## Liverpool City Region Bus Franchising Consultation
## Response by Confederation of Passenger Transport (CPT)

### About CPT

We help a dynamic bus and coach industry to provide better journeys for all, creating greener communities and delivering economic growth.

We do this by representing around 900 members from across the industry be they large or small, bus or coach, operator or supplier. We use our influence to campaign for a supportive policy environment, give our members practical advice and support to run their businesses safely, compliantly and efficiently and bring the industry together to share ideas and best practice. We are ambitious to make things better for passengers, inclusive in seeking out different perspectives and we are always there when our members need us.

Buses and coaches are at the heart of the nation's economic and social life and 207,000 journeys a day[1] are made by bus in Liverpool City Region (LCR) to get locals to work, education and to access essential services.

The bus sector is well placed to help LCR deliver on key priorities such as helping people with the cost of living, economic growth, levelling up, air quality, combatting social exclusion, and achieving net zero carbon.

### Executive Summary

We thank LCR Combined Authority for the opportunity to respond to this consultation. Bus operators support the outcomes that LCR want to achieve: to provide an integrated bus system that makes travelling around the region quicker, cheaper, greener and more reliable. Buses connect people with opportunities and each other, providing a reliable, high quality alternative to the car. Operators want to work in partnership with LCR to deliver these outcomes regardless of the delivery model taken forward.

It is important to place the role of the operating model - in this case franchising - within the context of the wider bus ecosystem. Franchising changes who is responsible for the operating model for bus services; it does not change the fundamental economics of running a bus service, which are dictated by many factors that are quite often independent of any individual bus operator.

The most significant single policy measure that can make improvements for passengers is to tackle congestion. This would shorten journey times, making travelling by bus more attractive, thus increasing passenger numbers and fare revenue.

At the same time, costs would fall as fewer vehicles and drivers would be needed to maintain services at the same frequency. This would mean services are economically viable at a lower fare level, again improving demand and taking more cars off the road.

The challenges and risks associated with the delivery of bus services are here to stay, regardless of the delivery model adopted. Neither an Enhanced Partnership (EP) nor franchising model will solve the issues around reliability, punctuality and speed. Decisions that affect these issues – primarily bus priority measures – can be taken forward at any stage by LCR, regardless of the delivery model taken forward.

[1] bus01.ods (live.com)

Franchising will pose a significant financial risk to LCR, with projections already suggesting that there would be a breach in budget, while the Assessment does not contain evidence that the outcomes will be significantly better compared to an EP model.

There are huge transitional costs involved in the move to a franchising model, none of which deliver direct service improvements to bus passengers, but which are a risk to local tax payers. Local people should not have to fund the cost of regulatory change.

CPT and bus operators are ready to work with LCR to implement the delivery model taken forward, and hope to collaborate in partnership to achieve joint aims and the best outputs for the local passengers in the Liverpool City Region.

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

We are supportive of the proposal applying to the entire Liverpool City Region (LCR), but seek assurances that cross boundary and existing contracts will continue – and detail on how this will be achieved. There should be a co-ordination of services that operate outside LCR (for example, a franchised service is proposed to run into Warrington; and the important Birkenhead - Chester corridor which runs out of LCR into Cheshire City Council).

**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?**

We have no comments on the split, but LCR should take cognisance of transition issues, for example with Bootle routes moving out prior to round 5, and Gillmoss routes move out prior to round 3. Furthermore we would ask that LCR aligns franchise areas to existing depots to avoid disruption to front line staff and to make the bidding process more clinical.

**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?**

We believe that the timescales are about right but cognisance must be paid to the procurement and lead in times for vehicles if they are required for a particular route. ADL for example has a 12 month lead in time for vehicle orders now, so if this is reflective of the wider market, a longer mobilisation period may be required should new vehicles be required. Furthermore, zero emission bus (ZEB) depot conversion will extend transition times if the plan is to introduce on day 1, so clarity around this is sought at an early date.

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

The Bus Alliance would need to receive formal closure by September 2023 which seems tight, we would suggest that the an earlier exit could be renegotiated should all parties agree.

Evidence from elsewhere shows that taking time to introduce a scheme properly has benefits. For instance, in Singapore the Land Transport Authority introduced a gradual transition to franchising over a three year period, with the first bundle of routes including 20% of vehicles[2].

Similarly, Manchester moved in phases with different areas going through a tender exercise at staged intervals across a three year process. We are pleased to see that LCR has set a clear

[2] Land Transport Authority. 2014. Transition to a Government Contracting Model For the Public Bus Industry

and realistic timescale for moving towards a franchise, with manageable areas undergoing tender processes on a staged basis.

We would suggest that LCR undertake a rapid review of practice at the end of each tendering phase before moving on to the next area or round of contracting. This would allow for all parties involved to learn from the previous exercise and undertake a due diligence process in order to improve the process and its outcomes.

Away from the broader transition to franchising, consideration also needs to be given to the timescales involved in each individual tender exercise. It is important that operators are given adequate time to formulate their bids for a tender. In practice, this means a minimum of 3 months to pull together a well-informed bid in circumstances where there are good levels of information shared with operators.

A key reason for this is that it gives operators the time to better understand the operating environment, such as data on route performance over a longer timescale, that in turn helps to manage risk. Risk that is better managed leads to better informed bids and more competitive pricing which is in LCR and the operators' interest.

It is vital that LCR does not accelerate timescales by cutting corners in the tender process and rushing operators through the process. Similarly, frequent delays can cause operators to lose confidence and therefore interest in a tender process, where bid teams could be redeployed to other areas that are franchised.

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

Please refer to the answer to Q4 above.

Starting mid September is not ideal due to schools all restarting in early September, which would cause unnecessary confusion to pupils and add training costs. We would suggest that all commencement dates should to align to the start of the new school terms or school holidays, not in the middle of terms.

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

We would like an assurance that cross boundary and existing (private/college/FE) contracts will continue, unaffected by the proposals.

Co-ordination of services that operate outside the region is required prior to moving forward with any proposals. For example, a franchised service is proposed to run into Warrington in competition with an established service. There also may be cross boundary issues to local non LCR towns. Existing services with large volume of patronage and mileage outside of LCR should not be franchised: X2 Liverpool-Southport-Preston appears to be a broken link, X1 Liverpool-Birkenhead-Chester becomes Liverpool-Ellesmere Port.

It is vitally important that routes such as the Preston service do not end up terminating in the middle of nowhere for administrative convenience.

We would also request clarity on the permit scheme for operators that might want to run service from outside the LCR area into LCR.

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

With reference to annex 2 and annex 3:

- There appears to be a lack of consistency as some cross boundary services are within the proposed franchise scheme in annex 2, and others exempted in annex 3, with several existing long distance and long standing cross boundary services being split or truncated
- The splitting or truncating of services will be to the detriment of bus users and reduce the attractiveness of public transport by removing a significant number of point to point direct journey opportunities. Furthermore, it may undermine the commercial viability of the remaining section of bus service route in the neighbouring authorities of Cheshire West and Chester, Lancashire and Warrington
- It appears that the X2 Liverpool-Southport-Preston service will be terminated at Southport, providing reduced bus travel opportunity for the residents of both Lancashire and LCR due to an interchange being required, thereby making bus services less attractive. The same situation appears to apply to the Liverpool-Birkenhead-Ellesmere Port-Chester route which looks to be terminated at Ellesmere Port. It serves a number of key leisure and work destinations including Cheshire Oaks and Chester Zoo and connectivity will be lost if the service is split and this will be to the detriment of both authorities
- We believe that all cross boundary routes with significant scheduled mileage outside of LCR should be excluded from the proposed franchise scheme, as they risk distorting the existing commercial bus market in the neighbouring local authorities. There is logic to services operating a short distance outside of the franchise scheme area to the nearest major point included in the scheme, but not if it breaks an existing service with a lengthy section of route mileage in a neighbouring local authority. Such services should be exempted, with operators able to apply to continue the services commercially on a permit basis. Within the Greater Manchester (GM) scheme, a high frequency bus route has been included in their franchise scheme some significant distance into a neighbouring local authority with 55% of the route mileage being outside of Greater Manchester. This has reduced the opportunity for commercial bus service provision within the neighbouring authority and placed the local bus service provision on a lengthy section of route and key corridor in one authority into the direct hands of Greater Manchester, the neighbouring local authority
- As well as tourist services we would recommend that football, concert and special event shuttle services should be exempted from the franchise scheme. Where they are not provided commercially on a permit basis but are required, LCR will be able to tender services
- We would welcome clarity on operator's ability to utilise franchise scheme vehicles including both main service buses and school services on exempted services such as football, special events and private contracts at times when they would otherwise be surplus. Although there may be shared financial and efficiency benefit in bus operators being able to utilise vehicles on small volumes of other work there is also a risk it can distort the market for such work through giving an unfair competitive advantage to franchise scheme holders but there is also a risk that at times of large demand such as festivals and concerts the commercial market cannot supply without using franchise scheme vehicles
- The Lancashire County tendered route Kirkby-Skelmersdale and the Cheshire West and Chester Council tendered route West Kirkby-Chester appear to have been omitted

from both the franchise scheme in annex 2 and the exempted routes in annex 3. As these routes are tendered by neighbouring local authorities and have significant mileage outside of the LCR we would recommend they are exempted from the scheme

- The Warrington-Chester, Chester-Runcorn, Wigan-Ormskirk-Southport, Chorley-Southport and Southport-Preston routes are all exempted from the scheme whilst the following cross boundary have been included: St Helens-Southport, St Helens-Warrington and St Helens-Warrington via IKEA and St Helens-Wigan and St Helens-Ashton/Wigan. At face value there appears to be anomaly in the approach. We would however assume that services which are currently tendered by LCR have been included in the franchise scheme along with services from one franchise area to another (LCR to GM)
- In the case of the services from the LCR to GM we suggest that the LCR considers the opportunity with GM for the cross boundary services to be provided commercially on a permit basis
- For the services between Southport and Wigan it should be noted that this will operate from one franchise scheme (LCR) to another (GM) via a lengthy section of route in a neighbouring authority (Lancashire) where bus services will continue to be provided under the existing commercial and tendered model. It would therefore not be appropriate to include the service in a franchise scheme of either LCR or GM. However, the major depot facilities at both ends of the route will sit within franchise scheme areas and will be part of larger franchise contracts and so the provision of a commercial service between Southport and Wigan through a large part of Lancashire needs to be secured. We would suggest that early engagement with bus operators with routes through Lancashire County Council is essential to ensure continuity of service.

**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?**

COVID recovery is an issue for all operators across the UK, with the concessionary numbers being the slowest to recover.

Research examining Scottish and English bus patronage trends reinforced that, despite bus industry efforts to boost passenger numbers and develop services, operators are hampered by a range of factors including rising car use, congestion, changing shopping habits and reduced public sector investment. The study found that 75% of the decline in bus passenger numbers can be attributed to factors outside of the operators' control.[3]

It is important to place the role of the operating model - and in this case franchising - within the context of the wider bus ecosystem. Franchising changes who is responsible for the operating model for bus services; it does not change the fundamental economics of running a bus service, which are dictated by many factors that are quite often independent of any individual bus operator.

In terms of performance of bus services, according to the Assessment, the biggest issue is punctuality. Congestion and management of highways, especially at peak times hinders reliability, punctuality and speed of bus service delivery; as does the removal of bus lanes. These are political decisions that are having a knock on effect on the performance of the bus sector, and operators (or the delivery model in place) cannot influence this.

[3] Trends in Scottish Bus Patronage, KPMG, 2017 & Trends in English Bus Patronage, KPMG, 2018

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Some of the external factors faced by the bus sector that affect punctuality and reliability of services, and number of passengers are:

- Consumer behaviour and reasons for travelling (or not)
- Rates of car ownership
- Competition with other modes
- Demographic factors
- Local rates of economic growth
- Broader transport policies such as around car parking.

None of the above would change with the introduction of franchising. In terms of helping operators to improve performance, LCR could at any time decide to reintroduce bus lanes and other bus priority measures, and encourage people to use buses through favourable car parking policies, adverts and campaigns, and could ensure operator involvement in this through an Enhanced Partnership.

**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?**

Most, if not all of the interventions could be delivered through a strong Enhanced Partnership with political support:

- Network enhancements – including optimisation of routes, improvements of frequency and times of operation, including any modifications to existing commercial services.
    - The key difference according to the Assessment between the delivery via EP and franchising here would be that through franchising, LCR could make modifications to existing commercial routes within its budget envelope, where EP regulations do not allow for such changes. Whilst we accept that under an EP, these changes would not be directly under the control of LCR, changes could be made to existing commercial routes in negotiation with operators.
- Ticketing enhancements – the Assessment states that the benefit of wholesale integration of all bus tickets in LCR could only be delivered through franchising.
    - Multi operator ticketing is being delivered in places without franchising already and Project Coral is working on the ability to do it with tap on tap off, which is currently being trialled. We therefore do not see how it is valid to say this could only be delivered through franchising.
- Fares initiatives – including a one off reduction in all fares (except multimodal fares) and no growth above inflation.
    - The Assessment suggests that this could be achieved on a larger scale than assumed under EP – but this would also have to be budgeted and paid for.
- Zero emission fleet introduction – both options are expected to deliver a full clean fleet by 2040.

**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?**

Please see answer to Question 9 above – we believe that the assumed interventions outlined could be delivered through either franchising or an Enhanced Partnership model – but by delivering through a partnership model, the risk remains with private operators and could be delivered quicker, meaning greater benefit to customers.

In terms of passenger numbers, it is stated that these will fall under both models. However, referring to pages 375 and 400 of the Assessment, the difference in passenger numbers between an EP and franchising model will be negligible (0.9% over 12 years taken against the current model). This "benefit" of franchising needs to be set against the finance and risk that LCR will have to take on to achieve this.

The Assessment states that one of the key benefits of franchising is that it offers LCR the most control (of the models considered), and that this will make it easier for LCR to capture the financial benefits arising from any additional interventions in the bus market e.g. bus priority measures or a clean air zone. Although this is true in theory, it must be noted that any financial benefit (if it comes to pass) will be negligible when set against the huge cost of franchising to LCR to get to this point.

In addition, if franchising is pursued, LCR will have to be agile in responding to market changes in order to maximise any benefits. This is a key difference from an EP where operators would have incentives to react to market changes.

**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?**

**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)**

Somewhat.

This could be achieved through an effective Enhanced Partnership.

Buses are at the heart of the nation's economic and social life, with 207,000 bus journeys a day[4] in LCR, which take people to work, school and provide access to essential services.

The bus industry is well placed to help LCR deliver key priorities such as helping people with the cost of living, economic growth, levelling up, combatting social exclusion and achieving net zero carbon. It is flexible and agile and can respond quickly to changing demands – investment in bus is good value for money.

Small changes in the way we all travel can make a big difference – in particular to carbon emissions, air quality, congestion and health – and the bus sector wants to work with government and local government to maximise its contribution – but the key to this is decision makers' commitment to take brave decisions about prioritising bus and pro bus policies and to encourage people to shift from car to bus. These challenges do not change whether an Enhanced Partnership or franchised model is taken forward.

**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)**

Somewhat.

The best way to do this is to increase bus patronage and shift people's mode of transport from car to bus. This is a challenge regardless of the model of delivery pursued.

[4] bus01.ods (live.com)

Modal shift can only be achieved through a combination of policies[5], including:

(i) Increasing the attractiveness of the bus network including the frequency, speed, and reliability of buses
(ii) Keeping buses as affordable as possible, through ticketing offers and maintaining low prices
(iii) Making car travel less attractive
(iv) Implementing behavioural interventions to influence consumer choices.

Bus and Coach: The Route to Net Zero[6] models in detail the benefits that could be achieved by various policies to deliver modal shift through the interventions set out above. It shows that combinations of such policies could get us a long way towards delivering on net zero carbon goals as well as reaping a whole range of other economic, health and social benefits, which can be delivered under any model.

LCR ownership of zero emission vehicles has the potential to de-risk the investment for operators, however we urge LCR to engage with operators to ensure the vehicles purchased are suitable for operators and services.

**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**

Somewhat.

A franchising model would be a different from of competition - competition *for* the market rather than *in* the market; so the competition finishes as soon as the contract is awarded.

The current system is built on competition between operators, and public sector procured services have a large element of competition from operators of all sizes, ensuring the best value for money to local tax payers.

Our biggest concern is that with a franchising model, the operator numbers could decrease, should SMEs be unsuccessful in the process. This would in turn decrease competition in the market. With this in mind we would suggest a minimum percentage of PVR overall is awarded to defined SME operators to a level of current SME market share to protect smaller operators in the market and that the entry requirements for smaller contracts should be proportioned correctly.

**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)**

Somewhat.

[5] The Decarbonisation Dividend | CPT (cpt-uk.org)
[6] Bus and Coach: The route to net zero | CPT (cpt-uk.org)

We believe that the passenger benefits outlined in the Assessment could be delivered at least equally through an Enhanced Partnership, and in this model the risk would stay with operators and change could be implemented at a faster pace.

**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).**

Somewhat.

It is important to place the role of the operating model - and in this case franchising - within the context of the wider bus ecosystem. Franchising changes who is responsible for the operating model for bus services; it does not change the fundamental economics of running a bus service, which are dictated by many factors that are quite often independent of any individual bus operator.

Congestion and management of highways, especially at peak times hinders reliability, punctuality and speed of bus service delivery; as does the removal of bus lanes. These are political decisions that are having a knock on effect on the performance of the bus sector, and operators cannot influence this, regardless of the delivery model adopted.

Some of the external factors that bus operators face that affect punctuality, reliability and passenger numbers are:

- Consumer behaviour and reasons for travelling (or not)
- Rates of car ownership
- Competition with other modes
- Demographic factors
- Local rates of economic growth
- Broader transport policies such as around car parking.

None of the above would change with the introduction of franchising. In terms of helping operators to improve performance, LCR could at any time reintroduce bus lanes and other bus priority measures, and encourage people to use buses through car parking policies, adverts and campaigns, and could ensure operator involvement in this through an Enhanced Partnership.

**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?**

Franchising is an expensive economic model (as set out in the consultation paper and Assessment). LCR must be confident that they have the funds available over the 40 year period to ensure the successful delivery of the model.

We believe that a Net Cost model should have been included in this paper as an option, and for completeness, would urge LCR to consider this alternative model of franchising to ensure that a final decision is based on a full and fair assessment of all available options.

In terms of an Enhanced Partnership model, we are not convinced that the costs of consulting, negotiating, and delivering the Enhanced Partnership and its management and monitoring would in any way outweigh the additional costs associated with delivering the franchising model, which has implementation costs estimated at £27.4m (including IT, additional management and consultancy costs).

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

We are unconvinced that franchising would deliver a larger bus network in a way that would not be achievable through an Enhanced Partnership.

As reflected in the Assessment, the most significant single policy measure that can make improvements for passengers is to tackle congestion, and therefore reliability, speed and punctuality. By doing so, journey times would improve, making travelling by bus more attractive. Passenger numbers (and thus fare revenue) would increase and costs would also be reduced as fewer vehicles and drivers would be needed to maintain frequencies, which in turn would remove the upward pressure on fares, again improving demand and taking more cars off the road.

Franchising does not tackle congestion, or indeed the decline in bus ridership, and should therefore be seen within a broader strategy for improving the attractiveness of bus services – which could be achieved through a successful Enhanced Partnership.

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

We would like to make the following comments:

- there is real concern that business may be taken away from operators without any compensation, with the risk of stranded assets (especially depots that are not part of LCR strategic depot list)
- in terms of the length of contract, the longer they are, the more investment operators can and will want to make
- we request that combined operator bids be allowed to offer best value to LCR and local customers
- finally, the economic impacts will only be favourable if the indexation process during the contract itself properly reflects the inflation experienced in industry costs, so this needs to be carefully considered by LCR.

**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?**

The consultation paper itself states that there is only "potential" for the franchising model to represent value for money. This is not a sound business case. It is a huge financial risk for LCR to proceed with this model, and we would suggest that further robust modelling takes place to ensure that it is affordable both upfront and in years to come. Further modelling should also consider a comparator with a Net Cost franchise model.

The Assessment accepts that for the short and medium term, the Enhanced Partnership model is significantly more affordable, and that both models could achieve more services and passengers (compared to projections against the current model). It is further clear that a franchising option poses a high risk to LCR's current and future finances.

The paper itself states that an Enhanced Partnership would be the cheaper of the two interventions in terms of upfront costs, with a reasonable likelihood of these costs being paid back over time in passenger benefits unlocked through efficiency gains.

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

When considering the commercial objectives, as franchising is a more material change than Enhanced Partnership, it would require more significant resource and financial costs to implement. It also introduces a range of additional ongoing risks for LCR to manage, needing significant additional capability in-house to deliver.

The commercial case states that connecting areas of high unemployment with industrial areas may lead to both to an increase in the number of people employed, and improvements to the attractiveness of the industrial site due to its improved access to a pool of labour. Whist we agree with this, and that agglomeration is positive for the local economy, this could be achieved regardless of delivery model adopted, and is in no way linked to franchising.

The commercial case rightly states that anticipated reliability impacts on business users as a result of bus reform is dependent on the delivery and associated funding for bus priority measures, which could be delivered by LCR regardless of the bus delivery model adopted.

**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?**

Generally the assumption is that routes would move between the current commercial depots, which would add a costly implementation but would settle down over the course of the contract. If possible, LCR should associate the Lots with the current depots, as this avoids transition risk and mitigates the uncertainty for the staff involved.

If capacity at the strategic depots allow, it might be prudent to increase the depot PVR as this will carry greater cost savings.

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

The document states that the length of the contracts in Categories B, C and D will be a shorter length (than 7 years) and be agreed on a case by case basis. This does not afford SMEs bidding for these contacts the same long term certainty that the Category A contracts will provide – we would request that this be revisited and that all contracts are dealt with consistently.

**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?**

The document states that the length of the contracts in Categories B, C and D will a shorter length (than 7 years) and be agreed on a case by case basis. This does not afford SMEs bidding for these contacts the same long term certainty that the Category A contracts will provide – we would request that this be revisited.

Operators have to mobilise and demobilise when delivering a contract and this is costly, firstly in the tender process to secure a contract but also in terms of handing over and resolving any disputes on existing contracts. This also makes it harder for SMEs to become involved as they're unlikely to have standing bid teams that can be constantly mobilised.

Frequent operator changes have implications for staff who could be undergoing TUPE arrangements regularly. This could negatively impact on the attractiveness of the sector as a whole for employment. With the above factors in mind, a shorter time horizon can pose a challenge.

**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?**

The revenue risk in the model of franchising being proposed will be borne by the LCR. LCR has further indicated that they would invest in ZEBs and depots, which would mean operators would pay for the delivery of services in a relatively low-risk environment, with the costs accruing to LCR.

But gross cost contracts also make changes to key behavioural aspects. Firstly, for operators there is little incentive to improve services or grow passenger usage beyond those set out contractually because the benefit does not accrue to them.

This can be overcome with the right performance management regime but is a significant change compared to how operators work in a commercial or net cost environment where operators have to be sensitive to passenger demand to remain viable.

We welcome the performance based rewards regime as a constructive way of delivering constant improvements to service delivery. However this has got to go hand in hand with infrastructure improvements that allow for congestion, punctuality and reliability improvements. The performance regime should be simple and reflect what customers want - reliability and punctuality; anything too draconian may increase risk and impact on pricing.

A comprehensive change mechanism is required to ensure that certain risk does not fall solely to operators that could end up with contract defaults (i.e. increases or decreases in mileage due to changes in market conditions).

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

We do not believe that the case has been made that franchising would improve service quality over and above what could be achieved through an Enhanced Partnership.

The Assessment is clear that services and passengers would increase under an Enhanced Partnership or franchising model (compared to the current model) through improved services. But as already discussed, the policies that will make a tangible positive change to the service quality of bus services are bus priority measures and encouraging people to move from car to bus, both of which are in the gift of LCR to take forward at any time regardless of delivery model.

Congestion and management of highways, especially at peak times hinders reliability, punctuality and speed of bus service delivery; as does the removal of bus lanes. These are political decisions that are having a knock on effect on the performance of the bus sector, and operators cannot influence this, regardless of the delivery model adopted. LCR could at any time decide to reintroduce bus lanes and other bus priority measures and encourage people to use buses through favourable car parking policies, adverts and campaigns, and could ensure operator involvement in this through an Enhanced Partnership.

**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?**

Investment made by LCR into ZEBs – electric or hydrogen – has the potential to de-risk the investment for bus operators. ZEBs are significantly more expensive than their diesel counterparts, and currently the business case is only justified with the support of government funding schemes such as ZEBRA, which covers 75% of the cost differential between diesel and ZEBS, as well as 75% of the supporting infrastructure. However, any vehicles purchased by LCR need to be suitable for operators and the services they will be providing, otherwise there is a risk operators will be unable to use them. We urge LCR to engage with operators and ensure that any vehicles purchased will deliver the services they are intended for.

Vehicles present many of the same challenges as depots (Q23 below) under a franchised regime. The same spectrum of ownership options is available, with operators retaining ownership on the one hand or the LTA purchasing vehicles on the other.

However, with vehicles, there is much more room for a mixed market economy, in which some are owned by operators, others are leased, and others are authority owned. Moreover, vehicles are often bought or sold, or transferred within and between operators making them a less grounded aspect of bus service delivery.

This is very similar to the commercial market that operates today under the existing market model. A key element to recognise is that operators have diverse business models and this is borne out in their approach to vehicles.

During any transition period, LCR should look to accommodate the existing business models of operators as much as possible, being ownership model agnostic with respect of vehicles. This should help to encourage operators to participate in a tender exercise with the least disruption.

Beyond the transition, there are a broad range of options available to an LTA. For instance, initial contracts could have residual values built into them so that assets are purchased and transferred to new operators during a retender exercise.

Similarly, LCR could pursue a public-private partnership to create a pool of vehicles that could be leased to SME operators to further reduce risk and help generate economies of scale. In instances where an incumbent operator fails to win a tender process, they will be left with significant stranded assets (both in terms of depots and vehicles). There is a possibility that vehicles will be either sold to other operators or transferred to other parts of an operator's business leading to a loss of vehicles within the franchise area.

LCR should therefore consider how it can come to arrangements on residual values and the purchasing of fleet with existing operators to manage this risk. If there is an instance of transfer between two operators as part of the franchise process then, as was the case with depots, there needs to be a clear understanding of who bears the risk of managing assets with historical maintenance issues. Many vehicles have lumpy expenditure in terms of maintenance during their lifetime and this presents a significant risk to a new entrant in taking on responsibility for vehicles which will be reflected in tender prices.

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

LCR has projected a spend of £62 million on depots, which is a huge financial cost to the tax payer.

Depots are essential for the delivery of a bus service. In the existing market, depots are typically owned by operators and have developed over time as locations that enable the efficient delivery of bus services, with control on issues such as dead mileage.

In delivering a franchise, an authority has a range of options in relation to depots, and it is positive to see that LCR are allowing a mix of operators bidding with their own depots, and LCR providing depots where required.

There would obviously be no requirement on operators to sell their depot should they no longer be required. In some cases, it may be more rational to sell the land for other uses such as housing, leaving LCR with an operational challenge, or facing higher acquisition levels than planned for.

As EV infrastructure will be included in LCR owned depots, we would seek assurances that this would not be a disadvantage to operators who want to tender for a particular lot and use their own depots, but do not have EV infrastructure.

As LCR is pursuing depot ownership, there is a risk that decisions it makes could have direct consequences on operating costs. For instance, a depot relocation undertaken by the authority could increase dead mileage. This would need to be reflected in the contractual arrangements through the tender process.

**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?**

It should be the responsibility of neighbouring transport authorities to develop a network that reflects travel patterns, and this should not be stifled by administrative boundaries. We would welcome further discussion on the implementation of permit schemes, with the ability to learn lessons from Transport for Greater Manchester.

**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?**

LCR should communicate their expectations clearly with regard to staff transfers. This could for instance make it clear to employees that they will be transferred across to a new operator under the TUPE regulations. This will ensure staff have confidence to remain in employment and in the sector if the operating model changes to a franchised regime.

In asserting this point there are a number of risks to the operator that should be considered. The first is around pension liability. Much like depots and vehicles, existing liabilities are not always clear to a new operator that is inheriting staff and this risk needs to be managed.

Similarly, terms and conditions may differ between operators and therefore a clear process is needed to ensure that both staff and operators are aware of the implications of a transfer.

Staff wages are another key consideration for an LTA. Staff costs typically comprise up to 70% of operating costs for bus services. They are therefore a significant axis of competition between operators in a tendering round. Evidence from New Zealand and the initial experience with tendering in London suggest that where a franchising regime is introduced, there may be downward pressure on wages and a number of drivers leave the industry.[7] This should be included as a clear risk in the Assessment, given the issues around driver numbers over the past three years.

There are two key considerations that result from this. From LCR's point of view a reduction in costs and lower bids may be desirable as it will reduce the total cost of operation.

However, it will also be important to ensure transport authorities can protect terms and conditions of existing staff in the sector. Some authorities set minimum wage rates in the contract process or specify terms and conditions in the tender documentation to avoid unscrupulous or ill-advised corrections. This could potentially add cost to the tender process and therefore warrants careful consideration.

For the incumbent operator, competition on wage rates can be challenging with significant risk of being undercut if an incumbent operator's cost base is historically high. By contrast, a new entrant can use this competition to good effect in its tender pricing.

We would strongly suggest that LCR allocate the appropriate HR TUPE specialist resource to be available to fully support operators and staff through the process.

**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?**

In terms of the commercial objectives set out in the Assessment, these could all be achieved through an Enhanced Partnership:

- **Public Sector Influence** – an EP is by definition a partnership. LCR would be able to work with operators on the best plan for LCR
- **Best value** – the current commercial model would produce best value for LCR as the revenue risk remains with operators and the system is based on competition between operators. LCR state that the current model means they must focus on how they can provide for supported services instead of using limited funds to optimise the network and deliver its objectives – we believe an Enhanced Partnership would be the best forum to achieve this in conjunction with operators in the future
- **Driver of competition** – the current model is explicitly based on competition between operators, franchising does not increase the level of competition in the market which will cease at the point of contracts being awarded
- **Risk Allocation** – LCR will face much larger risk allocation under a franchising model, taking on all revenue risk, and capital responsibility for depots and ZEBs
- **Ease of implementation** – an EP would allow an enhancement of current services to be implemented seamlessly and quickly, whereas the implementation of franchising will be very expensive, complicated, and take years
- **Recovery Robustness** – an EP is the ideal forum for LCR to develop a recovery strategy in partnership with operators, franchising will not tackle any of the issues associated with COVID recovery.

[7] KPMG & Mott Macdonald. 2020. Evaluation of the Public Transport Operating Model (online). Available at: https://www.transport.govt.nz/assets/Uploads/Report/EvaluationPTOM.pdf p.18-19

**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?**

There is a huge investment required in order to implement a franchising model; £252m to purchase ZEBs and £62m to purchase and fit out depots. We cannot see how this can be stated to be good value for the tax payer. Further, the forecasts of cost per vehicle would require government subsidy at current prices (although in future it is possible that the costs of diesel and ZEBs will converge). If this subsidy was not available, then LCR would need to 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.

**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?**

- **Transport Levy**
  A key challenge facing LCR is that the Transport Levy amount has been static compared against prior years, as LCR has been unable to increase the Transport Levy charged to its constituent authorities to keep pace with costs. In March 2022, the constituent authorities approved progressing with the completion of the Assessment and to move to the next stage of bus franchising through the independent review of the Assessment, having considered the report and draft of the Assessment which included an assumption that the Transport Levy would increase over the appraisal period in line with inflation. The assumed measure of forecast inflation was CPI. During refinement of the Assessment and, 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.

  The Transport Levy is declining in real terms, which adds additional pressure to the budget in respect of maintaining bus services.

- **Local Authority controlled mechanisms**
  - **Council tax transport precept**
    This would be an additional and unfair burden on local tax payers
  - **Mersey Tunnel Tolls**
    Increasing road toll charges to improve bus services is a positive policy initiative, and would help to make cars less attractive. But this could be implemented under any delivery model
  - **Business Rate Supplement**
    This is determined by central government so is not relevant; there is no short to medium term mechanism likely to become available to add a supplement to business rates to increase a transport budget
  - **Other LA mechanisms**
    A workplace parking levy, commercial revenue generation, road user charging and bus lane enforcement – these are all positive interventions that LCR should absolutely take forward in order to generate additional income for the LTA which could be invested back into the transport budget under any delivery model.

- **Central Government funding**
  The Assessment suggests that LCR may be eligible and/or have the ability to apply for Government funding in the form of grants, subsidies or funds. Following a franchising decision, the Assessment suggests that there may be the ability for Merseytravel to apply for Government funding initiatives which will be available at that time. These could include funds for investment in fleet or ticketing systems.

  None of the above has any certainty attached to it, and therefore should not be taken into account. Further, it is likely that any such Government schemes would be open for an EP to bid for, undermining the differentiation between the models made here.

**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?**

We would concur with the statement of greater risk and cost to LCR of a franchise scheme, and would reiterate that the majority of objectives of the scheme can be met through an Enhanced Partnership minus the financial risk to LCR.

The financial risk proposed for LCR to take on, is a huge burden on the Combined Authority and local tax payers.

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

The reporting structure and process should be proportionate to the size of contracts and be as streamlined as much as possible whilst covering the objectives of the scheme. This will enable both Merseytravel and operators to provide more focus on service delivery not the reporting structure.

**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?**

The operation of bus stations should be in line with the depot lots to ensure that there is a consistent approach to staff.

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

Operators will make a success of whatever political decision is taken in regards to the delivery of bus services. But we would caution that pursuing franchising will put a huge financial burden on the LCR, and politicians should be acutely aware of the risks involved.

We also believe that almost every benefit set out in the papers that would be achieved through moving to a franchise model, could also be achieved through a successful Enhanced Partnership model.

Further, in relation to franchising, this paper only considers a Gross Cost Franchise, modelled on the approach taken in London and Greater Manchester, in which the public sector specifies the service they require and award a contract to operators by competitive tender. The revenue risk then sits with the contracting authority.

LCR should, for completeness, include a Net Cost Franchise model in their options before a final decision is taken, whereby the revenue risk sits with the operator. One example of such a net cost contract is that in Jersey, which combines public sector specification of a minimum network with some element of commercial risk remaining with the operator:

- Shared risks, with a minimum subsidy contract. The LTA is obliged to subsidise the operator if the fare revenue falls below the costs of operation, but the operator shares any revenue upside with the LTA above a certain level
- An initial seven year period, with the possibility of extensions depending on performance at trigger points during the contract (designed to avoid mid or late contract complacency)
- Specification of smart ticketing and trackable vehicles, plus open book accounting allowing government access to patronage data and full cost data
- Consultation on network changes and/or enhancements with both the LTA and passengers
- A fail safe mechanism, allowing the LTA to step in in the event of service or organisational failure.

A minimum subsidy model should be considered as an alternative model and evaluated against the same set of objectives for completeness, and to ensure decision makers are in receipt of all options available to them.

We do not currently have a preferred model of franchise delivery for LCR, and would very much like to be involved in that consideration should franchising be taken to the next stage to ensure the best outcome for customers, operators and LCR.

**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?**

As set out above (and indeed, reflected in the consultation documents and the Assessment), the best way to make improvements to the bus network is to improve punctuality, reliability and speed. These require bus priority measures, and these can be implemented at any stage by LCR, regardless of the model of delivery.

Congestion and management of highways, especially at peak times hinders reliability, punctuality and speed of bus service delivery; as does the removal of bus lanes. These are political decisions that are having a knock on effect on the performance of the bus sector, and operators cannot influence this, regardless of the delivery model adopted. LCR could at any time decide to reintroduce bus lanes and other bus priority measures and encourage people to use buses through car parking policies, adverts and campaigns, and could ensure operator involvement in this through an Enhanced Partnership.

## Conclusion

We thank LCR for the opportunity to respond to this consultation, and we reiterate that bus operators support the outcomes that LCR want to achieve and want to work in partnership with LCR to deliver these outcomes regardless of the delivery model taken forward.

The challenges and risks associated with the delivery of bus services are here to stay, regardless of the delivery model adopted. Neither an EP nor franchising model will solve the issues around reliability, punctuality and speed. Decisions that affect these issues – primarily bus priority measures – can be taken forward at any stage by LCR, regardless of the delivery model taken forward.

As the Assessment outlines, franchising will pose a significant financial risk to LCR, and the Assessment does not contain evidence that the outcomes will be significantly better compared to an EP model (particularly given that the difference in passenger numbers between an EP and franchising model will be negligible (0.9% over 12 years taken against the current model)). This "benefit" of franchising needs to be set against the finance and risk that LCR will have to take on to achieve this.

There are huge transitional costs involved in the move to a franchising model, none of which deliver direct service improvements to bus passengers, but which are a risk to local tax payers. Local people should not have to fund the cost of regulatory change.

CPT and bus operators are ready to work with LCR to implement the delivery model taken forward, and hope to collaborate in partnership to achieve joint aims and the best outputs for the local passengers in the Liverpool City Region.

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