16/09/2024

ANNEX D: Bus Market Reform and Structural Considerations for the Heartland Region

[Text Wrapping Break]

Advice Note: Bus Market Reform and Structural Considerations for the Heartland Region

A Summary of Powers and Provisions for Bus Regulation and Ownership

Executive Summary

England's Economic Heartland (EEH) is noted for the effectiveness of its members and businesses for collaborating and eagerness to try new initiatives. To this end, there is potential for an innovative composite solution to enhance the productivity and value of bus services in the region. Given the volume and variety of LTAs in EEH (and given the deliberate flexibility of current legislation to allow for partial, whole, or multi-LTA application of different models), one size does not need to fit all. A 'patchwork' approach would not necessarily be 'piecemeal'; different models could be intelligently deployed across the region to suit local circumstances and operating conditions (such as splits between urban, peri-urban and rural areas).

Key Challenges and Opportunities

- **Limited Potential for Growth:** Due to the dispersed nature of England's Economic Heartland (EEH), local bus networks have limited capacity for generating new demand.
- **Need for Enhanced Interurban Connectivity:** The greatest opportunity for growth lies in improving connectivity between towns and cities within the region.
- **Legislative Landscape:** Recent legislation, including the Bus Services Act 2017 and the National Bus Strategy, provides local authorities with greater flexibility to reform bus services. The new government is expanding the legislation available to local authorities further, expected to strengthen requirements around Enhanced Partnerships, ease processes of franchising and offer new municipalisation opportunities.

Recommendations for Heartland Region

- **Leverage Existing Enhanced Partnerships:** Build upon existing EPs to develop regional or multi-authority approaches.
- **Consider Franchising:** Explore the potential for franchising in suitable areas, considering costs, benefits, and cross-Local Transport Authority boundary collaboration. Various options and formats for franchising are discussed as case studies later in this document, including a concept of **'shadow franchising'** as a way of introducing such a policy into a network.
- **Explore Municipalisation:** Assess the feasibility of municipalization as an option for certain areas. Authorities may directly own and operate bus services or establish arm's-length organizations (whether a small fleet of minibuses or a larger business such as Reading Buses). Leveraging methods such as bus advertising and parking income may be possible.
- **Cross-Boundary Collaboration:** Foster collaboration between local transport authorities to address regional challenges.
- **Best Practices:** Identify and share best practices among constituent councils as lessons are learned, working with the Bus Centre of Excellence.

By carefully considering the available options and tailoring them to the specific needs of EEH's LTAs, their economies and residents, local authorities can significantly improve bus services, enhance connectivity, and support economic growth in the region.

Overview: The Legislative Landscape

The Bus Services Act 2017 and the UK Government's National Bus Strategy (published in 2021 in the wake of the Covid-19 pandemic) intended significant changes to the way local bus services are provided across the country. After almost 40 years of deregulation (wherein private operators designed networks and set fares based on commercial viability), these new frameworks marked the single largest step towards re-regulation of the UK bus industry outside London since 1985.

The Act and the Strategy aim to enhance the accessibility, reliability and quality of services by providing new funding streams and a range of powers for local or regional transport authorities to reform delivery in their area.

The headline service delivery models set out in the Act and the Strategy (and now in use) are:

- Bus Service Improvement Plans (BSIPs)
- Enhanced Partnerships (EPs)
- Franchising

Following a change of Government at the General Election, the new Secretary of State for Transport has indicated that the Government would "presume in favour of franchising" as the method for reforming service delivery. To aid this, the Government within its recently announced 'Better Buses Bill' proposals, will remove provisions which currently limit franchising powers to city regions with Metro Mayors (non-Mayoral authorities previously required secondary legislation and ministerial permission to obtain franchising powers). Also, opening the door for local authorities to resume direct control and arms-length operation of local bus services in the form of municipal bus companies. This follows a course already charted by recent legislation in Scotland (although, so far, there are only limited instances of this power being used).

Current legislation is neither prescriptive nor overly restrictive in terms of how the powers are used, enabling authorities to decide which model best suits the circumstances of their area.

By empowering democratic decision-making and encouraging collaboration between stakeholders, the legislation is intended to facilitate a more integrated and user-friendly public transport network and "realise untapped growth potential" across the nation's networks. There is likewise an objective to deliver "better value" for passengers, stakeholders, and taxpayers.

BSIPs, EPs and franchises are relatively flexible in terms of jurisdiction: they can apply to a single council area (in whole or in part) or can apply across boundaries to multiple areas. Provided they don't overlap, a patchwork of reforms could be implemented across EEH, taking local needs and preferences into account.

Structural considerations for England's Economic Heartland

England's Economic Heartland is unlikely to ever formally coalesce into a single city region or combined authority where franchising powers could be automatically devolved, under current legislation. Indeed, even if such a process were to be initiated, the sheer size of EEH (plus the number of constituent councils which would need to agree, requiring negotiations between councils/LTAs as well as Whitehall), means that it would take several years to secure a comprehensive arrangement.

However, EEH is noted for the effectiveness of its members and businesses for collaborating and eagerness to try new initiatives. To this end, there is potential for an innovative composite solution to enhance the productivity and value of bus services in the region. Given the volume and variety of LTAs in EEH (and given the deliberate flexibility of current legislation to allow for partial, whole, or multi-LTA application of different models), one size does not need to fit all. A 'patchwork' approach would not necessarily be 'piecemeal'; different models could be intelligently deployed across the region to suit local circumstances and operating conditions (such as splits between urban, peri-urban and rural areas).

Enhanced Partnerships and Franchising are both possible at multi-LTA level, and BSIPs may be designed to consolidate objectives into a single strategy executed by multiple schemes, should that ever be desired for consistency and simplicity.

Aside from constitutional composition, where EEH also differs from city regions is in terms of population distribution and density. In the table below, those shaded green currently have franchised bus services, and those in blue are actively considering the option (albeit at various stages of the process). Among them, the average land area is 1,288km^2 and they were established as the earliest combined authorities precisely because they are oriented around a single major urban centre. EEH, by contrast, is more than ten times larger, but with roughly a sixth of the population density and with numerous, spread-out mid-to-large population centres. Even where some towns are closely located, such as those in Hertfordshire, the lack of a singular 'centre' necessarily adds complexity to the bus network. Population is a valid proxy for gauging the operational and economic efficiency of local bus services. It not only corresponds with – but directly influences – metrics such as passengers and revenue per mile.

Authority	Population	Land Area (km^2)	Density (per km^2)
Greater London	8,866,180	1,572	5,640
West Midlands	2,916,480	902	3,233
Greater Manchester	2,812,569	1,276	2,204
Liverpool	1,551,722	731	2,123
West Yorkshire	2,320,214	2,029	1,144
West of England	962,883	953	1,010
South Yorkshire	1,402,918	1,552	904
Jersey	103,267	120	859
Tees Valley	678,400	795	853
East Midlands	2,207,511	4,707	469
England's Economic Heartland	5,272,788	13,340	395
North East	2,323,491	8,279	281
Cambridgeshire & Peterborough	894,300	3,439	260
York and North Yorkshire	1,158,816	8,564	135

Table 1: English Combined Authorities alongside Jersey and EEH, comparing population, land area and population density (2021). Franchise-type bus system areas are highlighted in green. EEH is highlighted in amber.

Types of Operation: Enhanced Partnerships (EPs)

This is **a legal framework in which authorities and operators collaborate on tangible measures to deliver objectives defined in their BSIP** to improve the quality of bus services in their area(s). Measures may include infrastructure or policy changes. EPs are successors to various forms of voluntary and statutory partnership instituted under prior legislation. An EP must be initiated by the LTA and set out a clear vision for improvement, mirroring the BSIP. Operators must comply with standards set by (and agreed with) the LTA which may concern everything from service specifications and publicity styles to maximum fares and multi-operator ticketing.

Although an EP empowers the LTA to set service delivery standards, and operators are therefore subject to more regulation than ever before, revenue risk and the obligation to meet costs remain with the commercial operators. This is why a symbiotic relationship which sustains the financial viability of services – keeping them running for the benefit of passengers and the local economy – is so important.

Under an EP, the Traffic Commissioner (TC) may delegate powers concerning service registrations to the LTA itself. The LTA would manage the process for registering, varying, or cancelling services. Compliance with the terms of an EP becomes a condition of registration, with the LTA empowered to refuse new applications or cancel existing registrations. The TC would retain the powers of regulation, enforcement, and appeal. So far, only three LTAs have been delegated by a TC to carry out the registration functions in their area – including Hertfordshire (one of EEH's constituent councils).

Each of EEH's constituent authorities a already has an Enhanced Partnership Plan and Scheme(s) in place with the commercial operators serving their areas. These, together with their baseline BSIPs, would provide an ideal opportunity to consider developing a regional/multi-authority EP, to support cross-boundary bus services.

Recommendations for LTAs to strengthen Enhanced Partnerships

1) Identify examples of best practice from constituent councils (such as in the case studies provided later in this document, as well as from sources such as the Bus Centre of Excellence) and roll them out as standard:
    a. Underwrite marginal services in a tendering process to enforce minimum requirements
2) When funding is available:
    a. Create priority infrastructure at key junctions and on main corridors which gets buses moving more quickly, efficiently and reliably
    b. Invest in lower fares and multi-operator ticketing schemes:
    c. Introduce multi-operator schemes where they don't exist on an LTA level
    d. Consider expanding at a regional level, incorporating multi-modal options if possible
    e. Review the most appropriate type of vehicles to grow the market: for example, should a bus service be run as a limited stop coach or more frequent minibus route?
3) Adopt a consistent approach to marketing – including publicity materials, at-stop information, and vehicle livery
4) Request the delegation of registration powers from the Traffic Commissioner (as Hertfordshire has already done) to adopt a simple, unified approach to service changes across Heartland Region.

SWOT Analysis – Enhanced Partnership

Strengths	Weaknesses
• Does not require the significant capital outlay of the transition to franchising, or purchasing or establishing a new bus company • The most 'light touch' method of building on the status quo to make gradual improvements • LTAs already have some influence over network design, frequencies, fares and other service standards • Negotiations with commercial operators to deliver quality improvements are conducted with a greater spirit of collaboration • LTAs play an organised role in sourcing and spending funds from Government • Transparency and accountability on the delivery of objectives defined in the BSIP • Revenue risk remains principally with commercial operators, minimising the risk to LTAs • Reputational risk is shared among LTAs and operators in the spirit of genuine collaboration	• Risk of impact on neighbouring LTAs if operators withdraw commercial services to focus on tendered services (both to ensure compliance with stronger standards and to capitalise on lower revenue risk) • Bus operators do not have to join an EP and even when an operator is part of an enhanced partnership they can still withdraw services • A spirit of genuine collaboration between LTAs and operators is not a given, and requires significant time and effort to develop and maintain • BSIP objectives are agreed, but not binding, meaning operators can withdraw their participation • EPs lack the same level of accountability for operators as contractual compliance in franchising • Promoting integrated ticketing as an additional (or secondary) option to single-operator ticketing may undermine convenience by adding complexity (especially if it incurs a premium charge)

Opportunities	Threats
• A sense of local 'ownership' with unified branding on fleet, ticketing, publicity and marketing • Operators cannot withdraw services with minimal notice or without penalty if LTAs assume delegated control of registration processes • LTAs would be able to stipulate policy measures easily, e.g. concerning service levels, network design, revenue management, or emissions • Parking revenue can be invested in public transport • Bus services can be better integrated with other modes such as rail and active travel • Making improvements via EPs in the short-term could create a smooth 'glide path' towards more effective and efficient franchising in the longer term	• Revenue risk remains with commercial operators who, as in the case of Arriva in Buckinghamshire, are not guaranteed to maintain marginal services • Government funding could be withdrawn, diverted or reduced as political priorities change • Politically, appearing to 'throw money' at the status quo with more incremental improvements may be perceived as insufficient and unsatisfactory

Case Study 1: Service changes in Buckinghamshire EP

Despite being a member of the EP in Buckinghamshire, Arriva announced in May 2024 its intention to close depots in Aylesbury and High Wycombe. This entailed the withdrawal of local town services and long-distance routes which linked residents to destinations such as Maidenhead, Oxford and Reading.

Arriva reviewed all its bus operations following the agreement of its sale from Deutsche Bahn to I Squared Capital, made public in 2023. Network changes (including later journeys and new connections) were designed to aid the commercial appeal and operational efficiency of services. However, for a number of reasons (including poor timetable reliability), patronage did not grow, and the depots remained loss-making.

Figure 1: An Arriva bus branded for operation on the 800/850 routes between High Wycombe and Reading. These branded vehicles were often incorrectly and inconsistently allocated, resulting in non-branded substitutes running in their place. (© Aubrey)

This is the latest in a pattern of depot closures, service withdrawals and timetable reductions across the country and throughout the industry, not just by Arriva. Suburban commuter towns and rural communities are particularly vulnerable to such decisions, owing to longer distances and lower demand. Higher operating costs and troubles retaining staff are difficult to address with lower revenues, thereby threatening the commercial viability of services.

However, with effect from 28 July 2024, Carousel Buses (a subsidiary of the Go-Ahead Group and another Buckinghamshire EP member) stepped in to replace Arriva in Aylesbury and High Wycombe. Reading Buses also announced a new service between Henley-on-Thames and Reading, along part of Arriva's previous network in EEH. This demonstrates a degree of confidence on the new operators' part that there is a salvageable market in these places and indicated a quick channel of addressing the unforeseen changes via the EP. The same risk remains, however, that, despite good intentions, there is no guarantee a wholly commercial model will succeed in the current landscape. This therefore prompts questions as to the efficacy of an EP as a means of sustaining services.

Whereas other areas may have the latitude to invest BSIP funding in 'nice to have' measures to enhance the customer experience, it may be necessary for semi-rural authorities to focus on supporting the essential delivery of services in the first instance – if only to get them onto a stable footing in the short term. Using a tendering mechanism (in lieu of franchising), the authority could take control (by assuming revenue risk) and hold the operator accountable for delivery. This would be aided by a provision proposed in the Better Buses Bill to strengthen council oversight of commercial operators.

Case Study 2: A decade of the Luton-Dunstable Busway

The Luton-Dunstable Busway is a bus rapid transit system. Since opening in 2013, it has carried more than 20 million passengers along an eight-mile stretch of a repurposed railway – of which the majority is a guided track, separated from general traffic. Not only does it connect the two town centres, but it also improves access to Luton Airport, major employers such as Amazon, college campuses, and provides onward links to Milton Keynes. Three commercial operators (Arriva, CentreBus and Grant Palmer) run more than 530 journeys per day on nine routes using the Busway. Installation of the segregated corridor took three years and cost £91 million, with the project co-ordinated between two LTAs and Government.

Figure 2: An Arriva bus on a track-guided, traffic-separated section of the Luton-Dunstable Busway. (© David Flett)

Journeys via the Busway take as little as 15 minutes between the town centres of Luton and Dunstable. In comparison, Arriva's service 31 (which runs on the main road network via the A505) takes 45 minutes to connect the same points. The 3:1 improvement in journey times is a case-in-point that, when bus services are unimpeded by traffic congestion, there are corresponding uplifts in customer satisfaction and operational efficiency.

Luton's BSIP funded efforts have also yielded significant results recently. Through a combination of frequency enhancements, extended hours of operation, discounted multi-operator ticketing, and creative marketing campaigns, the network in Luton has seen ridership and revenue grow 10% beyond even pre-Covid levels. This partnership approach, combined with effective priority infrastructure, has enabled Luton to buck the national trend of much slower recovery in terms of bus patronage. since the COVID 19 pandemic.

Case Study 3: Branding and ticketing pilots by Transport for Cornwall

Long before modern EPs were defined in law, Cornwall began working closely with its operators to deliver "high quality, customer-focused public transport" in 2015. This coincided with Cornwall's first devolution deal, at which point it technically became the first region in England to receive new powers to franchise (or otherwise improve) bus services.

Though covering a smaller area and population, the characteristics of Cornwall's geography and urban distribution are comparable to those of EEH: several towns of varying sizes separated by large rural areas, with some gravitation towards a nearby city. As a result, whereas city regions such as Greater Manchester (and even polycentric examples like West Yorkshire) are difficult to compare with EEH, Cornwall is a fair benchmark to consider.

Cornwall County Council chose not to use its franchising powers (although they do reserve the right to deploy them at a later date, should circumstances change). In lieu of franchising, a new, integrated brand called 'Transport for Cornwall' (TfC) was introduced in March 2020. Around half of all services in Cornwall are operated by First Kernow, with the other half being supported by the LTA. In 2020, TfC awarded an eight-year contract (worth £192m) to Go Cornwall to operate the supported services. Private services continue to run, with commercial operators working in close partnership with TfC.

Projects to enhance frequencies, simplify ticketing and upgrade infrastructure have been delivered with funding support from the UK Government. This included £17m for delivery of their BSIP and £23.5m for the 'Bus Fares Pilot' scheme (a first-in-the-nation experiment, funded by central Government, to test the hypothesis that reducing fares will increase patronage).

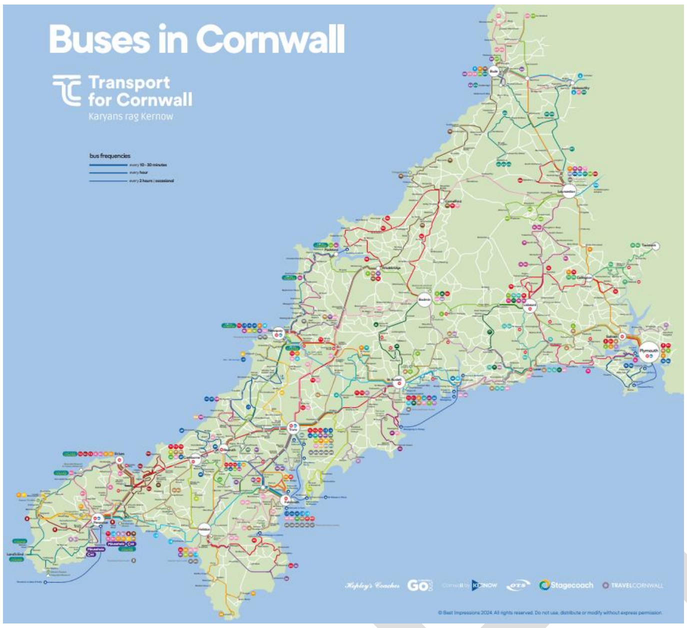

Figure 3: A composite network map of all services operated in Cornwall – either commercially or under contract to TfC. (© TfC)

The pilot began in 2022 and will last until 2026. It includes a multi-operator initiative called 'Any Ticket, Any Bus', plus the capping of day tickets at £2.50 for town networks and £5 for the whole county. An intermediate survey by Transport Focus found that 75% of respondents were satisfied with the value for money (versus a 67% national average). Further research found that half of respondents were using the bus more regularly because of cost savings and service improvements. And, at the end of 2023, Cornwall was one of only seven LTAs in England where bus patronage was higher than it was a decade prior.

TfC has identified reliability as a pervasive challenge, even despite indications of successful modal shift stimulated by the fares pilot. The LTA is therefore engaging with its operators to identify and address root causes of delays and disruptions across the network in a bid to boost public confidence.

Case Study 4: Unified branding, marketing and messaging in Leicester

Together with its six local bus operators, Leicester City Council established an EP in 2022. A key strength lies in the quality and clarity of its publicity: the 'Big Bus Plan' is presented on an easily navigable website, with the strategy broken down into six simple themes. The content is categorised according to what has already been delivered, what is funded and in progress ahead of 2025, and what awaits further funding for delivery by 2030. Presenting information so accessibly not only aids transparency and accountability, but also makes it easier to secure public and stakeholder buy-in to the value of better bus services.

The £300m investment – billed as a "comprehensive, radical 8-year plan" – has so far delivered:

- 152 zero-emission electric buses
- Eight bus priority schemes on key traffic corridors
- Three discounted fare schemes (including the £2 fare cap, multi-operator contactless capping, and a new flexi-family ticket)
- 650 new real-time information displays at stations and stops
- 500 new bus shelters, plus a £14.3m state-of-the-art bus station at St Margaret's

- A sophisticated network of 25x high-frequency, co-ordinated and integrated ‘Mainline’ routes, plus 6x orbital and cross-city ‘Greenline’ routes and (soon) a mini-DRT service called ‘Flexiline’

Figure 4: A bus, operated by Go-Ahead under contract, wearing the standard red livery of TfC (© Leicester Buses)

The collaboration was initiated on a voluntary basis prior to becoming formally established in an EP. It has been highlighted in Route One, an industry magazine, as “a blueprint for successful partnership working” which demonstrates why longer-term clarity on policy and funding are vital to sustainable investment. The EP is (currently) only legally binding and funded up to 2025.

As a compact unitary authority with an overarching agenda of regeneration, the ambition for better bus services is well-aligned with the strategic objectives of other council departments – including economic development, housing, and education. Like Leicester, the city of Milton Keynes and the towns of Luton and Swindon are unitary authorities within EEH. Similarly, there are several other urban areas in EEH with populations greater than 100,000 for which the relevant LTAs could look to Leicester as a template: Bedford and Kempston, Cambridge, Northampton, Oxford, and Watford. Large towns approaching 100,000 include: Aylesbury, Hemel Hempstead, High Wycombe, St Albans, and Stevenage.

Most bus services in Leicester continue to operate on a commercial basis, but no single operator dominates the network – and services are closely co-ordinated in concert with the LTA. The most visible example is the unified ‘Leicester Buses’ brand and logo, which increasingly features on publicity materials, bus stops and the buses themselves. It is a cosmetic change, yet a clear marker of progress.

Elsewhere across the country, local leaders have championed the benefits of unified branding to ‘demystify’ the range of bus services in a given area. This approach takes inspiration from Transport for London, where the all-over red livery of its buses – regardless of operator – is deliberately simple and familiar. The ‘Bee Network’ has been adopted as a multi-modal identity in Greater Manchester, for example, and Warrington Buses is voluntarily rolling out a new yellow-and-black livery in a bid to visually integrate its services with those of Greater Manchester and Liverpool (given its position in between two city regions which will have rolled out branded franchises by the end of the decade). Within EEH region itself, Hertfordshire’s ‘Intalink’ is a longstanding partnership which streamlines the navigation of public transport networks by presenting them under the same, simple identity.

Types of Operation: Franchising

Franchising **empowers LTAs to assume direct control of setting the routes, frequencies, fares, and other standards for bus services** in their area. Operators bid to run the services and are accountable for the delivery of defined standards. Representing the most significant power of re-regulation currently available, franchising allows an LTA to address systemic shortcomings whilst leveraging the operational experience and expertise of the private sector as contractors.

The model is already well-established in London, has been recently rolled out in Greater Manchester, is under development in regions such as Liverpool and West Yorkshire, and is under active consideration in several other places. Among those investigating the possibility of franchising are Hertfordshire and the combined authority of Cambridgeshire and Peterborough – both of which form part of EEH.

Previously, only Mayoral Combined Authorities automatically qualified for the right to use franchising powers. However, a provision of the 'Better Buses Bill' brought forward by the new Government is to remove this limitation and open up the possibility to non-Mayoral authorities too.

Franchising frameworks may apply either in whole or in part to a council area (or may simply be applied to one route or set of routes). Consideration should also be given to how a franchise may affect adjacent areas, especially where cross-boundary services are concerned.

The main advantage of franchising is that it gives an LTA control over the design and delivery of bus services in their area. They would be empowered to enforce service standards (by way of penalties and bonuses) among operators. Access to all information (including patronage and operational KPIs), plus control over the farebox, would enable authorities to take a holistic approach to service design and plugging perceived gaps in the network. Once a franchised network is embedded, it can mature into a more efficient model in which duplication (a legacy of overlapping competition among private operators) is eliminated and those resources are reallocated to enhance provision elsewhere.

The main disadvantage is that it transfers revenue risk from commercial operators to the LTA. Additional personnel with relevant expertise would be required to take commercially sound decisions and deliver value for money. With the responsibility for running services comes the added task of reputational management (including the risk of being held responsible for failure to deliver on political aspirations). Greater Manchester is the only precedent in the UK for introducing franchising from a standing start of privatisation and is still a work-in-progress. It is worth noting that pre-Covid profitability on English bus routes has all-but evaporated due to decreased demand and higher costs. An authority would face the same obligation as a commercial operator to 'balance the books'. However, a major change in ownership, branding and marketing could arguably help 'jolt' the market and re-create use.

As this advice note does not include a full analysis of existing networks from across EEH region, and the aspirations to enhance it, it is therefore not clear how much franchising would cost to set up. This would involve a much more detailed analysis of the individual costs and requirements of each LTA within the region, which is beyond the scope of this current work. This type of review could be undertaken in future to align with the current Government's priorities on developing local bus networks. For reference, implementation in Greater Manchester cost £134m; and is estimated to cost £100m in West Yorkshire and £89m in Liverpool City Region. This suggests a franchising implementation cost of between £40 and £60 per resident in a city region area. With additional costs of electrifying an entire city region's bus fleet, if necessary, are estimated to be around £250m in each of those three regions.

Recommendations for LTAs considering franchising

1) Set clear, achievable objectives which define the purpose of franchising. Consider:
    a. Whether franchising is suited to local circumstances
    b. Which contractual model is feasible (i.e. gross cost like London, or net cost like Jersey)
    c. How to incentivise quality through penalties and bonuses
    d. Whether the outcome is to maintain the current network (but with powers to enforce reliability and standards) or to expand it (by reducing fares or growing mileage, capacity and operating hours), which would require additional revenue or subsidy to cover costs
2) Identify which sources of funding are available (or needed) to ensure long-term sustainability
3) Define the extent of cross-boundary collaboration. Consider:
    a. Whether franchising would co-exist with EPs and/or municipalisation
    b. Whether a multi-authority approach would be taken or each LTA retains autonomy
4) Integrate the delivery and evaluation of franchising with:
    a. Measures to enhance bus priority, improve punctuality, and reduce journey times
    b. Initiatives to cut, cap and/or simplify fares
    c. Initiatives to unify branding, marketing and messaging
5) Integrate the design and delivery of bus services with other policy areas, including transport and local planning, highways, economic development, education, healthcare, housing and environmental protection for example.

SWOT Analysis – Franchising	
Strengths	**Weaknesses**
• Would not require the significant capital outlay of purchasing or establishing a new bus company • LTAs would assume full control of setting routes, frequencies, fares and other service standards • Quality improvements could be delivered without the need to negotiate with commercial bus operators • A sense of local 'ownership' with unified branding on fleet, ticketing, publicity and marketing • LTAs would become integrated decision-making bodies to source and spend funding from Government • Transparency and stability for the length of contracts • Operators cannot withdraw services with minimal notice or without penalty	• The existing network is relatively small-scale, which may mean an insufficient number of operators to allow effective competitive tendering in parts of the region • Operating costs would likely increase due to the need for additional staff (for both the LTA and operators) to ensure contractual compliance • Risk of impact on neighbouring LTAs if operators withdraw commercial services to focus on tendered services (both to ensure compliance with stronger standards and to capitalise on lower revenue risk)
Opportunities	**Threats**
• Allows for the cross-subsidy of routes, safeguarding more marginal services from reduction or withdrawal, as was the case pre-deregulation • Healthy competitive 'tension' among multiple operators bidding for open contracts • LTAs would be able to stipulate policy measures easily, e.g. concerning service levels, network design, revenue management, or emissions • Parking revenue can be invested in public transport • Bus services can be integrated with other modes such as rail and active travel • Transferring revenue risk from operators to LTAs and offering longer-term contracts may attract interest from new operators, improving competition • Cross-boundary services could operate under licence without negatively impacting the core network	• Risk of legal challenge (including cost and delay) from an incumbent operator if the set-up process is not carefully managed • Transitional costs would require significant investment, amounting to £40-£60 per head for a 'London-style' model (based on estimates for other city regions) • Potential lack of competitive bids • Revenue may fail to meet operating costs, requiring ongoing subsidy from LTAs • Unanticipated cost rises could force an operator to end a contract prematurely or renegotiate pricing • May 'squeeze out' small/medium enterprise operators as big UK groups (or international entrants) with more experience/expertise in bidding win contracts • Government funding could be withdrawn, diverted or reduced as political priorities change

Case Study 1: State-of-the-art franchising in London

Five million journeys per day are made by bus in London, making it a prime example of successful bus franchising. The network is one of the most extensive, efficient, reliable and complex in the world, and is planned, managed and tendered by Transport for London (TfL), which is a member of the International Bus Benchmarking Group. TfL relies on a data-driven analysis of its network, alongside Mayoral policy, to make decisions on improvements and sets high standards on safety, reliability and inclusion.

Following reductions in subsidy over the last 14 years, TfL's bus network now covers its costs with a balanced budget. Alongside efficiencies, TfL increased patronage (and revenue) from the mid-1990s by:

- Implementing (and expanding) the London Bus Priority Network
- Phasing our net cost contracts (based on lowest-price tender, which often resulted in cheap, poor-quality buses being used)
- Introducing new, quality-incentive contracts in the early-2000s
- Introducing the Central London Congestion Charge in 2003
- Requiring major developments to incorporate bus improvements through Section 106 and Section 278 measures and funds
- Delivering additional funding to increase service levels through much of the 2000s

However, growth ceased from 2014/15 due to a variety of issues, such as:

- Completion of London Underground capacity upgrades
- Reduced service levels and network coverage to reduce operational costs
- Worsened service reliability as many bus priority measures were withdrawn by councils and TfL in favour of installing on-road cycle lanes and increasing general traffic capacity

Bus use in London is climbing again post-Covid, driven in part by several new measures including the 'Superloop' network and the impact of higher fuel prices encouraging modal shifts among motorists.

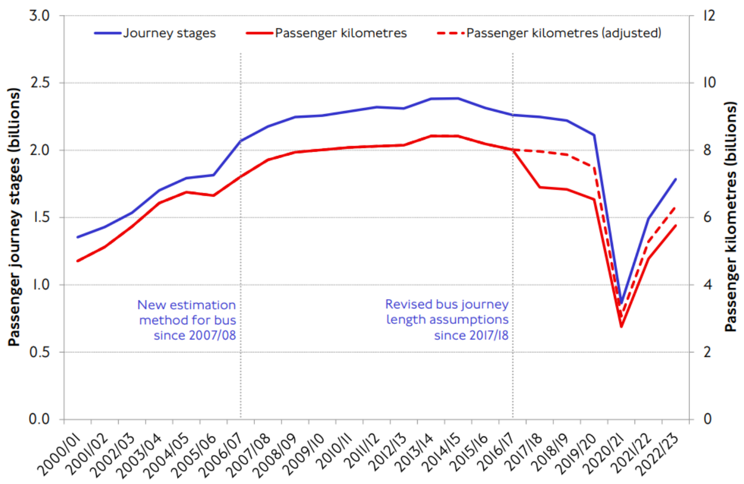

Figure 5: A graph showing bus usage in London (source: 'Travel in London Report', 2023)

In its tendering process, TfL invites commercial operators to bid for quality-incentive contracts to run tranches of routes. Contracts are awarded based on criteria such as cost, quality of service, and reliability. Operators are responsible for day-to-day performance, whilst TfL retains control over routes, timetables, fares, and other service standards.

Contracts typically last between five to seven years, with performance-related incentives and penalties. Operators must meet performance targets on punctuality, cleanliness, and customer satisfaction. TfL also sets rigorous service standards for vehicle maintenance, emissions, driver training, and safety. Performance is closely monitored, and contracts may be terminated early for poor performance.

The standardisation of services ensures consistent quality, including comprehensive coverage benefiting underserved areas. Connectivity is optimised by coordinated scheduling and route planning, with turn-up-and-go frequencies common to reduce waiting times. Integrated ticketing and capped fare systems help to simplify travel not only across the city-wide bus network, but also on different modes of transport (including buses, trains, and trams).

In terms of governance, regular monitoring, engagement, and a scheme of penalties and rewards incentivise operators to maintain high standards. A competitive tendering process encourages cost efficiency among operators, and clear contractual obligations reduce administrative burdens by streamlining operational processes, policies, and procedures. Network reviews and tendering are ongoing processes managed by staff year-round, requiring substantial data interrogation to account for changes in demand, to serve new developments or funding availability. As in a commercial setting, any tweaks to service provision risks a mixed reception from passengers and stakeholders.

Bus franchising in London has proven to be an effective model for delivering high-quality, efficient, and reliable bus services. Through a structured tendering process, rigorous service standards, and continuous monitoring, TfL has managed to enhance the travel experience for current and prospective passengers. The London model serves as a benchmark for cities seeking to optimise public transport.

In terms of is application to EEH, the success of franchising in London is viewed across both the industry and the political world as the gold standard baseline for franchising to follow elsewhere in the country. Indeed, with the exception of Greater Manchester (which, itself, is modelled on London and is still a work-in-progress), London is the only longstanding example of franchising in the UK. Of course, London is a huge conurbation unlike any other in the UK (and is certainly very different to the multicentric, semi-rural nature of EEH). London’s approach to network planning, therefore, would be less relevant to authorities in EEH – but its methods of financial management, operational compliance and other aspects of governance would be a tried-and-tested template to adopt and adapt.

Case Study 2: Work-in-progress in Greater Manchester

With the first ‘Bee Network’ services taking to the roads in September 2023, Greater Manchester became the first area in the country to deploy new franchising powers enumerated in the Bus Services Act 2017. It adopted a “London-style” approach, learning from the capital as the only example of city franchising in action at the time. SYSTRA staff have been working on this project via secondments since inception.

Procurement for the third and final tranche of the Bee Network is currently underway, with those services due to commence in January 2025. Franchising in Manchester is still a work-in-progress, meaning it is too early to determine its success or failure, but early analysis shows that traffic congestion and roadworks continue to have adverse impacts on schedule adherence and public satisfaction. This therefore necessitates additional investment in bus priority infrastructure.

Key objectives of the Bee Network include ticket simplification, service enhancement, brand unification, and integration with other modes such as regional railway lines and the Metro tram. Alongside London, Manchester now serves as a real-time template for other city regions and LTAs to carefully study as they seek to reform service delivery in their own areas. The methods used in the development, consultation, mobilisation, implementation, and evaluation of the Bee Network will be a template for others to follow.

Case Study 3: 'Fastrack' bus rapid transit in Kent

Kent Fastrack is a bus rapid transit (BRT) system running through an area called Thameside, including Dartford and Gravesham, in north Kent. Although administered and developed by Kent County Council, the route runs through several borough-level authorities, in a development area earmarked for 50,000 new jobs and 25,000 new homes over the next 25 years. It will soon be complemented by a route in Dover, due to open later this year. The Thameside installation is used by 2.5 million passengers per year.

Fastrack's infrastructure has been largely built using developer funding, with some government support, including for a M25 bus lane crossing for its recent expansion. Over the last ten years, the service has been operated by Arriva under a net cost contract. However, Kent County Council has recently decided to switch to a 15-year gross cost contract, awarded to Go-Ahead London with a quality incentive to run an expanded network using battery-electric buses. Kent and Go-Ahead will co-fund the fleet acquisition, aided by money won from the UK Government's ZEBRA initiative.

Figure 6: Conceptual designs for the Kent Fastrack zero-emission buses operated by Go-Ahead under a gross cost contract on behalf of Kent County Council. (© Route One magazine)

The relevance of Kent Fastrack to EEH is that Kent is also a multicentric, semi-rural authority with a large geographic footprint. This shows that LTAs similar to those in EEH are not precluded from implementing innovative solutions just because they are not major cities. Further, Fastrack is a small collection of three routes as opposed to an entire urban or regional network. This demonstrates that franchise contracts can be administered on a smaller scale alongside a larger commercial network where appropriate.

Case Study 4: Scoping ideas in England's Economic Heartland

In EEH itself, two LTAs (Cambridgeshire & Peterborough Combined Authority and Hertfordshire) are at varying stages of exploring the feasibility of franchising in their area, which would represent partial re-regulation in EEH.

Particularly in the wake of recent local elections, increasing numbers of Mayors and councillors are interested in investigating some form of re-regulation. This is unlikely to be a temporary, post-election phenomenon which will fade, as it fits into an emerging cross-party consensus that at least some reform is necessary, plus the new Labour Government stating that it will 'presume in favour of franchising'.

CPCA has recently undertaken a consultation on bus franchising and the views received will be used to inform a decision by the Mayor of Cambridgeshire and Peterborough, Dr Nik Johnson, on whether to introduce bus franchising as a different way to run buses across the region. A decision is due to be made on Wednesday 22 January 2025; however, this may be subject to change. CPCA will then publish a report setting out our their response to the consultation findings and it will include the Mayor's decision.

In Hertfordshire, Councillors recently agreed that franchising would "bring benefits" to services across the county, but a preliminary assessment found that set-up costs would begin at £14m (rising to £174m once fleet replacement is factored in). In terms of the financial sustainability of such a system, the report found that annual operating costs would come to £62m, with projected returns ranging from an £18m deficit to a £2m profit. Elected officials and officers appeared to endorse the political and theoretical cases for franchising, but concerns remain about the economics.

Case Study 5: Successful net cost franchising on Jersey

As an autonomous Crown Dependency in the Channel Islands, Jersey was never subject to the Transport Act 1985, and so was able to regulate its local bus services with a new franchise beginning in 2002. As a small territory with a population of just over 100,000, Jersey's approach is necessarily more 'light touch' than that of a vast conurbation like London.

Jersey originally introduced its 'Liberty Bus' franchise on a gross cost contract basis, whereby the States of Jersey retained farebox revenue so that it could be reinvested in a more developed network. The first contractor, Connex, was awarded a ten-year contract to allow the concept to bed in, and to enable the operator to invest in new vehicles. A gross cost model allows for the flexibility to commission additional services (or service enhancements), as the authority may amend the contract by allocating more money to cover operating costs (as well as maintaining an agreed profit margin).

Figure 7: A map of the franchised network operated by Liberty Bus on Jersey. (© Liberty Bus)

The Jersey contract did not operate as the quality incentive contract introduced by London and as a simple gross cost contract disincentivised the operator from either reducing costs through innovation – or from even tracking cost control at all. Further, there was little incentive for an operator to deploy its commercial know-how to boost patronage, reliability or service quality, because: a) whether revenue goes up or down, profit is essentially fixed by the bid/contract; and b) even if revenue goes up, it is retained by the authority.

In 2010, a major review resulted in a change of approach: to expand network coverage and capacity. The previous gross cost contract model was no longer suitable or sustainable. Jersey instead adopted a 'minimum subsidy' (i.e. net cost) model, whereby the operator retained farebox revenue and the authority filled the gap with public money (or was paid a royalty in return for boosting profitability). This approach fostered a genuine partnership between the States and its new operator, as both parties shared in both the risks and the rewards. The tendering process was also reoriented in favour of quality (60%) over cost (40%).

In the years 2013-2017 (the first four years of that contract), Liberty Bus patronage increased by 32%. This, in turn, boosted profitability and reduced public subsidy by some £800k per year. The co-ordination of planning, ticketing and other elements of service delivery culminated in a 5% improvement on satisfaction scores plus the introduction of new routes and higher frequencies on key corridors. The operator in Jersey is a subsidiary of the Kelsian Group, which also operates contracts in Australia and Singapore. Therefore, in addition to Jersey's 22 years of experience in managing their own network-level franchises, Liberty Bus can also draw from experience in major markets to import best practices.

The Department of Transport in Jersey is a smaller organisation than its equivalents in EEH. In fact, day-to-day management and oversight of the franchise is the responsibility of one person with an industry background. Extra resources were temporarily procured to aid the 2010 long-term review, but that was a £150k outlay which generated £800k in annual savings, with no extra permanent management resources required. Whereas TfL necessarily employs entire teams of people to manage and monitor its very complex system, Jersey demonstrates that a less expensive and resource-intensive method can still deliver a regulated network. In this respect, whereas franchising has so far only been delivered in two major cities on the UK mainland, Jersey proves that smaller LTAs can do it successfully too.

One of the biggest ways Jersey keeps its own management costs low is by locating the responsibility and skills in terms of route planning, timetabling and driver scheduling, plus marketing strategies and fleet investment plans, in the private sector operator side of the contract. As part of the tendering process, bidders must provide detailed proposals which ultimately deliver the 'model network' specified by Jersey. Not only does this help Jersey save money in-house by effectively 'outsourcing' a lot of the specification work, it also creates a genuine sense of partnership between the authority and the operator from the start, as it gives the operator some ownership over how the service will look, feel, and function. It clearly depends upon the operator awarded the franchise having the skills, capacity, experience and intent to make the service a success through attracting business, rather than pursue net cost franchising from a 1980s-London-style approach of prioritising the minimising of costs.

Concept: 'Shadow' franchising

This is a proposal which may be considered as an option in the longer term, subject to legal change enabling it in England. A 'shadow' franchise would (in the first instance) significantly reduce transitional costs by skipping a competitive tendering process as it would automatically 'convert' existing commercial operators into franchise contractors. The network would continue to operate 'as normal' (albeit with the LTA assuming a regulatory enforcement role).

Although this approach is not yet technically provided for, a benefit of experimenting with it would be that it offers commercial operators a 'reprieve': they would no longer face the risk of losing their business to a rival bidder and would have a few years to become accustomed to working under a franchise framework and to demonstrate their suitability as a contractor going forward. This would be of particular benefit to small and medium enterprises (SMEs), which may not have the capacity or ability to have staff practiced in applying for tenders. In Manchester, most of the route tenders went to international firms with staff experienced in tendering, despite an aspiration to engage local and regional SMEs in the heart of the Manchester Bee Network, and potentially a system such as this may have helped SMEs get used to franchising.

Once the initial term of the 'shadow' franchise is completed, all contracts would be subject to a normal competitive tendering process, wherein new entrants would have the opportunity to bid. It would also give the LTA time to assess its own commitments, ensuring that it has sufficient resources (and familiarity) to manage a full process in future.

Concept: No Fleet Electrification

In the case of Hertfordshire, one of the cheaper alternative options presented to elected members was to delay fleet electrification by assuming control and ownership of the existing fleet in the meantime. Whilst this approach would reduce more immediate capital costs, it risks costing an LTA more money in the longer term: ageing vehicles are more expensive to maintain and less reliable to run; conventional diesel buses incur higher day-to-day running costs than EVs; and net zero targets will inevitably require fleet electrification anyway, so the capital cost will never be truly avoided forever.

Concept: Operator of Last Resort

As is currently the case with the railways and TfL, where a franchise exists, it is necessary for the LTA to maintain the ability to step in as an 'operator of last resort' in the event of a contract abruptly coming to an end. This may be because the operating company has ceased trading, or because it has seriously failed in its obligations under the contract and the LTA is compelled to terminate the contract early. Both eventualities are significant strategic risks; the former is a bigger risk, as it may happen unexpectedly; the latter is a more manageable risk, as the LTA can activate transitional contingencies which give notice of a termination and allow for the transfer of services, vehicles, and staff from one operator to another.

An OLR could be a government body associated with the LTA, another transport company, or a special purpose organisation. Whatever its form and structure, the OLR must be equipped to respond quickly whilst ensuring minimal disruption in terms of service delivery, staffing, ticketing, and maintenance. The OLR assumes control of the failing provider's infrastructure, assets, and operations. In the case of TfL, it holds an operators' licence through one of its subsidiary companies, which would allow it to directly run services on a temporary, transitional basis.

Types of Operation: Municipalisation

This would be **the process by which an LTA may assume not just control, but also ownership, of their own bus company**. Current legislation maintains a prohibition on the creation of new municipal bus companies (as has been the case since 1985), despite the success of existing municipal operators in Blackpool, Ipswich, Nottingham, Reading, and Warrington – plus other examples outside England, such as Lothian Buses in Edinburgh. As set out in its new 'Better Buses Bill', the Government intends to make it easier for LTAs to pursue this option. This follows a course already charted by recent legislation in Scotland (although no Scottish council has yet activated these new powers).

Under competition law, municipalisation would not preclude a private operator from running alternative services which compete with council-run for-profit services. In a franchise, municipal operators would likewise need to bid for contracts per the same criteria as private operators. Further, they would be required to qualify for an O-licence (including adherence to all relevant regulations concerning safety, vehicle maintenance and personnel management) and appoint a suitably qualified transport manager(s), as any private operator would.

Municipalisation may take one of two forms:

- The authority may choose to provide services directly – entailing ownership of assets such as vehicles and depots
- Or the authority may establish an arm's length organisation – entailing provision of bus services by a commercial business led by an independent management structure, where the authority is the main/sole shareholder but is not involved in day-to-day operations

If an organisation obtains a standard O-licence, it will no longer hold a restricted licence in the form of section 19 or section 22 permits. Under the in-house model, these permits would therefore cease. Under the arms-length model, however, the authority could retain a restricted licence on a not-for-profit basis as the for-profit operator would be a separate legal entity.

A municipal bus company would need to comply with regulations monitored and enforced by the Traffic Commissioner, concerning scheduling, punctuality, reliability, safety, and publicity.

Municipalisation would transfer revenue risk from commercial operators to LTAs. Additional resources (including personnel and relevant expertise) would be required to take commercially sound decisions and deliver value for money. With the responsibility for running services comes the added task of reputational management (including the risk of being held responsible for failure to deliver on political aspirations). There is no recent precedent for creating a major municipal bus company from a standing start, rendering this as-yet non-existent power an as-yet untested concept. It is worth noting that an LTA would face the same obligation as a commercial operator to 'balance the books'.

Recommendations for LTAs considering municipalisation

1) Consider the cost-benefit of capital expenditure and revenue risk versus other models
2) Consider the risks associated with competition against established commercial operators
3) Identify which sources of funding are available (or needed) to ensure long-term sustainability
4) Integrate the design and delivery of bus services with other policy areas

SWOT Analysis – Municipalisation

Strengths	Weaknesses
• LTAs would assume full control of setting routes, frequencies, fares and other service standards • Enables LTAs to take a holistic, long-term view on network stability and infrastructure planning • Any profits generated are invested directly back into the bus network • The costs (and potential disruption) associated with periodic retendering in a franchise is avoided • Delivery of a stable bus network with direct influence (and shared responsibility) from the LTA • Quality improvements could be delivered without the need to negotiate with commercial bus operators • A sense of local 'ownership' with unified branding on fleet, ticketing, publicity and marketing • LTAs would become integrated decision-making bodies to source and spend funding from Government • If private operators withdraw services, the municipal operator could step in as a substitute • LTAs have access to council-owned land if new depot sites are required • The costs and logistics of ownership may be shared between multiple LTAs if required/preferred	• Establishing a brand-new municipal (in-house or arms-length) is precluded under current legislation • Establishing a municipal company would require significant initial capital outlay (either to acquire assets from an existing operator, or to acquire assets such as vehicles, depots and equipment from scratch) with no trading history or revenue reserves to rely on • Revenue risk transfers to the LTA, which would need to address potential losses either with investment from council budgets or service reductions/withdrawals, like any private operator • The ability for a municipal operator to achieve many of the strengths and opportunities listed here depends on the availability of long-term capital and sustainable revenue funding • Operating costs would likely increase due to the need for additional staff, as a small municipal operator could not rely on the 'head office' support of a large group, including managerial roles and supply chain functions • Municipal operators must compete with private operators, and cross-subsidy would be prohibited
Opportunities	**Threats**
• LTAs would be able to stipulate policy measures easily, e.g. concerning service levels, network design, revenue management, or emissions • Parking revenue can be invested in public transport • Bus services can be integrated with other modes such as rail and active travel • Potential to improve industrial relations in the longer term through a greater sense of local ownership	• Other operators could compete on key corridors, resulting in revenue extraction • Specific skill sets and expertise could be lost during the transition (especially in managerial, engineering and scheduling functions – plus the driver workforce) • Risk that post-Covid ridership recovery takes longer than anticipated (or caps out at current levels) • LTAs would inherit difficulties associated with national shortages in skilled roles such as driving/engineering, thereby hindering growth and development

Case Study 1: Pembrokeshire County Council buys a local bus company

In 2022, Pembrokeshire County Council faced a potential disruption in public transport services due to the withdrawal of Edwards Brothers, one of the largest bus companies in the county, from the local market. This would have impacted both public bus routes and school transportation, posing a challenge for the council to fulfil its statutory obligations, as several other bus companies had also left the market over recent years.

The council opted for an "invest to save" strategy by acquiring Edwards Brothers' assets, including 37 vehicles, a depot, and staff transferred under TUPE regulations. This ensured continued operation of all 21 school services and several public bus routes in Haverfordwest and Milford Haven. The benefits of the move were identified as:

- Securing continuity of essential public services, particularly school transportation
- Avoiding potential cost increases of £300,000 per year associated with securing the same services through tenders in a limited competition market
- Gaining operational control over routes and potentially improved efficiency

Additional operational costs to the council in 2022-23 were projected to be £46,000 albeit set against the avoided tender price increases above. The final capital sum to purchase the Edwards Brothers' assets has not been made public.

Due to Welsh Government regulations, the council cannot establish a new municipal bus company. This restricts options for managing the acquired operations in the long term. The council needs to integrate the acquired operations with its existing in-house services while ensuring value for money. The council will periodically test the market to evaluate the efficiency of its in-house operations.

Pembrokeshire County Council's acquisition of Edwards Brothers' assets demonstrates a proactive approach to securing essential public transport services in the face of a challenging market environment. While regulatory limitations pose some hurdles, the council's strategy offers a potential solution for continued service provision and cost control. The long-term success will depend on efficient integration and ongoing evaluation of the acquired operations.

Pembrokeshire is far more sparsely populated than any of the LTAs in EEH. Whereas municipal operators such as those in Edinburgh, Reading and Nottingham have the benefits being well-established in large, self-contained cities, the example in Pembrokeshire demonstrates that: a) municipalisation does not automatically entail responsibility for an area's entire network, and b) acquisition, in the event of an incumbent operator withdrawing, can be affordable and achieved by even a small-scale LTA with limited resources and finances.

Spending on Bus Investment

Capital investment required to implement each of the available (or potential) powers

As set-up costs and capital investment is difficult to estimate for each of the powers without a specific scheme to build-up, published costs of existing comparable schemes in locations have been located for the Leicester and Cornwall EP, plus the approximate per-head set up costs for franchising in Greater Manchester, West Yorkshire and Liverpool (note this does not include any projected annual bus running subsidy or profit). These have been divided by the number of residents, to give an approximate cost per resident of set up costs and capital investment for each of the available powers. Unfortunately, it has not been possible to obtain set-up costs for the Kent Fastrack nor Jersey schemes.

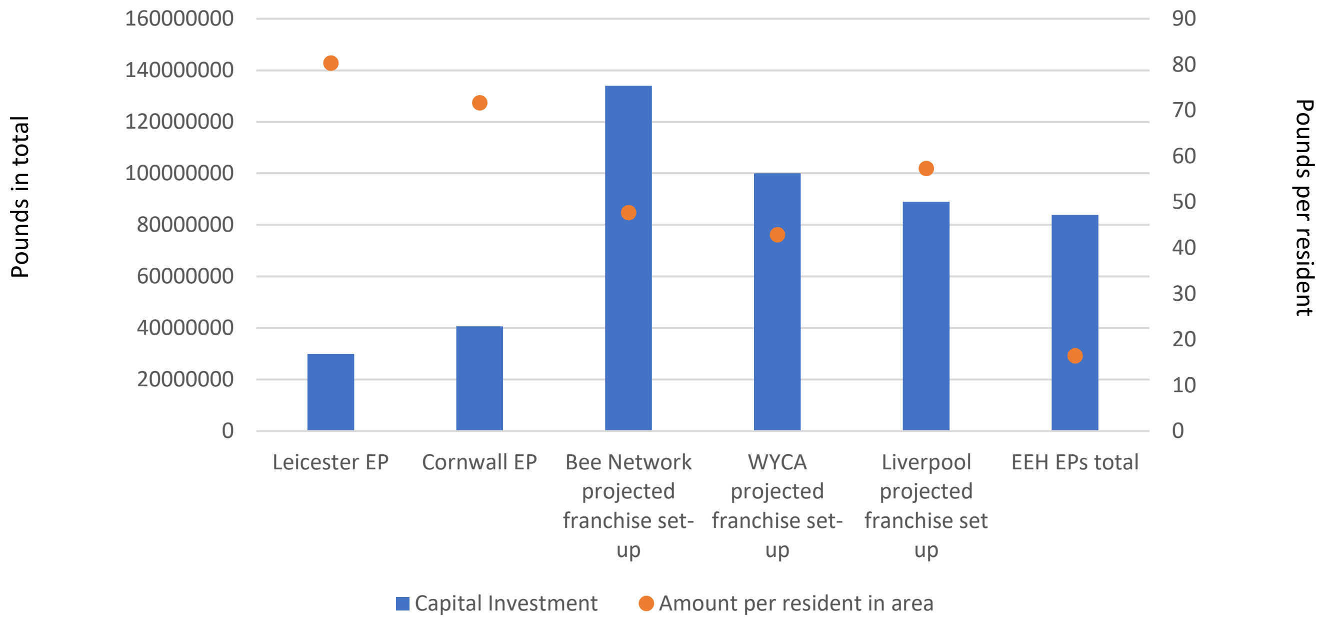

Figure 8: Spending on EPs and set-up costs for franchises against sum-per-resident (not including operational costs/revenues).

This indicates that the amount of capital investment per head in the bus network in EEH overall since the National Bus Strategy has been significantly lower than our successful case study areas and city-regions setting up franchising.

Summary of Next Steps

To achieve significant improvements in bus services within England's Economic Heartland, a multi-faceted approach is necessary. The following key steps outline the path forward:

1) Identify examples of best practice from constituent councils and roll them out as standard. The case studies included in this document, plus sources such as the Bus Centre of Excellence and advice notes already held by EEH, are a starting point for such an exercise, which should become a list as projects roll out. EEH could also act as a forum which facilitates each member LTA (which knows itself best) in sharing its own best practices for the benefit of others across the region.

2) Request the delegation of registration powers from the Traffic Commissioner (as Hertfordshire has already done) to adopt a simple, unified approach to service changes across EEH. This would empower LTAs to refuse new applications or cancel existing registrations which do not comply with the terms of an EP.

3) Define the extent of cross-boundary collaboration on regional/multi-LTA EPs or franchising, both as a means of ensuring some consistency across the region and to improve the planning and operation of routes which connect destinations in two or more LTAs. Unlike official city regions, EEH is not a conurbation anchored by one or two major cities. Given the size of the towns dotted across EEH, there is limited potential for generating new demand on local networks. The greatest opportunity for growth therefore lies in enhancing interurban connectivity, for example extending cross-boundary connectivity by increasing service or routes of existing busway within the region (Cambridge and Luton and Dunstable).

4) Conduct a separate workstream which analyses in detail the costs and other inputs (including requirements specific to each LTA) for setting up a regional or local franchise(s). Such analysis is beyond the scope of this advice note but would align with Government priorities on developing local bus networks. It should also examine:
   a. Which contractual model is feasible (i.e. gross cost like London, or net cost like Jersey)
   b. How to incentivise quality through penalties and bonuses
   c. Whether the outcome is to maintain the current network (but with powers to enforce reliability and standards) or to expand it (by reducing fares or growing mileage, capacity and operating hours), which would require additional revenue or subsidy to cover costs
   d. Identify which sources of funding are available to ensure long-term sustainability

5) Investigate (and, if necessary, lobby for) the power to introduce franchising via an interim model of 'shadow franchising' whereby existing commercial operators would automatically 'convert' to franchise contractors. In the short term, the network would continue to operate 'as normal' (albeit with the LTA assuming a regulatory enforcement role) and operators would be given a reprieve, including small/medium enterprises currently unfamiliar with franchising.

Annex: Summary Pros and Cons of Each Operating Model

	Enhanced Partnership	Franchising	Municipalisation
Summary	Legal framework in which LTAs and operators collaborate on tangible measures to deliver BSIP objectives	Empowers LTAs to assume control of setting the routes, frequencies, fares, and other standards for bus services	The process by which an LTA may assume not just control, but also ownership, of their own bus company
Pros/ Benefits	• Each LTA already has an EP in place, giving some influence over service design and standards • Comparatively less capital outlay • Most 'light touch', 'quick win' model • Builds on existing relationships with commercial operators • Can co-exist alongside franchising • Chance to develop cross-boundary services with multi-LTA EP(s) • Chance to develop unified branding • Chance to control registration process • Chance for multi-operator and multi-modal integration • LTAs play role in sourcing/spending funds from Government • Revenue risk remains with operators, minimising risk to LTAs • Reporting on BSIP objectives creates transparency and accountability • Incremental improvements create a 'glide path' to franchising in the longer term	• Gives LTA full control of service design and standards • Quality improvements can come without need to negotiate with operators • Sense of local 'ownership' • Can co-exist alongside EPs • Chance to develop cross-boundary services with regional or multi-LTA franchising • Chance to develop unified branding • Chance for multi-operator and multi-modal integration • Less capital than municipalisation • LTAs would become integrated decision-making bodies to source/spend Government funding • Transparency on performance, plus enforcement via incentives/penalties • Stability for the length of contracts • Allows cross-subsidy between routes • Healthy competition among bidders • Transfer of revenue risk may attract new entrants to market	• Gives LTA control of service design and standards • Enables holistic, long-term approach • Profits reinvested in network • Less admin than franchising • Quality improvements can come without need to negotiate with operators • Sense of local ownership • Chance to develop unified branding • Chance for multi-modal integration • Chance to develop cross-boundary services in partnership with other LTAs • LTAs would become integrated decision-making bodies to source/spend Government funding • Transparency on performance • LTA can step in where commercial operators withdraw • LTAs have access to council-owned land for depots etc. • Chance to improve industrial relations
Cons/ Risks	• Lacks the accountability and enforcement of franchising • Participation can be withdrawn • BSIP are agreed, not binding, and collaboration is not guaranteed • Revenue risk remains with operators who still make commercial decisions • Government funding could be withdrawn, diverted or reduced	• High capital/transition costs • Higher operating costs for admin and service enhancements • Few incumbent operators may stifle effective competition in tendering • Risk of knock-on effects for other LTAs if operators withdraw to focus on franchise services • Risk of legal challenge (cost/delay) • Revenue risk transfers to LTA, incl. need to subsidise shortfalls (or make service cuts) • Risk of 'squeezed out' SME operators • Government funding could be withdrawn, diverted or reduced	• Precluded under current legislation • High costs to acquire an existing operator, or to set up from scratch • Higher operating costs for admin and service enhancements • Revenue risk transfers to LTA • Investment depends on access to long-term capital and sustainable revenue funding • Municipal operators must compete with commercial operators and comply with same regulations • Cross-subsidy prohibited • LTAs would inherit difficulties faced by incumbent commercial operators