



Combined Authority Board

24 July 2024

Title:	Bus Reform
Report of:	Judith Barker, Executive Director, Place and Connectivity
Lead Member:	Cllr Anna Smith, Chair of Transport and Infrastructure Committee
Public Report:	Yes, with exempt appendices
Key Decision:	Yes – KD2024/032
Voting Arrangements:	<p>Recommendation A. A vote in favour by at least two thirds of all members (or their substitute members) appointed by the Constituent Councils, to include the members appointed by Cambridgeshire County Council and Peterborough City Council, or their substitute member</p> <p>Recommendation B. For noting</p> <p>Recommendation C. A vote in favour by at least two thirds of all members (or their substitute members) appointed by the Constituent Councils, to include the members appointed by Cambridgeshire County Council and Peterborough City Council, or their substitute member</p> <p>Recommendation D. A vote by the majority to include the Mayor's vote</p>

Recommendations:

A	Approve the Bus Reform Assessment (also known as the Outline Business Case or OBC Assessment) dated 1 st July 2024, as provided to the independent auditor, in line with approvals received at the September 13 th 2023 CPCA board and agree that the Bus Reform Assessment dated 1 st July 2024 supersedes the Bus Reform Assessment dated September 2023.
B	Note the final Draft Audit Report, as provided to CPCA by the independent Auditor
C	<p>Proceed with the proposed Bus Franchising Scheme following receipt by CPCA of the issued Audit Report from the Auditor in a form which is substantially the same as that of the final Draft Audit Report, by taking the following next steps in the statutory process by:</p> <ul style="list-style-type: none"> giving notice of the proposed Bus Franchising Scheme, and to make copies of the proposed Bus Franchising Scheme, Consultation Document, final Bus Reform Assessment and Audit Report available for inspection. consulting with all statutory consultees as listed under section 123E(4) of the Transport Act 2000 (the Act), as well as the general public of the region.
D	Delegation is given to the Executive Director Place and Connectivity to agree and publish the final Bus Reform Assessment and to publish the issued Audit Report as received from the Auditor.

Strategic Objective(s):

The proposals within this report fit under the following strategic objective(s):

X	Achieving ambitious skills and employment opportunities
X	Achieving good growth

X	Increased connectivity
X	Enabling resilient communities
X	Achieving Best Value and High Performance

1. Purpose

1.1	<p>The purpose of this paper is for the Combined Authority to consider:</p> <ul style="list-style-type: none"> • Final approval of the Bus Reform Assessment, as provided to the independent auditor. • To note the provision of the external Draft Audit Report by the independent Auditor and process for the issue of the Audit Report by the independent Auditor.
1.2	<p>Further, the Combined Authority will consider and decide whether to:</p> <ul style="list-style-type: none"> • proceed with the proposed Bus Franchising Scheme, by taking the following next steps in the statutory process by: • give notice of the proposed Bus Franchising Scheme, and to make copies of the proposed Bus Franchising Scheme, Consultation Document, final Bus Reform Assessment and Audit Report available for inspection. • consulting with all statutory consultees as listed under section 123E(4) of the Act, as well as the general public of the region.
1.3	<p>In January 2019, recognising the challenges faced by the local bus market, the CPCA Board approved the development of a business case assessment of the benefits of operational models open to the Combined Authority, including Enhanced Partnerships and franchising opportunities in line with the Franchising Scheme Guidance issued by the DfT ("Guidance") and as set out in the Bus Services Act 2017 and associated guidance. The decision required further, and more detailed work being undertaken in relation to the bus franchising scheme by way of an assessment, pursuant to the Act, to the level of detail set out in an Outline Business Case (OBC), and that the process prescribed by the Department for Transport (DfT) was adhered to in relation to the Bus Reform Assessment.</p>
1.4	<p>Due to significant events impacting the bus market, including the Covid pandemic and the publication of Bus Back Better in 2021, the Combined Authority initially paused work on the Bus Reform Assessment in 2020 to assess the medium and longer-term impacts of Covid on the bus market and possible futures that could be considered in the Bus Reform Assessment. The work was restarted in early 2023. The impact of the pandemic on the bus market within Cambridgeshire and Peterborough, in common with the rest of the UK, has been pronounced and is reported in the Bus Reform Assessment.</p>
1.5	<p>In September 2023, the Combined Authority board approved delegated authority for the then Executive Director of Place and Connectivity to commission a review of the Bus Reform Assessment from an independent auditor in accordance with the provisions of section 123D(1) of the Act.</p>

2. Proposal

2.1	<p>Bus Reform Overview</p> <p>The Combined Authority is considering making changes to how bus services are governed and managed in the Cambridgeshire and Peterborough Combined Authority area. To enable a decision on a preferred way forward, the CPCA Board asked Officers to undertake an assessment of the options as part of a Bus Reform Assessment. The main options being considered are an Enhanced Partnership model and bus franchising.</p>
2.2	<p>Despite the level of support and subsidy provided to bus services by the Cambridgeshire and Peterborough Combined Authority, the Authority currently has limited control over important aspects such as network coverage, service levels and pricing strategies. The impact of Covid has seen a significant reduction in patronage and reduced services provided by bus operators. This has required further and ongoing intervention by the CPCA to support the current network. Nevertheless, under a deregulated market, CPCA is unable to deliver its strategic objectives.</p>

2.3	<p>A franchising scheme would see the current deregulated bus market replaced with a system where the Combined Authority specifies, procures and monitors the network, which is operated by bus operators under contract. This would provide the greatest degree of public sector influence over the bus offer, allowing the Combined Authority to specify the network, set the fares and incentivise improved performance.</p>
2.4	<p>An Enhanced Partnership (EP) is an alternative approach which represents a collaborative framework between CPCA and bus operators. Through this partnership, both parties come together to negotiate improvements in services, infrastructure, and standards, aiming towards a more integrated and efficient bus network. The EP proposal would be developed with meaningful and constructive dialogue with bus operators, consistent with their engagement with the Combined Authority.</p> <p>In March 2024, with advice from DfT, the CPCA Board approved to move to an interim EP model. DfT were clear that all public transport authorities were expected to move towards EP or franchising. Ahead of the conclusion of the assessment process, it was agreed to commence work with operators on an interim EP whilst progressing the Bus Reform Assessment of franchising and EP.</p>
2.5	<p>The Bus Reform Assessment appraises the bus franchising model and an EP in a 'medium' investment level scenario against the reference case (do nothing i.e. low investment EP), using the HM Treasury Green Book five case model, including: strategic, economic, financial, management, and commercial case assessments. The evaluation indicates which model is the most favourable option for achieving the ambitions of the Combined Authority's Bus Strategy.</p>
2.6	<p>Summary of the Outline Business Case (OBC) Assessment</p> <p>The Bus Reform Assessment concludes that a regulatory reform of bus service delivery is required to enable CPCA to meet its ambition to significantly increase bus patronage by 2030.</p> <p>The goals of bus reform are aimed at amplifying the reach and efficiency of the bus network, furthering economic, social, and environmental goals, and improving customer experience. While both EP and Franchising can provide enhanced networks, Franchising offers the region more control to specify the desired network, levels of service and integrated fares and ticketing, ensuring a more unified and accessible network.</p> <p>Franchising offers advantages for CPCA in achieving its strategic objectives, allowing full influence over outcomes and the efficient delivery of bus service improvements to passengers, and bus network changes which support the delivery of wider policy ambitions.</p> <p>The EP is a deliverable solution but is less likely to deliver the strategic outcomes as it leaves key decisions around the network in the hands of bus operators (as per the status quo) with any outcomes subject to negotiations with operators.</p>
2.7	<p>The economic assessment shows that both medium-investment EP and Franchising could represent high value for money, with potential for a return on investment and a benefit: cost ratio above 2.</p> <p>The economic appraisal considers the economic, social, and environmental impacts, and the data indicates that Franchising (with medium investment) offers a net present value (NPV) of £188 million, compared to £123 million for EP. Franchising requires a larger investment, and it is expected to deliver a higher level of benefits through increased control over policy levers such as performance contracts and integrated ticketing. Both options present uncertainties, especially around ongoing operational costs, and revenues over the 30 year appraisal period.</p>
2.8	<p>Currently, the total annual value of the bus market in the region is approximately £50 million. The fare revenues pay for about £26 million of this, with the public sector already providing funding of approximately £24m from a range of funding streams.</p> <p>It is important for the financial security of CPCA (beyond the transport discipline) that a long-term sustainable solution is sought; balancing appropriate levels of risk exposure and sufficient control to effectively realise benefits. The analysis suggests that any of the options pursued – including the modelled reference case (do nothing) - would require financial support through the thirty-year appraisal period.</p> <p>The OBC includes a list of potential funding sources which could be considered to support the case for franchising, including both locally controlled sources, e.g., Transport Levy, Mayoral Precept, farebox supplements, as well as wider options the Combined Authority could pursue e.g. business rate supplement, increased local tax retention.</p>

2.9	<p>While a broad range of potential funding sources are identified, the financial model within the OBC relies only on additional funds where the sources are directly within the CPCA’s control – Mayoral Precept, Transport Levy, and the CPCA’s own capital grants.</p> <p>This approach is taken as there is a requirement for the OBC to demonstrate affordability, and relying on uncertain future funding streams would not be prudent, so the OBC funding model can be considered a ‘back-stop’ if no further funding sources are identified and the CPCA wants to deliver the service levels and outcomes identified in the OBC.</p> <p>Work developing local options, and to make the case for further funding from the new Government, will continue following the decision of the Board on whether to continue with consultation. Any funding beyond what is assumed in the OBC would reduce the indicated requirement for council tax; for example acquiring new, or re-prioritising existing, capital grants for the area to cover the whole cost of the anticipated acquisition of bus depots and highways improvements would eliminate borrowing costs and reduce the revenue requirement by £2.5m per year.</p> <p>While the business case has been developed based on the best information available, and using reasonable assumptions on future funding, the reality in 10, or 20, years’ time will no doubt deviate from this model and the Combined Authority Board will continue to hold responsibility for setting balanced budgets on an annual basis, delivering its stated objectives while taking into account real-time knowledge of available funding and forecast service costs.</p>
2.10	<p>The commercial case sets out the commercial proposition for the delivery options, delivering against the requirements of the Franchising Scheme Guidance or Enhanced Partnership Guidance. It presents the commercial objectives and strategy and identifies associated commercial risks. The Franchising commercial proposition bears an opportunity to facilitate a competitive market in which CPCA would have greater capacity to achieve its objectives than the current position, and it would come with a range of risks and delivery requirements.</p> <p>In contrast, an EP would not provide the same level of risk and delivery challenges, but neither would it provide the same level of control and influence as Franchising.</p> <p>As noted above, the approval from CPCA board in March 2024 to delegate authority to the Executive Director of Place and Connectivity to pursue an Interim Enhanced Partnership has resulted in the reference case (Do Nothing) as the low investment EP option. This approach would be unlikely to meet the strategic objectives set in the CPCA bus strategy.</p>
2.11	<p>Having undertaken this Bus Reform Assessment in accordance with the relevant requirements of the Act and the Franchising Guidance, the Bus Reform Assessment considers that on balance, the strategic advantages of Franchising and the increased certainty which it brings in terms of outcomes, outweigh the disadvantage of taking on significant financial risk.</p> <p>Based on this Bus Reform Assessment, the CPCA Board are recommended to agree that the Franchising Scheme is adopted as its Preferred Option for bus reform.</p>
2.12	<p>These findings reflect that if the public sector invest further to improve bus services, then increased control and oversight of the bus system through franchising will provide better value for money and is the most likely way to achieve the strategic outcomes.</p> <p>The findings also reflect that without further investment CPCA should introduce an EP solution to deliver best value, which would offer some benefits but be more akin to the declining status quo. It was approved at the Transport and Infrastructure Committee and CPCA board in March 2024 for the CPCA to progress toward an interim EP.</p> <p>The EP provides a lower risk option but also lower rewards at the medium investment level.</p>
2.13	<p>Updates and finalisation of the OBC Assessment</p> <p>Since indicative approval by the Board of the Bus Reform Assessment in September 2023, updates have been made arising directly from:</p> <ul style="list-style-type: none"> • Clarifications provided by the Auditor on review of the draft Bus Reform Assessment • Refinement of market competition principles, linking into the depot strategy <p>Following provision of the draft Bus Reform Assessment to the Auditors (Grant Thornton) in November 2023, a range of clarification questions were raised, some of which informed further updates to the</p>

	<p>Bus Reform Assessment. In addition, the design of the franchise proposition was amended to introduce greater flexibility to control costs.</p> <p>These updates have been documented in the audit process and have been further reviewed by the auditors in production of their Draft Audit Report. A note outlining some of those updates has been provided in exempt Appendix C.</p> <p>The full outcome of the Audit is explained more below.</p> <p>Final conclusions of the Bus Reform Assessment</p> <p>Following the updates to the Bus Reform Assessment summarised above, the Bus Reform Assessment has been finalised in line with previous delegations and has been provided to Combined Authority members in exempt Appendix A.</p> <p>The Bus Reform Assessment’s conclusion remains the same: that Franchising is the preferred option for the Combined Authority to progress subject to the outcome of the statutory consultation, which will inform a report and recommendation to the Mayor.</p>
2.14	<p>Undertaking the Audit of the OBC Assessment</p> <p>The Combined Authority engaged with an independent auditor, Grant Thornton (the Auditor), who were instructed to prepare a report in accordance with section 123D of the Act.</p> <p>To be in compliance with the Act, it is required that the independent auditor provides a report on whether in the opinion of the auditor:</p> <ul style="list-style-type: none"> • the information relied on by the Authority in considering the matters referred to in section 123B(3)(d) or (e) of the Act is of sufficient quality; • the analysis of that information in the Assessment is of sufficient quality; and • the Authority had due regard to guidance issued under section 123B in preparing the Assessment. <p>A Draft Auditor’s Report on the Bus Reform Assessment has therefore been produced by Grant Thornton, in accordance with Section 123D of the Act. This report is set out as a letter dated 9th July 2024 and is included as exempt Appendix B1.</p> <p>The Draft Auditor’s Report concludes that, in Grant Thornton’s opinion, in all material respects:</p> <ul style="list-style-type: none"> • the information relied on by CPCA in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality; • the analysis of that information in the Assessment is of sufficient quality; and • CPCA had due regard to the Guidance issued under section 123B of the Act in preparing the Bus Reform Assessment <p>Where there are no material problems identified by the auditors in their audit report, their opinion is said to be ‘unqualified’. In addition to this unqualified opinion, the Auditor has also provided the Combined Authority with a number of observations that are set out in an appendix to their letter (included within exempt Appendix B1).</p> <p>We have reviewed the observations in the appendix to the letter and the impact on the Bus Reform Assessment and the response of the Combined Authority to those is set out in exempt Appendix B2. Whilst the observations are welcomed and recognised, the Combined Authority is satisfied that those observations, individually or together, do not contain any grounds to not proceed to consultation. All Mayoral Combined Authorities that have progressed through the audit process have received and considered a range of observations in their respective audit reports.</p>
2.15	<p>Finalisation of the Audit of the OBC Assessment</p> <p>The work that the Auditor has undertaken in reviewing the Bus Reform Assessment has been carried out on a revised version of the Bus Reform Assessment which has not yet been formally approved by the CPCA Board. In order to complete the review process and issue its full Audit Report in accordance with section 123D of the Act, the Auditor is required to audit the most recent assessment that has been approved by the CPCA Board. Currently the only Bus Reform Assessment which has been approved by the CPCA Board is that dated September 2023.</p> <p>The Auditor has confirmed that where the CPCA Board has approved the Bus Reform Assessment dated 1st July 2024 and agreed that the Bus Reform Assessment dated 1st July 2024 supersedes the Bus Reform Assessment dated September 2023 the Auditor will be able to complete its audit of the</p>

Bus Reform Assessment dated 1st July 2024 and issue its Audit Report in accordance with section 123D of the Act.

The Auditor has further confirmed that in the event that the CPCA Board approves the Bus Reform Assessment dated 1st July 2024 the Auditor would expect to be able to issue its Audit Report in a form which is substantially the same as the report set out in its Draft Audit Report dated 9th July 2024. The final review and issue of the Audit Report is expected to be completed shortly after the Bus Reform Assessment dated 1st July 2024 is approved by the CPCA Board.

2.16 **Consultation proposal**

Section 123E of the Act sets out that after obtaining an auditor's report, should the Combined Authority wish to proceed with the proposed Franchising scheme, it must: a) publish a consultation document relating to the proposed scheme (see section 123F of the Act), b) publish the assessment of the proposed scheme, c) publish the auditor's report on that assessment, and d) give notice of the proposed scheme in such manner as the authority or authorities consider appropriate for bringing it to the attention of persons in the area to which it relates.

In order to prepare for a possible consultation, work has been undertaken by the Combined Authority to develop the required materials and approach that could be taken. These materials would include the final Bus Reform Assessment of the scheme (provided as an exempt appendix to this report), presenting the EP and Franchising options for bus reform.

Should the Combined Authority decide to proceed with the consultation stage for the proposed Franchising scheme following receipt by CPCA of the Audit Report in a form substantially the same as the Draft Audit Report dated 9th July 2024, it is proposed to launch the Consultation on x date. This would run for 14 weeks from the launch date.

The Combined Authority has identified a number of organisations it must consult with in line with section 123E(4) of the Act. These are:

- All local bus operators
- Community Transport groups
- Regional district councils
- Regional county and city councils
- Neighbouring transport authorities
- Trade Unions (RMT, Unite, Unison)
- The Traffic Commissioner
- The Chief of Police for the region
- The Competition and Markets Authority
- Transport Focus
- Bus Users UK
- Local bus users groups
- Chamber of Commerce/Business Board

We are planning to hold a formal consultation (subject to Board approval on 24 July) which will inform a decision by the Mayor of Cambridgeshire and Peterborough on whether to introduce bus franchising, as a different way to run buses across the area. The consultation is due to run for 14x weeks from Monday 5 August until Monday 11 November 2024. Everyone will be invited to take part including statutory consultees, stakeholders, residents and businesses – those who rely on the bus to get from A to B and those who do not use the bus currently.

We have looked at different ways to run buses in Cambridgeshire and Peterborough and we are comparing two bus reform options: the Proposed Franchising Scheme and an Enhanced Partnership (EP).

Following an assessment of the options and an independent audit, our preferred option is the Proposed Franchising Scheme. Before a final decision is made, we are required by law to seek views from statutory consultees on the Proposed Franchising Scheme and the conclusions of the assessment. We also want to hear views from the public.

The consultation process will involve providing key consultation documents to meet our legal responsibilities, the creation of a dedicated web landing page to host the consultation, as well as a

questionnaire for people to have their say. There will be two versions of the questionnaire- a 'Short version' comprising 10x questions and a 'Long form version' comprising 41x questions.

The long form questionnaire is mainly for stakeholders and statutory consultees, those with a good level of knowledge and interest in the bus market and how it runs. However, if a non-statutory consultee wishes to complete this version, they will be able to do so. This choice will be made clear in our messaging, as part of our integrated Communications campaign. Our messaging will be consistent, providing residents with both the pros and the cons of each approach but also setting out our preferred approach. We will ensure that it is clear that the decision is not predetermined. Both qualitative and quantitative research will be carried out involving focus groups and online surveys. The results from the consultation responses and research (as well as any paper-based responses) will be logged, analysed and then reported before a decision is made.

Should the Combined Authority board wish to proceed to consultation, the Combined Authority board is asked to delegate finalisation of the Consultation brochure and other material, ready for publication at consultation launch, to the Executive Director for Place and Connectivity, in consultation with the Mayor and the Chair of the Transport and Infrastructure Committee.

3. Background

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

3.2 The Cambridgeshire and Peterborough region currently operates in a deregulated model for the bus network.

- In this deregulated environment, the Combined Authority has limited control over those bus services that it funds but it has no control over most of the network, frequencies or quality of the network.
- The Combined Authority has limited control over the setting and collection of fares and has no ability to use fare revenues to subsidise the wider network.
- Integration with other public transport modes can be more difficult and the stability of the network is not guaranteed due to commercial operation of routes in a historically declining market.
- Within the region, approximately 88% of bus mileage is commercial and the dominant operator runs 72% of overall bus mileage with 90% of patronage. This lack of meaningful 'in the market' competition, results in passengers receiving a sub-optimal service overall.

3.3 **Summary of the franchising and Enhanced Partnership models**
 The following table summarises the key differences between bus franchising and an EP for the CPCA:

Enhanced Partnership – depends on negotiation	Franchising
Control supported services only (12%); some influence over wider network, predominantly reactive to commercial operator decisions	Proactive control all services – routes, frequencies, route numbers
Set standards for services/vehicles through negotiation	Set standards for services/vehicles through contracts
Network branding negotiated, continued recognition of individual operators	Network branding mandated. Common livery/branding
Set fares on supported services only and opportunities for targeted discounts	Set fares across all services and general fares discounts
Multi-operator ticketing subject to negotiation	Multi-operator ticketing and single product range
Limited cross-subsidy between services	Profitable services can cross-subsidise others
Hold operators to account for not meeting requirements	Contractual ability to hold operators to account for not meeting requirements
Partnership/negotiated approach to management of network	Proactive, centralised approach to planning and management of network
Shared responsibilities and resourcing but reputational risks remain	Increased responsibility and resourcing for Local Transport Authority and ownership of financial risks.

4. Appendices

4.1	Appendix A. EXEMPT Outline Business Case (Assessment)
4.2	Appendix B. EXEMPT Audit letter, report and CPCA response
4.3	Appendix C. EXEMPT Note on changes to Assessment from September 2023
4.4	Appendix D. EXEMPT Franchise Scheme: Guidance on the Franchising process requires that a draft of the formal Franchise Scheme document should be included for comment through the public consultation. It may then be amended in response to the consultation to provide the final Scheme as part of the Mayoral decision and the 'making' of the Scheme. The document formally defines the area in which Franchising would apply and those services that would be included in franchise contracts and those that would be excepted.
4.5	Appendix E. EXEMPT EQIA

5. Implications

Financial Implications

5.1	<p>As the decision being recommended is only to approve the OBC and proceed to consultation, the direct financial implications of this decision are the anticipated costs of consultation, which are forecast to be within the existing allocated Bus Reform budget for 2024/25.</p> <p>A decision on whether to pursue Franchising, or on the level of investment to put into an EP, will have significant financial implications which will be the subject of future papers, incorporated into the budget and medium-term financial planning, and subject to scrutiny through the Overview and Scrutiny Committee's Bus Working Group.</p>
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Legal Implications

5.2	There are no direct legal implications directly arising from this report. External legal support has been procured to assist in the preparation of the Bus Reform Assessment for bus franchising and will continue to input to the development of the programme. In house legal services will also support with governance arrangements and other legal issues that may arise.
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Public Health Implications

5.3	There are no public health implications directly arising from this report. A key aim of bus reform is to maximise the contribution of bus services to the achievement of a range of wider economic, social and environmental policy objectives and goals.
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Environmental & Climate Change Implications

5.4	There are no environmental and climate change implications directly arising from this report. A key aim of bus reform is to consider and provide improved sustainable travel options for the region.
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Other Significant Implications

5.5	There are no other significant implications directly arising from this report
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Background Papers

5.6	CPCA board, September 20 th 2023 Transport and Infrastructure Committee September 13 th 2023
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