appraisal period has been discussed in Sections 5.4-5.5 and 6.4 of the Financial Case, respectively. Particularly, funding for the Franchising option has been discussed in Section 5.6 of the Financial Case.
Commercial Case	
Assessment of procurement options	This is discussed in Section 4, specifically 4.2.
Facilitation of cross boundary services	This is discussed in Section 4.7.5.
Transition periods	The approach to transition is set out in Section 4.7.
Management Case	
Assessment of options to manage franchising	The approach to management of franchising is discussed in Section 2.
Risk register and mitigations	This is contained in Table 5.14 under Section 6.2.
Transition process management	The transition process is described in Section 3.2 for the Franchise option and Section 3.3 for the EP option.

4.3 Commentary on Modelling

KPMG has commented on two key areas:

- the assumptions contained in the modelling, and evidence used by LCRCA to support these assumptions; and,

- the extent to which the LCRCA's supporting analysis is consistent with its business case and assumptions stated therein

4.3.1 Commentary on Modelling – Areas with Quantifiable Impact on the current Financial and Economic Assessments

Table 7. Commentary on Modelling – Areas with Quantifiable Impact on the current Financial and Economic Assessments

Area	KPMG's observations on LCRCA's assumptions and the consistency of how these assumptions are applied across the Financial and Economic Assessments
Optimism bias[6]	Optimism bias has been applied equally to vehicle and depot costs in all 'do something' scenarios in the Economic Appraisal Model. According to Section 1.56 of the guidance issued by DfT on assessing bus franchising schemes, the authority should perform sensitivity tests to account for the impact of optimism on the outputs of the models. While there are sensitivity tests which have been performed, it is not clear that these are for the purpose of managing the risk around optimism bias. When conducting sensitivity tests on scheme costs, it is advisable to reflect uncertainty in optimism bias rates as well as in the underlying base costs and to have an associated narrative. See further comments on optimism bias in Section 5.2.2.

4.3.2 Commentary on Modelling – Areas with no direct impact on the Financial or Economic Assessment

– **Base years for inputs**. Within the Financial Model, base years for cost lines differ. For example, operator payments and supported services revenue have a 2018/19 base year, depot and fleet investment are from 2019/20 and transitional costs are from 2020/2021. The model converts these inputs into a consistent output year to allow for direct comparison. This

[6] Optimism bias is defined as the '*demonstrated systematic tendency for appraisers to be overly optimistic about key parameters*' (Department for Transport (2022), *TAG unit A1-2 scheme costs, page 12* [link])

does not have a direct impact on the model outputs however sourcing figures from the same base year would improve consistency.

- **Equality Impact Assessment ('EIA'). There does not appear to be any consideration of measures required under an EIA to meet commitments to equality and non-discrimination.** In particular, there is no consideration of potential costs for upgrading bus shelters and depots with, for example, better lighting or CCTV. This would have the potential of increasing patronage as different groups may feel safer or more able to travel by bus. There is no direct impact on either the Financial or Economic Cases as the costs for these measures are unknown and would require a look at the existing bus shelters.

4.4 Areas for Improvement

Additional information which LCRCA could potentially use to provide a more comprehensive evidence base is summarised below:

Sensitivities & scenarios: There is limited sensitivity analysis in the models. The following potential sensitivities could improve the robustness in the Financial and Economic Assessments:

- **Energy costs**. Given the inflation of energy costs, a sensitivity which specifically reflects these issues would be prudent. The price of Diesel according to the January 2023 TAG data book rose from 43.34p/litre in 2021 to 69.59p/litre in 2022. This reflects a particularly steep increase, however a 10% increase in costs could be modelled to reflect potential headwinds.
- **Interest rates**. LCRCA has included interest rate sensitivity analysis, but the overall robustness of the business case would be improved if the current interest rate environment were factored in, which presents greater volatility, into the assessments. For example, fleet financing would cost an extra £30m if the PWLB interest rate increased by 2.5%, which is the same increase as the Bank of England base rate from January 2022 (0.5%) to November 2022 (3%).
- **Decreased government funding**. Reductions in availability of central government funds may affect the sources of funds and therefore the feasibility or commercial outputs of franchising. Although modelling has not been undertaken to evaluate the impact of this, LCRCA notes that in the absence of this subsidy, that it would "make a choice of whether to provide more funding, use cheaper diesel fleet, or set aside more of its budget to pay for the cost of vehicles, and therefore run fewer services. These same issues apply to all of the Delivery Options." However, the same consideration around the political and social equity considerations of running fewer services applies as noted in preceding sections of this report.
- Beyond these sensitivities, there is the potential to include scenarios which combine these into a downside scenario. These scenarios could reflect a situation where a number of cost headwinds occur simultaneously and would allow LCRCA to assess the level of revenue risk that it could carry under franchising. These sensitivities could also be reflected in the benefit cost ratio output and may affect the ability of the scheme to provide value for money and be financially sustainable.

Operating costs: The operating cost model could benefit from including the actual data from

2020/21 and 2021/22. The inclusion of this data would lead to a more robust assessment given the significant change in transport activity following COVID-19. However, LCRCA has provided an explanation for their decision to use 2018/19 data in Section 5 of the Economic Case.

4.5 Conclusion

Areas for improvement across the business case files have been described in Section 4.4. These potential improvements include performing more sensitivity analysis and including actuals for comparison. The sensitivity analysis could be improved by sensitising energy costs, interest rates, and the level of government funding, as well as including downside scenarios which combine multiple sensitivities. However, overall, these areas are not considered to be material issues in terms of the guidance issued by the Department for Transport for this type of project.

5 Commentary on Process

5.1 Summary

Based on the guidance issued by DfT for the development of Bus Franchising business cases, KPMG has considered the extent to which LCRCA has given due regard to the process as set out in the Bus Services Act 2017 (as set out in 5.2) and in the guidance issued by DfT (as set out in 5.3).

5.1.1 Bus Services Act 123B Process

In the Bus Services Act 2017 Section 123B, the requirements for the Assessment of a proposal scheme are outlined in Table 8.

Table 8. Bus Franchising Guidance requirements and the extent to which LCRCA has included these elements in the development of the Business Case:

Bus Services Act 2017, 123B reference	Commentary on LCRCA's Business Case
(2)(a) describe the effects that the proposed scheme is likely to produce, and	The Business Case has evaluated the economic and financial effects of franchising the bus network. The recovery of bus patronage and COVID-19 long term impacts is considered in Section 3.7.2 of the Economic Case
(2)(b) compare making the proposed scheme to one or more other courses of action.	In the Business Case, an assessment of the impact of the viable options, including Enhanced Partnership, is conducted through a pros and cons summary.
(3)(a)(i) the authority's or authorities' policies under Section 108(1)(a), and	The Business Case aligns with wider transport policies as it encourages investment into a safe, integrated and efficient transport that can better serve customer needs/ demand.
(3)(a)(ii) other policies affecting local services that the authority or authorities have adopted and published,	The Strategic Case establishes the alignment of franchising with wider local policies including the Building Back Better plan to establish a Business Case that addresses the policies affecting local services.

Bus Services Act 2017, 123B reference	Commentary on LCRCA's Business Case
(3)(b) whether the proposed scheme would contribute to the implementation by neighbouring relevant local authorities of—	The Strategic Case includes a review of the strategies being considered by neighbouring authorities and alignment with wider local policies, including Bus Service Improvement Plans and Local Transport Plans.
(3)(b)(i) those authorities' policies under Section 108(1)(a), and	As above.
(3)(b) (ii) other policies affecting local services that those authorities have adopted and published,	As above.
(3)(c) how the authority or authorities would make and operate the proposed scheme,	The Management Case outlines LCRCA's proposed approach to developing and operating the scheme.
(3)(d) whether the authority or authorities would be able to afford to make and operate the scheme,	The Business Case evaluates the costs and revenues related to the scheme but **it is not clear, in any of the downside scenarios, how provision of services would be changed to ensure ongoing financial sustainability**. **This is discussed in the Commentary on Modelling**.
(3)(e) whether the proposed scheme would represent value for money, and	The Business Case has developed an economic appraisal with a Benefit Cost Ratio of 2.1 and there are sensitivity tests applied. **Consideration of developing a comprehensive downside sensitivity on the core assumption is discussed in the Commentary on Modelling**.
(3)(f) the extent to which the authority or authorities are likely to be able to secure that local services are operated under local service contracts.	Service Permits are discussed in 4.2.4, 4.7.2.2, and 4.7.5 of the Commercial Case, as well as Section 3.2.5 of the Management Case.

5.1.2 Department for Transport Bus Franchising Business Case Guidance Process

The Guidance, as set out by Department for Transport, outlines the recommended process for a local authority to adopt in the preparation of its Business Case.

The tables below outline whether LCRCA has included an assessment on the identified areas in the Guidance.

Table 9. Observations regarding LCRCA's process in relation to the Strategic Case

Strategic Case	
The 'case for change' including: – Issues that passengers are currently facing – Market failures Inefficiencies – Legislative Requirements – Ongoing Trends – Economic Opportunities and/or Demographic Factors	The Strategic Case covers the areas identified, such as an outline of market failures and inefficiencies (Section 4.3.1), ongoing trends, economic opportunities (Section 2) and demographic factors (Section 2, Table 1).
The Authority's objectives for Bus Franchising	Wider policy objectives are identified in Section 2 of the Strategic Case. Section 5 explains the derivation and use of the objectives which underpin the assessment that was undertaken in the business case. Section 4.3.2 (The Bus Services Act) assesses the options available, such as an alliance, alongside the nature and benefits of Franchising and other models.
The Authority's specific, measurable, achievable, realistic and time-bound objectives for local bus services in its geographical area, and how these will contribute to achieving the Authority's overall local transport policies and other relevant and published policies.	Clear net zero, clean air and pollution objectives have been presented within Section 2.4.1 to 2.4.3 of the Strategic Case.
Prescribed components of the business case in accordance with Section 123B of the Bus Services Act 2017	The components in Section 3 of the Strategic Case align with Section 123B of the Bus Services Act 2017. The viable options are assessed against the provisions set out in the Bus Services Act.

Table 10. Observations regarding LCRCA's process in relation to the Economic Case

Economic Case	
Counterfactual option of 'Do Nothing'	These options are introduced in Section 2.3 of the Economic Case.
Details on the specific impact on the following areas:	
Bus Users	Commuter and other monetised Bus User benefits are assessed and presented for both shortlisted options in Section 10.2 of the Economic Case.
Fare box revenue	The approach to forecasting revenue for each of the delivery options is set out in Section 4.2 of the Economic Case. The revenue forecasts for each of the Reference Case, EP and Franchising options are presented in Section 6.2.
BSOG	It is noted in Section 1 of the Economic Case that Bus Service Operators Grant (BSOG) payments are considered in assessing the distribution of benefits, costs and risks between different user groups. BSOG payments for the Reference Case are presented in Section 5.2 of the Economic Case, and Section 5.4.3 notes that net cost of BSOG to HM Treasury increases with the introduction of ZEVs. Table 11.1 states that there is no net impact on public accounts as part of either of the shortlisted options in comparison to the Reference Case; BSOG payments are expected to be the same for all delivery options since they all assume the introduction of ZEVs.
Operating Costs	Section 3 presents the approach to forecasting operating costs under each of the delivery options and describes the scenarios which have been considered and assessed. Sections 5.2 and 5.3 outline the components of operating cost for the Reference Case and the Operating Cost Impact of Network Interventions. Sections 6.3 and 6.5 present an overview of the key results from forecasting revenue and operating costs under each of the delivery options as well as the two demand scenarios (85% and 100% of pre-COVID demand trajectory).

Economic Case	
Capital Costs	It is noted in Section 2.3 of the Economic Case that LCRCA intends to provide more reliable bus services by simplifying the range of ticketing products available and by implementing smart ticketing.
Bidding and Administration Costs	Section 8.4.2 outlines the approach to bidding costs. Implementation costs are outlined in Section 5.5 of the Economic Case, and ongoing administration costs for both delivery options are noted in Section 11.2.
Implementation Costs	Implementation costs for the two considered delivery options are outlined in Section 5.5 of the Economic Case.
Operator Margins	Forecast operator margin for the Reference Case and the two considered delivery options is outlined in Section 6.4.2 of the Economic Case.
Environmental impacts	The impact of interventions is outlined in Section 2.5 of the Economic Case including environmental impacts. Section 7 and Section 9 set out the approach and outputs of the monetised environmental impacts of the two delivery options.
Explanation of the appraisal period	Section 3.8 of the Economic Case set out the approach to the establishing the appraisal period.

Table 11. Observations regarding LCRCA's process in relation to the Financial Case

Financial Case	
A year by year cost analysis, broken down by capital and resource expenditure, for the authority or authorities;	The Financial Case includes a year-by-year breakdown of costs for both capital and operational expenditure (as set out in Table 4.7, 4.8 and 4.11 of the Financial Case).

Financial Case	
The budget available to the authority in each of the relevant years;	LCRCA assumes that budget would become available to it via the Transport Levy, as explained in the results presented in the Financial Case in Section 4.4, 5.4, 6.4 for the Reference, Franchising and Enhanced Partnership scenarios, respectively. However, **this is not committed and needs to be agreed annually between LCRCA and their forming Local Authorities**. **See further discussion in Section 5.2.3.**
A year by year income forecast for the Authority if relevant (for example if a gross cost franchise is proposed);	A year-by-year income forecast under Franchising is presented in Table 4.11 of the business case under Section 5.
Whether the option requires additional borrowing by the authority and if so what interest assumptions and repayment arrangements have been used;	Under the franchising option, it is assumed that LCRCA will finance capital costs associated with fleet and depots using PWLB borrowing. Section 5.3.2.5 of the business case sets out the terms (including interest and repayment assumptions) under which the financing of fleet and depots will take place.
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	Table 4.13 under Section 5.6 of the business case provides the details on key financial risks under franchising option.
A sensitivity analysis, reflecting the range of financial risks.	Sensitivity analysis reflecting the range of financial risks (**except pension cost risk**) is provided in Section 5.7. These scenarios have been assessed based on their impact to LCRCA's net expenditure and funding requirements.

Table 12. Observations regarding LCRCA's process in relation to the Commercial Case

Commercial Case	
the commercial model intended to be employed;	The proposed commercial model for Franchising is discussed across Section 4, while the proposed commercial model for the Enhanced Partnership option is discussed across Section 5.
the size and geographical scope of the areas to which contracts will relate;	Scope, size and length of franchise contracts is covered in Section 4.2 Geographical Scope for Franchise contracts is covered in Section 4.2.1.
the length of contracts;	The contract length for different categories is discussed in Section 4.2.3 of the Commercial Case. LCRCA's proposed approach is to have fixed 7-year contracts for Category A Lots. Contract lengths for B and C categories will be agreed upon on a contract-by-contract basis (shorter).
whether franchising will be phased-in gradually;	The details related to phasing of franchise contracts are mentioned in Section 4.4 of the Commercial Case.
other key contractual arrangements, including those relating to the transfer of staff;	Pension schemes are mentioned in Section 4.9.2. **While pension risk is discussed in Section 5.6 of the Financial Case, the quantifiable impact of such risk is not included in the Business Case**
how the Authority intends to facilitate strong competition for contracts; and	Section 4.3 sets out LCRCA's proposed depot strategy - it assumes the acquisition of a strategically located depot in each Round Section 4.4 sets out how franchising has been developed to provide a pipeline of contracting opportunities.

Commercial Case	
the key commercial risks, their potential impacts and how they would be mitigated and managed.	General commercial risks and related mitigation measures are discussed in Section 3.6.6. Commercial risks specific to the Franchising option and related mitigation measures are discussed in Sections 4.3 and 4.10. Commercial risks specific to the Enhanced Partnership option and related mitigation measures are discussed in Sections 5.4 and 5.9.

Table 13. Observations regarding LCRCA's process in relation to the Management Case

Management Case	
The programme management structure that the Authority 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.	The Franchising team structure is set out in Management Case, Section 2.7.1 Additional resources and cost under Franchising is set out in Management Case, Section 2.7.2 Merseytravel Personnel Recruitment Strategy is set out in Management Case, Section 3.4.3 and 3.4.7
What procurement and contract management processes, if any, are required for the successfully introduction and ongoing management of the proposal; and	**This is covered partially in the Management Case and in more detail in the Commercial case**: **Section 4.8. Procurement Strategy.**
The risk management and mitigation arrangement that the Authority plans to put in place, with particular focus on management of the transition process from the status quo to a franchised market.	This is covered in Section 6.1 and 6.2.

Operator Data Request	LCRCA has provided evidence of the request to the Operators for FY18/19 and FY 19/20.

5.2 Areas for Improvement

5.2.1 Strategic Case

The Strategic Case addresses the requirements in the DfT's Guidance and Table 1.2 outlines alignment of LCRCA Vision for Bus with DfT Bus Back Better Strategy. Certain areas could be improved to include more current, robust, or relevant evidence,. These include (but are not limited to) the following:

1. **Developing the case for change**

   In making the case for change, the strategic case sets out a range of attributes which affect the passenger experience, as well as some of the top priorities to improve the bus network and timetabling of buses. However, **these refer to the survey results from the Big Bus Debate published in 2019 and may not be representative of the issues customers face in the post-COVID world**. For example, in Section 3.3.4 of the Strategic Case, it mentions that Customer satisfaction in bus services as recorded by Transport Focus was at 91% in 2018, up from 89% in 2015 prior to the Alliance. Hence, the case for change could benefit from more recent data on customer issues and satisfaction levels to make a stronger case for intervention.

   Similarly, **the demographic factors set out in Table 1.1 of the Strategic Case relates to 2019 or before and could benefit from recent data to create a better backdrop for change**.

5.2.2 Economic Case

The Economic Case incorporates the analysis as defined in the Department for Transport Guidance including the 'Do Nothing' scenario, specific impact assessments on bus users, fare box revenue, Operating Costs, Capital costs, bidding and administration costs, implementation costs, operator margins and provides an explanation for the appraisal period. It compares the shortlisted options of Enhanced Partnership and Franchising against a realistic 'business as usual' scenario i.e. the counterfactual, referred to as the Reference Case, which reflects the baseline changes to bus services that can be expected to occur without reform. An area for improvement is on **Optimism bias.**

5.2.3 Financial Case

The Financial Case meets the guidance set out by the Department for Transport. It includes a year-by-year cost analysis and income forecast. Financial risks covered include funding, operating cost, revenue, management of franchising, pension cost, capital expenditure and cost of financing. It also specifies how the impact of these risks have been tested in various scenarios, except the risk of increased costs related to the new pension schemes which may need to be in place to comply with the Bus Services Act. **While pension risk is discussed in Section 5.6 of the Financial Case, the quantifiable impact of such risk is not included in the Business Case (see Table 11. Observations regarding LCRCA's process in relation to the Financial Case).**

1. Current cost base

The business case includes a breakdown of expenditure on bus services for LCRCA. However, **this is based on 2018/19 numbers, and the breakdown may have changed in recent years**. Similarly, to the rationale provided for demand, a significant time period has elapsed since 2018/19 and there seems not to be a reasonable justification that backs the use of this year as base for the analysis.

It is suggested that latest available cost breakdown is compared to 2018/19 data in use in the business case to validate the current assumptions.

2. Scenario tests

The Financial Case includes a chapter discussing sensitivity analysis around a number of parameters included in the option analysis. Sensitivity analysis reflecting the range of financial risks (**except pension cost risk**) is specified in Section 5.7 of the Financial Case.

This sensitivity analysis has been described as aimed to '*[…] test the impact of potential risks occurring*' and also '*[…] reflecting the range of financial risks*'. However, LCRCA has acknowledged that combined downside scenarios have not been assessed. **The approach taken focusses only on sensitivity tests on individual parameters, rather than assuming a holistic scenario testing approach**. The main difference between these methodologies is that while the former illustrates the sensitivity of the analytical outputs to changes in value for a given single parameter, the latter intends to provide an assessment of the overall picture for a given set of assumptions, which may cover changes in a wider number of parameters.

The immediate consequence of such scenario-based approach as opposed to individual sensitivity testing is that this would provide the compounding impact of changes in a number of assumptions, which is likely to illustrate a more holistic view of potential downside scenarios than the one generated by stress testing a single parameter.

3. Treatment of forecast costs

Scenarios presented in the Financial and Economic cases assume that given a lower demand recovery profile, the network would be scaled down to cater for the new market conditions, hence reducing operations and capital investment as needed. This implies that bus operating costs under any of the options under assessment would be largely variable and could be flexed for any scenario given.

It could be expected that like in any other business, costs contain a certain fixed element. For instance, there might be situations in which capital investment is already committed, in this context for example, the purchase of the new fleet, but the demand forecast fails to materialise. This is likely to put LCRCA under significant financial pressure, particularly under the Franchising option in which LCRCA bears the revenue risk. LCRCA has acknowledged that reducing or terminating contracts early would incur exit charges, and there would still be a baseline level of costs; Section 5.5.1 of the Financial Case sets out alternative means of funding if required. LCRCA has also acknowledged that combined downside scenarios have not been assessed, and that all fixed costs for fleet, depot and management costs for LCRCA are maintained at the same level as the base case in all sensitivities.

4. Funding arrangements

The current Transport Levy is represented by LCRCA to be the main funding mechanism for bus operators in LCRCA for all options under assessment. **Whilst this funding stream could continue in the short-term, LCRCA has acknowledged in the Business Case that this funding stream is not guaranteed**.

Per the guidance provided by the Department for Transport there is a need for LCRCA to consider *'[…] whether the authority or authorities would be able to afford to make and operate the proposed franchising scheme*'. This includes understanding the long-term viability of such scheme. The assessment for the different options discussed in the business case assumes a 2% p.a. increase in the Transport Levy. It is important to note the following points:

- The Transport Levy annual increase is acknowledged by LCRCA to represent an assumption, which was endorsed on 4 March 2022 by the constituent authorities. The assumed measure of forecast inflation was CPI, but as a consequence of the currently high level of CPI, the assumed level of indexation for the Transport Levy was amended to the lower 2% per annum, in line with the decision made by the constituent authorities.
- LCRCA's business case assumes that the current Transport Levy arrangements would be the main source of funding to cover the financial shortfall arising from the provision of bus services across all options under assessment. However, there remains a potential risk if the increase in costs rises above LCRCA's ability to fund its bus operations and LCRCA's assumed ability to reduce costs in such scenario may be limited. There is a potential risk that the costs that the LCRCA is underwriting through the franchising model may fall outside of this range forecasted for the levy, which would translate in a funding gap that may need to be covered through additional arrangements.
- This limitation around funding certainty has been identified by LCRCA in the Business Case (see 'Funding Arrangements' under Section 3.1.2. of the Financial Case), **but could be more clearly explored through the alternative scenarios discussion**. The commentary has been limited to noting that *'[…] Franchising can still provide benefits even if there is a lower level of funding available.*', and '*[…] As with Franchised services, LCRCA will need to be able to revise the bus network in order to manage the impact of reductions in service.*'

5.2.4 Commercial Case

The Commercial Case covers the areas identified by the Department for Transport guidance including the commercial model, size and geographical scope of the areas, length of contracts, phasing of contracts, high level contractual arrangements, facilitating competition and a risk identification and mitigation assessment. LCRCA has undertaken a market engagement exercise to gather feedback on its proposed franchising scheme and understand the extent to which the proposals will achieve sufficient competition. LCRCA intends to reduce barriers to entry for operators of all sizes, including SMOs. One element of the analysis that would benefit from additional attention is:

Procurement exercise

The Commercial Case states that some market engagement has already been carried out in the context of the franchising programme.

The present case would benefit from including any evidence from similar processes and lessons learned in similar projects, such as the Greater Manchester franchising process. While this case has been mentioned, no specific discussion around this has been included in the text.

5.2.5 Management Case

The Management Case discusses the implications of franchising on management of the bus network, specifically the need to invest in people, processes, and systems. It is noted in the Management Case that LCRCA has met with all neighbouring transport authorities to assess the extent to which they may be affected by each of the Delivery Options. In addition, LCRCA referenced relevant transport policies of neighbouring authorities (BSIPs) in Table 1.3A of the Strategic Case. A recruitment strategy is also included. However, the following area would benefit from additional clarification:

Risks and mitigations

Overall, the management risks and mitigation strategies in Table 5.14 cover the required areas.

In addition, the Management Case could go into more detail on the practical implementation of the identified mitigation measures. As an example, to mitigate the revenue risks, it is noted that a variety of funding sources are available. However, without a clear view of which sources are available in the event that central government funding is not available, it is difficult to evaluate if the mitigation measures are realistic or not.

5.3 Conclusion

Areas for improvement across the business case files have been described in Section 5.2. Overall, the improvements identified are focussed on ensuring that a fair representation of the market in which the different options would be delivered is presented, and that any analysis covers all the potential outcomes from any option under discussion. However, overall, these areas are not considered to be material issues in terms of the guidance issued by the Department for Transport for this type of project.

6 Conclusion

Based on the Business Case prepared by Liverpool City Region Combined Authority ('LCRCA'), we have set out key considerations in relation to how the business case aligns with the guidance as set out by DfT and the provisions in the Bus Services Act 2017. There is detailed commentary throughout the Report. Areas for improvement that would benefit from additional attention are listed below.

For the avoidance of doubt the summary below is not an exhaustive list of our findings as the Report should be reviewed in its entirety.

6.1 Key observations

We have discussed various areas of improvement as noted across this document, and highlight a few key areas below:

- **Transport Levy**. LCRCA has documented this risk in the 'Funding Scenarios' section under 3.1.2 (Financial Case). LCRCA's business case assumes that the current Transport Levy arrangements would be the main source of funding to cover the financial shortfall arising from the provision of bus services across all options under assessment. LCRCA has noted a commitment by constituent authorities to meet the increase in the Levy by 2% per annum. However, there remains a potential risk if the increase in costs rises above LCRCA's ability to fund its bus operations and LCRCA's assumed ability to reduce costs in such scenario may be limited. There is a potential risk that the costs that the LCRCA is underwriting through the franchising model may fall outside of this range forecasted for the levy. A more detailed explanation is included in Section 5.2.3.
- **Elasticities.** In the Economic Case and Modelling and Appraisal Assumptions note, a lower elasticity has been assumed (-0.4 in the morning peak and -0.5 for the evening peak), which falls outside the DfT's recommended elasticities range of –0.7 to -0.9. LCRCA has included an explanation that this is because the Black Book indicates that trips made in the peak tend to be for work and education purposes, and so tend to be relatively fixed in time and space, hence peak elasticities should be lower than off-peak elasticities. A more detailed explanation is included in Section 3.1.2.4.
- **Aggregate / composite downside sensitivity analysis.** Whilst a sensitivity analysis has been undertaken for individual parameters, it has not assessed the overall downside impact across all parameters simultaneously. These scenarios could reflect a situation where a number of cost headwinds occur simultaneously and would allow LCRCA to assess the level of revenue risk that it could carry under franchising. This is further discussed in Section 4.4.

In addition to the key issues outlined above, a detailed list of additional observations can be found below in Table 14.

Table 14. Summary of observations

Observation category	Section / Category	Description
Business case sections which we are unable to comment on without access to primary data source or proof of a request and receipt of data	Cost	The Business Case assumes 30% additional cost of employment to apply to the incremental cost above the Reference Case under Enhanced Partnership option. This assumption represents a large impact on operating cost forecast, and in the ultimate instance, in the financial viability for each of the scenarios tested. Given the significance of the item this is a large, unsourced assumption.
Use of data or assumptions relying on partial but not sufficient sourcing or justification.	Base year	Within the Financial Model, base years for cost lines differ. For example, operator payments and supported services revenue have a 2018/19 base year, depot and fleet investment are from 2019/20 and transitional costs are from 2020/2021. The model converts these inputs into a consistent output year to allow for direct comparison. This does not have a direct impact on the model outputs however sourcing figures from the same base year would improve consistency.

Observation category	Section / Category	Description
	Transition and implementation costs	Provision for risk assumptions used in the Financial Case are different from the values provided in the source. Table 4.9 of the Financial Case sets out the assumed costs associated with the implementation and ongoing administration costs of a Franchise scheme, to be incurred over the 3-year implementation period. The provision for risk assumption in this table is higher than the supporting evidence provided by LCRCA – Annex E ‘211220 Metro Mayor Presentation Dec 2021 V2’. Additionally, no supporting evidence has been provided for IT provisional cost. The difference in the assumptions used and the values provided in the source requires justification or explanation.
	Alternative funding	In addition to the alternative revenue scenarios, the analysis considers varying levels of funding available. All scenarios assume 85% of the demand forecast level pre COVID-19. However, beyond stating that these are internal assumptions, there appears to be no justification provided for assuming the different levy scenario.
	Operating costs	Rationale has been provided in the databook, but not in the Financial Case itself, for the rates of change between FTE numbers and cost increases for management, i.e. from c. £2.2m p.a. prior to implementation in 2026 to £4.5m (>100% increase) p.a. under Franchising, while FTEs increase from 90 to 165.5 (<100%).

Observation category	Section / Category	Description
	Transition costs	No explanation has been provided as to how the risk provision for Transition Costs has been estimated.
	Passenger journeys	Section 8.2 of the Financial Case states that “Franchising provides more passenger journeys for a similar cost to the other options.” This statement would benefit from further explanation to justify it.
Use of data that requires updating	Future year cost growth	The Operating Cost Model indexes Fuel and BSOG costs using the Diesel Price Index. The values for this are sourced from the January 2023 WebTAG data book. However the ‘Duty’ and ‘VAT’ portions of the index use values from one year later than expected, e.g. the 2010 Duty value applied is actually the 2011 value from the WebTAG data book. Note that the same applies to the Petrol Price Index however this is not used in the model.
	PWLB Interest Rate	PWLB interest rate sensitivity has been applied over a January 2022 rate that would benefit from being updated. There is inconsistency in the date of these references in the Business Case.
Modelling - Areas with Quantifiable Impact on the current Financial and Economic Assessments	Optimism bias	Sensitivity tests on scheme costs could better reflect uncertainty in optimism bias rates as well as in the underlying base costs.

Observation category	Section / Category	Description
Commentary on Modelling – Areas with no direct impact on the Financial or Economic Assessment	Equality Impact Assessment	There does not appear to be any consideration of measures required under an Equality Impact Assessment (‘EIA’) to meet commitments to equality and non-discrimination. In particular, there is no consideration of potential costs for upgrading bus shelters and depots with, for example, better lighting or CCTV. This would have the potential of increasing patronage as different groups may feel safer or more able to travel by bus. There is no direct impact on either the Financial or Economic Cases as the costs for these measures are unknown and would require a look at the existing bus shelters.
	Base years for inputs	Within the Financial Model, base years for cost lines differ. For example, operator payments and supported services revenue have a 2018/19 base year, depot and fleet investment are from 2019/20 and transitional costs are from 2020/2021. The model converts these inputs into a consistent output year to allow for direct comparison. This does not have a direct impact on the model outputs however sourcing figures from the same base year would improve consistency.

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Appendix 4

LCRCA response to Auditor's observations

Appendix 4

The Audit Report states that, whilst undertaking its analysis, KPMG identified a number of observations in relation to the Assessment which are set out in the Audit Report, none of which it considers affect the opinion given in the report.

Liverpool City Region Combined Authority has taken all the observations into account, making minor adjustments to the Assessment where improvements were identified. The Report lists three "key observations" which the Combined Authority has provided a response to for completeness. These three observations are the transport levy, elasticities and aggregate / composite downside sensitivity analysis.

Transport Levy

The Auditor's Report notes that the Combined Authority's business case assumes that the current Transport Levy arrangements would be the main source of funding to cover the financial shortfall arising from the provision of bus services across all options under assessment and that there is a potential risk that the costs that the Combined Authority is underwriting through the franchising model may fall outside of the range forecasted for the levy.

The Combined Authority is aware of this risk and has devised a franchising proposal that would enable the Combined Authority to mitigate the risk of significant funding shortfalls. Under franchising, the proposal is that the Combined Authority would enter into fixed seven-year contracts for bus services and that demand for bus services and contract costs is monitored on a continual basis. The Combined Authority will base the services it lets under franchise contracts on contemporary forward forecasts of affordability.

The proposed franchise contract will include a flexible change mechanism which will allow the in-life adaptation of the network in response to changes in demand. There may be costs associated with implementing changes, due to certain costs, such as the depot and operator employed staff, not reducing in line with a reduction in the number of services; the Combined Authority may also have certain fixed costs that cannot be reduced at the same time as services, for example committed vehicle costs and Combined Authority staff costs. The sensitivity tests included within the Assessment maintain all of the fixed costs (depot, the Combined Authority resource and fleet), whereas in reality, if demand reduced below expected levels, the Combined Authority would adapt its fleet and resourcing plans. Notwithstanding the prudent approach taken, the sensitivity tests show that franchising performs best.

In addition to the franchising proposal containing mitigation measures to enable costs to be controlled, the Combined Authority has alternative means of funding, if required including the mayoral precept, Mersey Tunnel tolls, business rates supplement and additional government funding.

The Assessment shows the comparative results for the three regulatory options for a lower level of annual levy, and the ranking of the options is the same under this scenario.

Elasticities

The Auditor's Report raises a point that in their view, the impacts of changes in bus fares described in the Economic Case and Modelling and Appraisal Assumptions use elasticities that fall outside the DfT's recommended range of –0.7 to -0.9.

The Combined Authority's view is that the Assessment uses elasticities that are in line with DfT guidance. Within the Assessment impacts on demand associated with changes in fares have been estimated by using elasticities to fares from the Black Book. Elasticities related to off-peak travel are consistent with the DfT recommended range. In the case of peak travel elasticities, a lower elasticity has been assumed (-0.4 in the morning peak and -0.5 for the evening peak). This is because the Black Book indicates that trips made in the peak tend to be for work and education purposes, and so tend to be relatively fixed in time and space, hence peak elasticities should be lower than off-peak elasticities. This is consistent with TAG Unit M2-1, 6.4.22, which indicates that peak period elasticities are lower than inter-peak elasticities, which are in turn lower than off-peak elasticities. The Combined Authority also notes that the impact of these assumptions on the conclusions of the Assessment is not material.

Aggregate / composite downside sensitivity analysis

The Auditor's Report notes in sections 1.3 and 5.2.3 that whilst sensitivity analysis has been undertaken for individual parameters, it has not assessed the overall downside impact across all parameters simultaneously.

These scenarios could reflect a situation where a number of cost headwinds occur simultaneously and would allow the Combined Authority to assess the level of revenue risk that it could carry under franchising.

The Combined Authority did not take this approach because it is not required by the relevant sections of TAG guidance (Units M2.1 and M4). The combination of the scenarios and sensitivity tests developed within the Assessment is considered by the Combined Authority to provide sufficient information to the decision-makers to assess the impact of the different risks considered, allowing it to take an informed decision in line with the requirements of the Transport Act 2000 and its own statutory duties.

LIVERPOOL CITY REGION COMBINED AUTHORITY

METRO MAYOR LIVERPOOL CITY REGION

Appendix 5

Proposed Franchising Scheme

DRAFT

TRANSPORT ACT 2000

The Liverpool City Region Franchising Scheme for Buses 2023

Made [   ]

ARRANGEMENT OF THE SCHEME

Contents

WHEREAS:

A Transport Act 2000 (as amended) (**"2000 Act"**) makes provision for a franchising authority to make a franchising scheme covering the whole or any part of its area. The LCRCA is a franchising authority as defined in the 2000 Act.

B The LCRCA gave notice of its intention to prepare an assessment of a proposed scheme in accordance with sections 123B and section 123C(4) of the 2000 Act on [25 September] 2018. Having complied with the process as set out in the Act, the LCRCA may determine to make the scheme in accordance with sections 123G and 123H of the 2000 Act.

NOW, therefore, the Mayor on behalf of the LCRCA, in exercise of the powers conferred by sections 123G and 123H of the 2000 Act, and of all other enabling powers, hereby **MAKES THE FOLLOWING FRANCHISING SCHEME** (the **"Scheme"**):

1 CITATION AND COMMENCEMENT

1.1 This Scheme may be cited as the Liverpool City Region Franchising Scheme for Buses 2023 and is made on [ ].

1.2 This Scheme shall come into operation on [ ] and shall remain in operation thereafter unless varied or revoked in accordance with the 2000 Act.

2 INTERPRETATION

2.1 In this Scheme:

(a) "**1985 Act"** means the Transport Act 1985;

(b) **"2000 Act"** has the meaning given to it in Recital A;

(c) **"Commencement Date"** has the meaning ascribed to it in article 1.2;

(d) "**Franchising Scheme Area**" means the LCRCA Area;

(e) **"Large Franchise Contract"** shall mean a Local Service Contract which has a Peak Vehicle Requirement of no less than [] vehicles;

(f) **"LCRCA"** means the Liverpool City Region Combined Authority;

(g) **"LCRCA Area"** means the area consisting of the areas of the metropolitan district councils for the local government areas of Halton, Knowsley, Liverpool, Sefton, St Helens and Wirral;

(h) **"Liverpool City Region Bus Franchising Scheme 20[xx] Map"** means the map so described which is deposited at Merseytravel's offices at 1 Mann Island, Liverpool, L3 1BP[1]. (A smaller scale version of this plan is at Annex 4 for the purposes solely of illustration.)

(i) **"Local Service Contract"** has the same meaning as in section 123A(5) of the 2000 Act;

[1] The map is available for inspection there and online at [WEB ADDRESS]

(j) **"Local Service"** has the same meaning as in section 2 of the 1985 Act;

(k) **"Merseytravel"** means the transport executive for the LCRCA;

(l) **"Operator"** means a person operating a Local Service, and references to an Operator shall be construed in accordance with section 137(7) of the 1985 Act;

(m) **"Peak Vehicle Requirement"** means the number of vehicles required to operate the Local Services in accordance with the terms of a Large Franchise Contract and at its highest frequency.

3 THE FRANCHISING SCHEME AREA

3.1 The LCRCA Area is hereby designated as the area to which the Scheme relates[2].

4 ENTRY INTO LOCAL SERVICE CONTRACTS

4.1 The date on which a Local Service Contract to provide a Local Service may first be entered into shall be [ ].[3]

4.2 The minimum period that is to expire between the date set out in article 4.1 and the provision of a Local Service under a Local Service Contract shall be a period of [6] months.

5 SERVICES UNDER LOCAL SERVICE CONTRACTS

5.1 Subject to paragraph 2 of this article and to article 6, the Local Services that are appropriate, and are intended, to be provided under Local Service Contracts are those specified in Annex 1 this Scheme[4].

6 EXCEPTIONS FROM THE SCHEME

6.1 The Local Services excepted from regulation arising because of the Scheme are those listed in Annex 2.

7 SCHEME FACILITIES

7.1 The additional facilities that the LCRCA consider appropriate to provide in the LCRCA Area are such depots as may facilitate the letting of the Large Franchise Contracts.

8 PLAN FOR CONSULTING ON OPERATION OF THE SCHEME

8.1 The LCRCA will consult with such organisations as appear to the LCRCA to be representative of users of Local Services, and may consult other organisations and persons, as the LCRCA thinks fit.

8.2 The purpose of any consultation undertaken in accordance with this article 8 is to seek the views of the users of Local Services on how well the Scheme is working[5]. The LCRCA will consult in accordance with this article 8 within a period of [twenty four months] from the date set out in article 4.1 and at such other times periodically as the LCRCA considers appropriate.

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2 S123H(3)(a)

3 Section 123H(2)(c).

4 s123H(2)(b)

5 Section 123(A)(9).

8.3 Any consultations carried out in accordance with this article 8 shall last for such period of time as the LCRCA thinks fit so as to ensure that those organisations and persons described in article 8.1 have sufficient time to respond.

8.4 The LCRCA will make available to the public its response to any consultation carried out in accordance with this article 8.

…………………………………………………………..

THE MAYOR OF LIVERPOOL CITY REGION

ANNEXES TO THE SCHEME

ANNEX 1: SERVICES INCLUDED - ARTICLE 5

General Services

To – From
Ainsdale - Range High School
Aintree Hospital - Broadgreen Hospital
Arrowe Park - Neston
Arrowe Park - Poulton Lancelyn - Arrowe Park
Arrowe Park Hospital - Croft Retail Park
Barnston - Oxton, Shrewsbury Road
Barnston - Upton Village
Barnston - West Kirby Grammar
Bebington - Bebington
Bebington - Eastham
Berrys Lane - Allanson Street School
Bidston - Woodchurch High School
Billinge - Rainford High School
Billinge - St Augustine's
Birkdale High - High Park
Birkenhead - APH - New Brighton - Wallasey - Birkenhead
Birkenhead - APH - Wallasey - Birkenhead
Birkenhead - Beechwood - Noctorum - Birkenhead
Birkenhead - Holmlands Estate
Birkenhead - Noctorum - Beechwood - Birkenhead
Birkenhead North Stn - Arrowe Park Hospital
Birkenhead North Stn - Wirral Grammar Schools
Black Bull - Maghull High
Blackbrook - Hope Academy
Bold - De La Salle
Bold - Gillars Green
Bootle - Aigburth Vale
Bootle - Aintree Hospital
Bootle - Liverpool John Lennon Airport
Bootle - Netherton Circular
Bootle - Speke Morrisons
Bootle North Park - Allerton, Penny Lane
Bowring Park - Woolton
Carr Lane - High Park
Carr Lane - Russell Road
Church Road - South Wirral High
Clinkham Wood - Cowley International College
Clinkham Wood - Parish Primary
Clock Face - Clinkham Wood
Clock Face - St Cuthbert's

Croft Retail Park - Heswall
Crosby - Chesterfield High School
Crosby - Hightown Circular
Crossens - Ainsdale
Crossens - Christ the King
Crossens - Formby
Crossens - Liverpool City Centre
Crossens - Walnut Street
Croxteth Park - Archbishop Blanch
Delph Lane - De La Salle
Dentons Green - Rainford High School
Dingle - Broadgreen
Dovecot - Broadgreen International School
Earlestown - Newton-le-Willows Interchange
Eastham - Neston
Eastham - Upton Village
Eastham Ferry - St John Plessington
Eastham Library - Bebington
Elephant Lane - St Cuthbert's
Farnworth - De La Salle
Formby
Four Acre Lane - Clinkham Wood
Frankby - Oxton, Shrewsbury Road
Garston - Archbishop Blanch
Garston - Grassendale/Springwood Circular
Garston - Woolton
Gayton - Lower Heswall
Gayton - Oxton, Shrewsbury Road
Gayton - St Mary's College
Gayton - West Kirby Grammar
Gillars Green - Rainford High School
Greenbank High School - Banks
Halebank - Murdishaw - Warrington
Halewood - Belle Vale - Broadgreen
Halton Hospital - Weston Point
Hard Lane - Rainford High School
Hard Lane - Rivington Road
Heswall - Liverpool City Centre
Heswall - St Anselm's College
Heswall - Thingwall & Irby Circular
Heswall - West Kirby Grammar
Heswall Bus Station - Wirral Grammar Schools
Hoylake - Our Lady of Pity
Hoylake - St Mary's College
Hoylake Road - Calday Grammar
Huyton - Archbishop Blanch

Huyton - Halton Hospital
Huyton - Stockbridge Village
Huyton Bus Station - Huyton Industrial Estate
Huyton Circulars
Kew - Greenbank High School
Kirkby - Halewood
Kirkby - Liverpool John Lennon Airport
Kirkby - Maghull Schools
Kirkby - Waterloo
Kirkby Circular
Kirkby Industrial Estate Link
Kirkdale - Maghull High
Kirkdale - Savio Salesian College
Knowsley Road - Rainford High School
Knowsley Village - St Edmund Arrowsmith
Leasowe & Town Meadow Circular
Litherland - Chesterfield High
Liverpool - Liverpool John Lennon Airport (Express)
Liverpool - Stockbridge Village
Liverpool City Centre - Aintree Hospital
Liverpool City Centre - Belle Vale
Liverpool City Centre - Crosby
Liverpool City Centre - Croxteth
Liverpool City Centre - Croxteth Park
Liverpool City Centre - Ellesmere Port
Liverpool City Centre - Garston
Liverpool City Centre - Halewood
Liverpool City Centre - Halewood Circular
Liverpool City Centre - Halton Hospital via LJLA
Liverpool City Centre - Huyton Bus Station
Liverpool City Centre - Huyton Circular
Liverpool City Centre - Huyton, Elizabeth Road
Liverpool City Centre - Kirkby
Liverpool City Centre - Kirkby Bus Station
Liverpool City Centre - Kirkby Industrial Estate
Liverpool City Centre - Liverpool Hope University
Liverpool City Centre - Liverpool John Lennon Airport
Liverpool City Centre - Netherton
Liverpool City Centre - Northwood
Liverpool City Centre - Old Roan
Liverpool City Centre - Prescot
Liverpool City Centre - Rainhill Stoops
Liverpool City Centre - RLUH - Speke
Liverpool City Centre - RLUH (via Everton/Vauxhall)
Liverpool City Centre - Sefton Park Circular
Liverpool City Centre - Skelmersdale

Liverpool City Centre - South Parkway/Speke Morrisons
Liverpool City Centre - Speke Morrisons
Liverpool City Centre - St Helens Bus Station
Liverpool City Centre - Stockbridge Village Circular
Liverpool City Centre - Tower Hill
Liverpool City Centre - Widnes
Liverpool City Centre - Windmill Hill
Liverpool City Centre- Croxteth Park
Liverpool City Centre Shuttle
Liverpool ONE - Huyton
Liverpool ONE - Warrington
Liverpool Road - Rainford High School
Liverpool South Parkway - Halewood Academy
Longridge Avenue - Cowley International College
Lowfield Lane - Cowley International College
Maghull - Aintree Hospital
Maghull Circulars
Maghull High - Black Bull
Maricourt - Fazakerley
Maricourt - Kirkby
Melling Mount - Maghull High
Meols - Pensby High School
Merton Bank - Rainford High School
Merton Bank Road - Cowley International College
Mill Park - Oxton, Shrewsbury Road
Mill Park - St Anselm's College
Mill Park - Woodchurch
Moreton - Broughton
Moreton - Eastham
Moreton - Hilbre High School
Moreton - Pensby High School
Moreton - Wallasey
Moreton - Weatherhead School
Moreton - Wirral Grammar Schools
Moreton - Woodchurch High School
Moss Bank - Rainford High School
Murdishaw - Warrington
Ness Gardens - Liverpool City Centre - Royal Hospital
New Brighton - Clatterbridge
New Brighton - Liverpool City Centre
New Brighton - Wallasey Circular
New Ferry - Liverpool City Centre
New Ferry - South Wirral High
Newton - Our Lady of Pity
Newton-le-Willows - Ashton Schools
Newton-le-Willows - Ashton-in-Makerfield

Newton-le-Willows - Carmel College
Newton-le-Willows - Hope Academy
Norwood Avenue - Greenbank High School
Oldershaw School - Upton Roads
Oxton - West Kirby Grammar
Oxton - Wirral Grammar Schools
Page Moss - Kirkby Industrial Estate
Park Road South - Ridgeway High School
Pensby - Barnston
Pensby - Wirral Grammar Schools
Platt Bridge - Carmel College
Prenton - Wallasey
Prescot - Rainhill High School
Rainford - Ashton-in-Makerfield
Rainford - Carmel College
Rainhill Stoops - De La Salle
Ridgeway High School - Birkenhead Town Centre
Runcorn Busway Circular (Anti-clockwise)
Runcorn Busway Circular (Clockwise)
Runcorn High Street - Beechwood
Runcorn Station - Runcorn East
Saughall Massie - Hilbre High School
Saughall Massie - Pensby High School
Saughall Massie - Ridgeway High School
Saughall Massie - St Mary's College
Saughall Massie - Woodchurch High School
Savio Salesian College - Bootle
Seacombe - Wallasey
Seaforth - Maghull High
Sefton Park - Liverpool University
Sheil Road Circular (Anti-clockwise)
Sheil Road Circular (Clockwise)
Shrewsbury Road - St John Plessington
South Liverpool Circular
South Wirral High - Wirral Grammar School
Southport Hospital Circular
Southport Town Centre - Liverpool City Centre
Speke Circular
St Helens - Earlestown Bus Station
St Helens - Liverpool City Centre
St Helens - Parr
St Helens - Ashton/Wigan
St Helens - Earlestown Bus Station
St Helens - Halton Hospital
St Helens - Kirkby
St Helens - Liverpool John Lennon Airport

St Helens - Newton-le-Willows/Leigh
St Helens- Rainhill/Whiston Circular
St Helens - Ravenhead Retail Park Circular
St Helens - Sutton Manor
St Helens - Warrington via IKEA
St Helens - Whiston Hospital Circular
St Helens- Billinge
St Helens Bus Station - Eccleston
St Helens Bus Station - Haydock Industrial Estate
St Helens Bus Station - Hard Lane
St Helens Bus Station - Rainford
St Helens Bus Station - Southport
St Helens- Chain Lane
St Helens Hospital - Garswood
St Helens Town Centre - Cowley International College
St Helens Town Centre - Rainford High School
St Helens- Wigan
St Helens-Warrington
St Hilda's - Hunts Cross
St James' Church - Woodchurch High School
Stockbridge Village - St John Bosco
Sutton Manor - Rainford High School
Thatto Heath - Outwood Academy
Thatto Heath - Sutton Academy
Thingwall - West Kirby Grammar
Thingwall - Wirral Grammar Schools
Thornton Hough - Raby Mere
Toll Bar - Rainford High School
Townfield Lane - The Birkenhead Park School
Upton Village - Pensby High School
Waddicar - Maghull High
Wallasey - Birkenhead
Wallasey - Weatherhead School
Walton (Cavendish Drive) - Aintree Hospital
Walton Park - Aintree Hospital
Walton Park - Walton Park
West Bank - Halton View
West Kirby - Arrowe Park Circular
West Kirby - Eastham
West Kirby - Liverpool City Centre
West Kirkby/Caldy/Newton
Widnes - Cronton Circular
Woodchurch - Birkenhead Sixth Form
Woodchurch - St John Plessington

ANNEX 2: EXCEPTED SERVICES - ARTICLE 6

To - From
Warrington - Chester
Chester - Runcorn
Wigan - Ormskirk - Southport
Chorley - Southport
Preston - Southport
Warrington - Wigan
Tourist Services

ANNEX 3: TEMPORARY EXCEPTIONS

ANNEX 4: BUS FRANCHISING AREA MAP

MOVING BUSES FORWARD

Liverpool City Region
Bus Franchising Consultation

Have your say on how your buses are run visit:
www.liverpoolcityregion-ca.gov.uk/movingbusesforward