

Bus Reform Update

Audit Standards & Risk Committee

20 March 2024

Pat Beijer



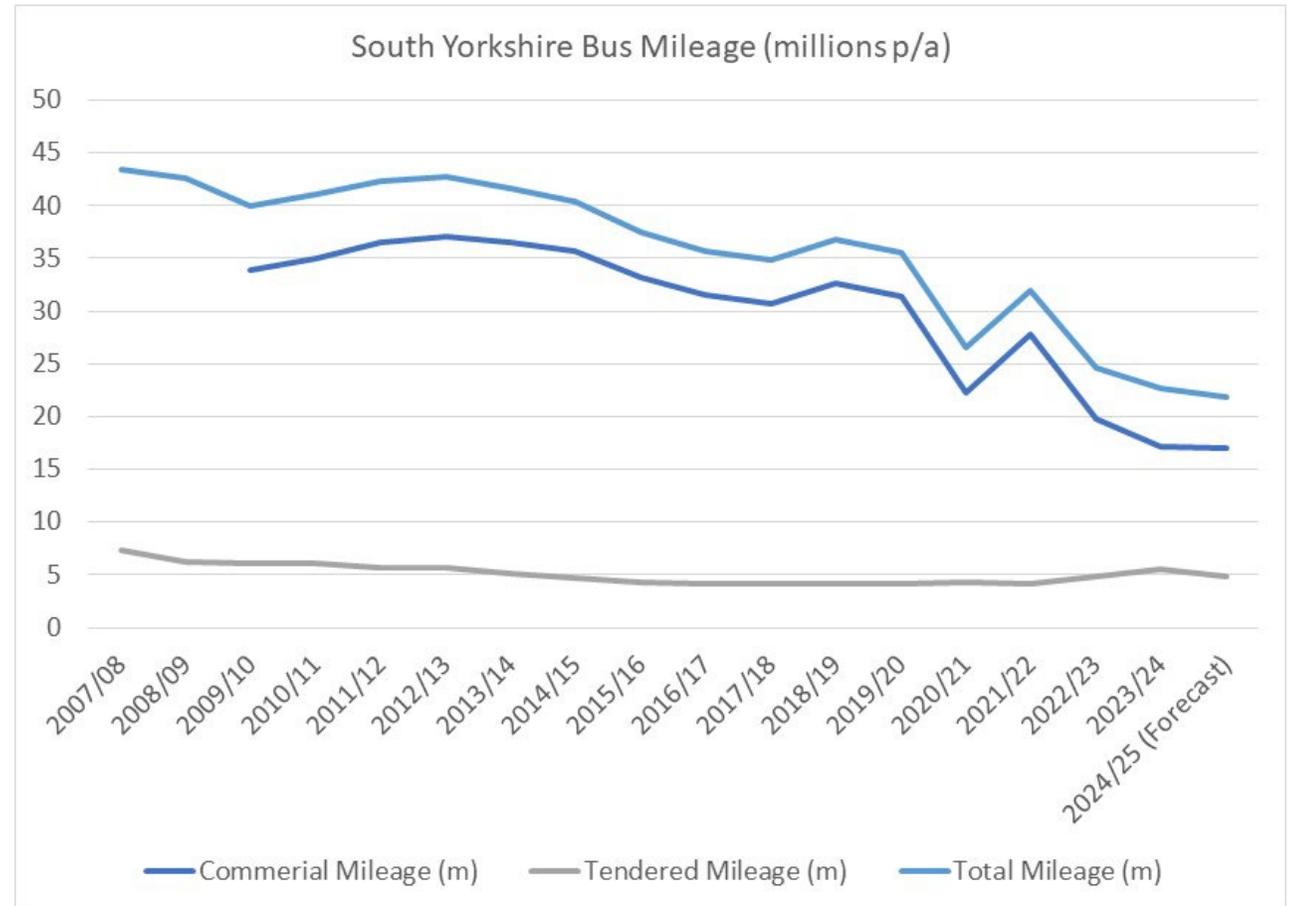
Background

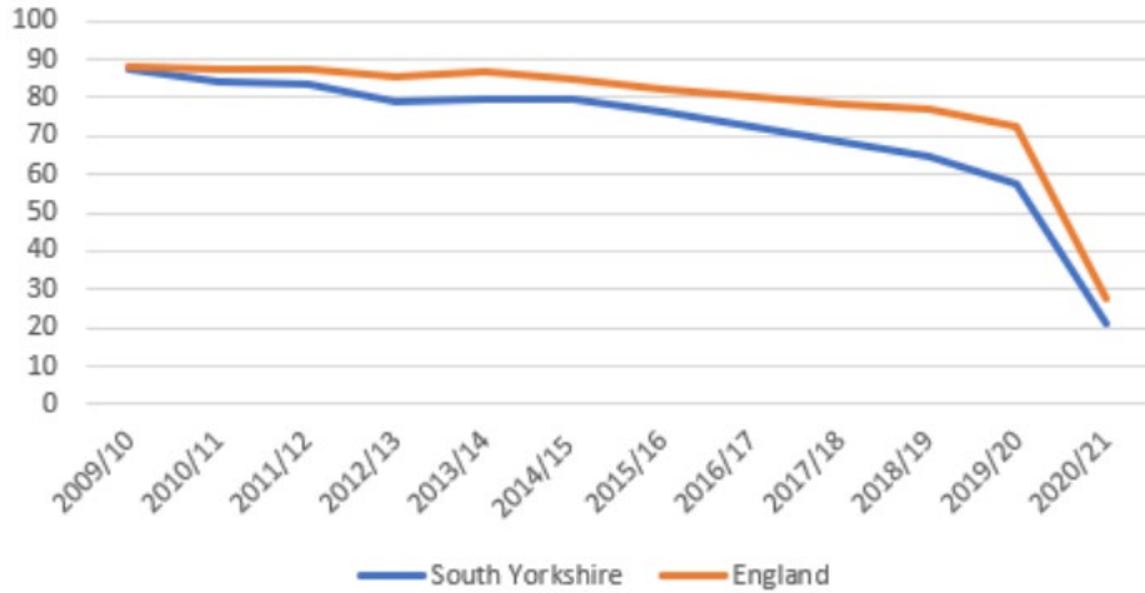
- On 12 March 2024, the MCA Board has taken a decision on the next step in the statutory process that underpins the franchising assessment.
- A decision was taken following the completion of a draft assessment of a range of bus operating model options:
 - Enhanced Partnership (reference case)
 - Enhanced Partnership Plus
 - Franchising Options (four variations with different asset ownership options)
- The MCA assessment concludes that Franchising Option B (fleet and depots owned by the MCA) is the preferred option.
- Work on the 5-case business case was started after the MCA (the former Transport & the Environment Board) approved the Case for Change on 27 October 2022.
- The franchising assessment process requires the MCA to work through the legal process of the Transport Act and Bus Services Act, as set out in DfT's franchising guidelines.

The South Yorkshire bus market

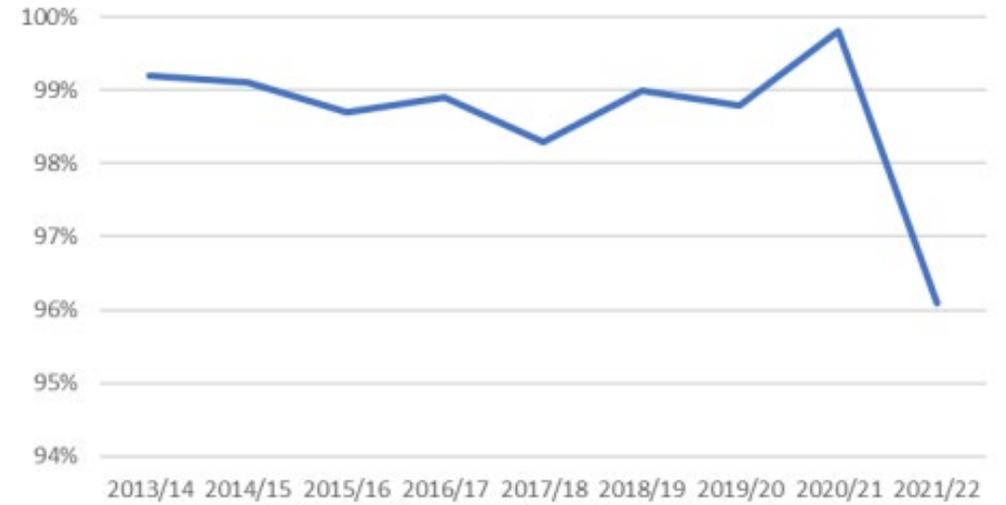
The bus market in South Yorkshire has been experiencing a continuous cycle of decline while growing its reliance on public funding to sustain bus service levels:

- Over the past decade, bus mileage declined by **42%**.
- In 2012/13, **13%** of the bus network mileage was supported by public funding. By 2022/23 this had grown to **20%**.
- Between 2018/19 and now the amount the MCA is spending on tendered services has trebled. In spite of this, overall network mileage continues to shrink.





Passenger journeys per head of population, South Yorkshire and England



Percentage of bus services operated (reliability)

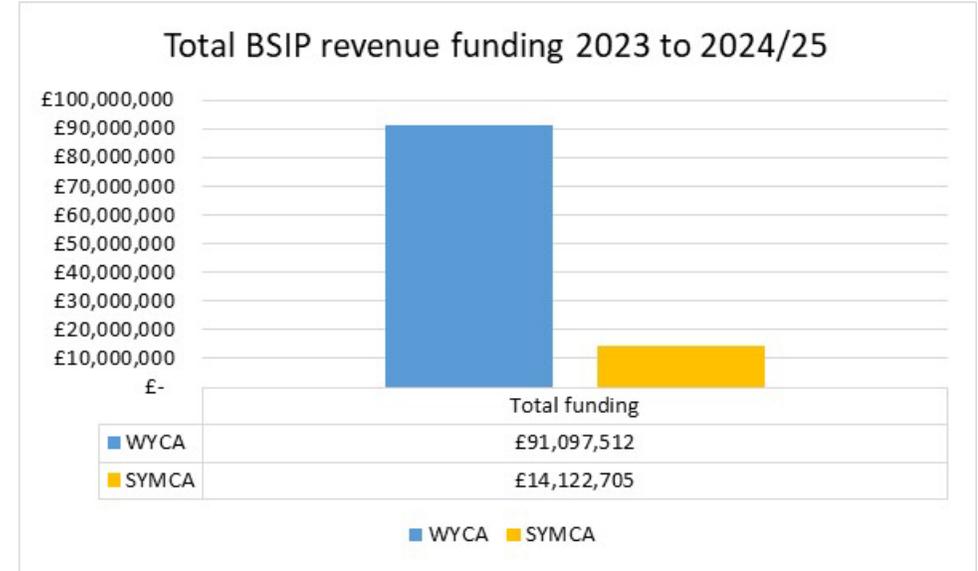
Bus funding

In 2023/24, 24% of the bus mileage is supported by the MCA, without control over the network. It's funded by the MCA investing one-off reserves to maintain and stabilise service levels.

The market currently benefits from national government funding, When that support ends, more services would be withdrawn .

Bus Service Improvement Plan (BSIP) funding has been awarded to Transport Authorities across the UK to support bus services.

- **South Yorkshire gets just over £10 per head of population** of government funding towards buses.
- **West Yorkshire MCA receives nearly £40 per head of population.**
- Other MCAs such as Greater Manchester get roughly the same.

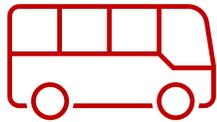


Bus services

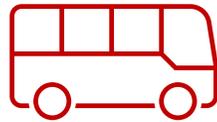
Bus services have become less frequent, less reliable and operated by an ageing fleet of buses.

South Yorkshire's buses are on average 11.5 years old (the national average is 8 years) against a life expectancy of 15 years.

Investment to renew the ageing bus fleet is required, to support reliable services, but also to achieve net zero aims for South Yorkshire, to reduce pollution and improve the health of our communities.



**Average Age of SY Bus Fleet:
11.5 years**



**Oldest Bus in SY Bus Fleet:
23 years**



Impact of doing nothing

1. Network & Patronage: decline continues – cuts to network, reduction in patronage, service quality diminishes

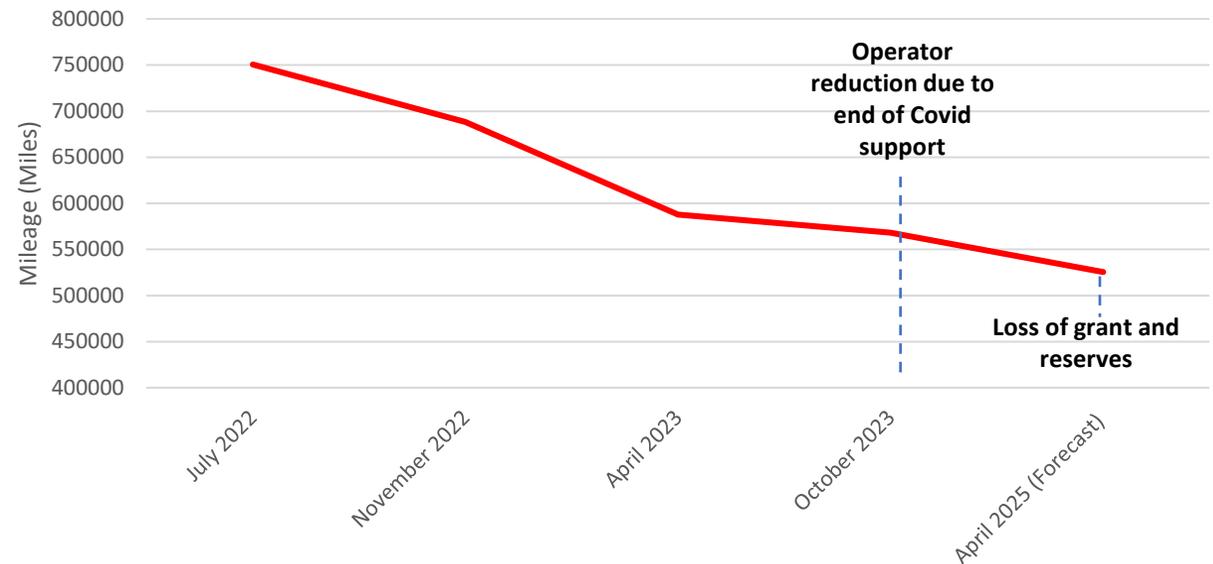
2. Tendered Services Budget: increased budget (24/25) is unsustainable (using one-off £10.971m of DfT grant to stabilise to 25/26) and costs more to buy less.

3. Fleet: an old bus fleet that has seen minimal investment in the last decade will see continued underinvestment without public sector intervention

Gross Budget for Tendered Services (£m)



Recent (Weekly) Mileage Trend



Assessment of bus operating models

Why are we investigating the option of bus franchising?

- South Yorkshire's buses are in a spiral of decline; demand is falling, costs are rising, investment in fleet renewal is needed imminently and national funding support for the bus market may reduce or end altogether.
- Legal limitations mean that it is not possible for the MCA to own its own bus fleet or directly run services in the de-regulated bus market.
- This position leaves the MCA with limited choices: leaving the market to contract or spending increasingly limited funds to maintain vital routes.
- The choice of operating model would determine the level of control the MCA has over its investment. This is why the MCA is investigating different operating models (enhanced partnership and franchising).

Assessment options

- **Enhanced Partnership:** already in place. MCA does not have strategic control of the network and therefore lacks the ability to make changes beyond paid for tendered services.
- **Enhanced Partnership Plus:** builds on the existing EP with additional investment and interventions around network, fares and ticketing, fleet, and branding. Would still be operator controlled and any network changes would require buy-in from Operators.
- **Franchising:** MCA will have strategic control of almost all of the South Yorkshire bus network and will therefore be able to design and specify the network, routes and service provision, fares structure, prices, ticketing, performance standards, and can ensure integration with other transport modes such as tram and train.

Options evaluated in the assessment

	Enhanced Partnership (Do Nothing)	Enhanced Partnership Plus	Franchise Option A	Franchise Option B	Franchise Option C	Franchise Option D
Depots 	Operator owned (except Doncaster)	Operator owned (except Doncaster)	Operator owned (except Doncaster)	SYMCA owned	Operator owned (except Doncaster)	SYMCA owned
Vehicles 	Operator owned	Operator owned	Operator owned	SYMCA owned	SYMCA owned	Operator owned
Zero-emission buses	Operator discretion	Accelerated at operator discretion	SYMCA specified	SYMCA specified	SYMCA specified	SYMCA specified
Routes operated	Determined by operators	Determined by operators	SYMCA specified	SYMCA specified	SYMCA specified	SYMCA specified
Ticketing	Determined by operators	Integrated, SYMCA influenced	SYMCA specified	SYMCA specified	SYMCA specified	SYMCA specified

Benefits of a Franchising Scheme

The assessment concludes that Franchising Option B is the preferred option.

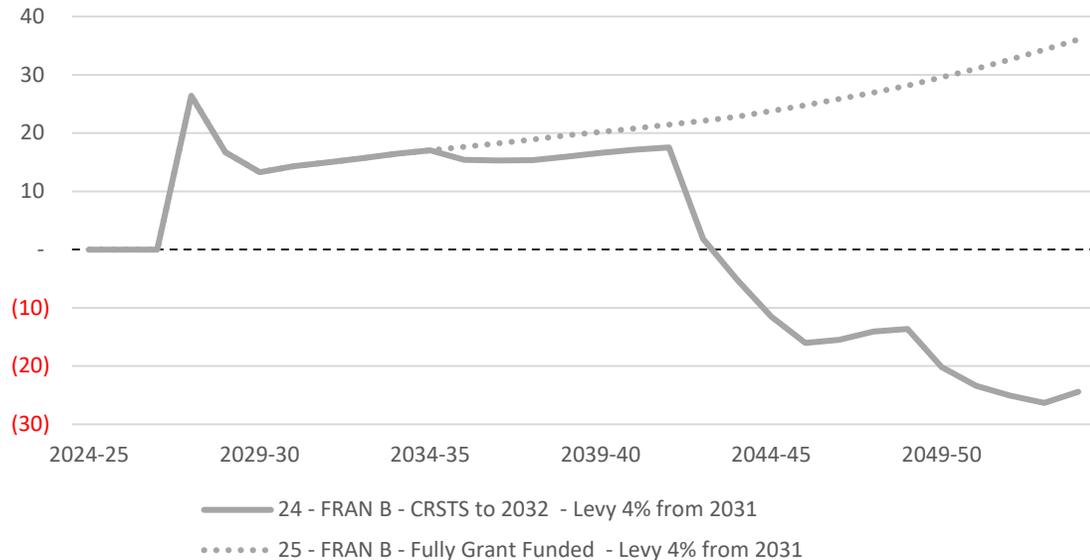
- Franchising would give the MCA greater strategic control of buses: the network, the routes, the fares and the standards of service. It would allow the MCA to directly invest in buses and depots, at a lower cost when compared to the commercial sector making these investments. The MCA would be able to reinvest revenue and 'profits' in services.
- Franchising would give the MCA control over bus fares and ticketing and support integration with the tram network. Legally, the MCA is prevented from fully integrating bus and tram tickets under the current system. Fares and tickets available today can be confusing and complex.
- Franchising would allow the MCA to set the service quality standards and bus routes, by asking the companies bidding for franchises to deliver to those standards under contract.

Franchising has benefits of control, but it requires significant investment and it comes with financial risks such as passenger revenue and transition.

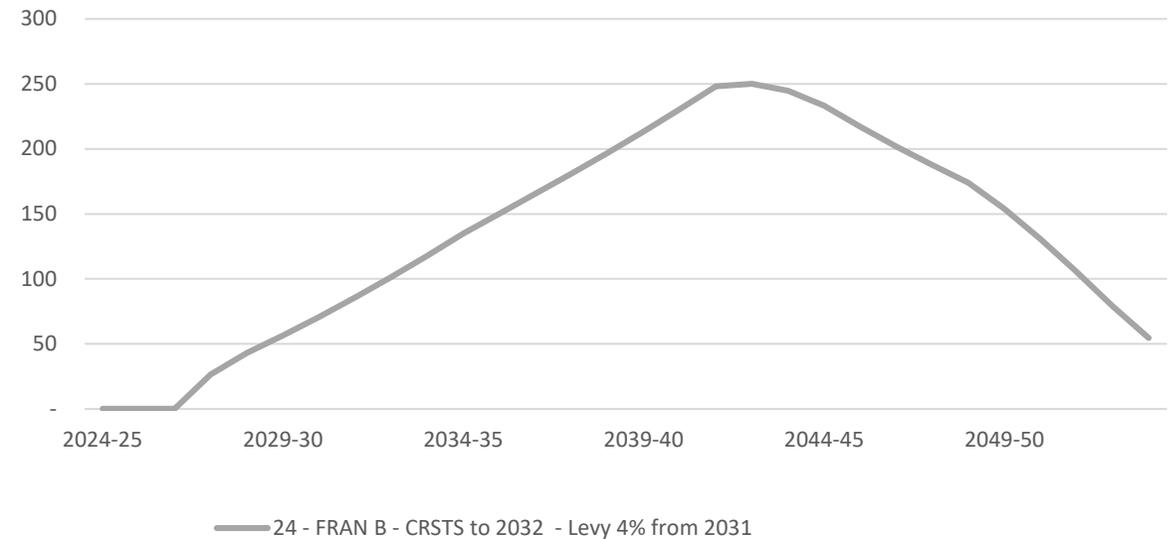
Summary of the Financial Case

- **Franchising Option B is affordable (using a 30 year period) on the basis that:**
 - £350 million capital expenditure for fleet, depots and mobilisation can be funded from announced grants (CRSTS2 following Network North)
 - Revenue surplus generated until around 2040 is kept to invest in new buses after 2040, unless more capital funding is available.
- **EP Plus is not affordable over the same 30 year period,** because the cost of borrowing money, which is needed to renew the bus fleet, is higher for bus operators than it is for local government

Franchising Option B – Annual surplus/(deficit) - £m



Franchising Option B – Cumulative surplus/(deficit) - £m



Next steps

Independent audit

- Following completion of the Franchising Assessment, the MCA must obtain a report from an independent auditor in order to proceed with the Franchising Scheme in accordance DfT Guidance.
- Upon conclusion of the independent audit, the MCA have the option to decide whether to progress to the next stage in the process (public consultation)

Public consultation

- Following the audit, the MCA will need to run a public consultation to ensure that local passengers, businesses and transport providers are able to comment on the proposals before the MCA takes the decision as to whether to implement the franchising scheme. This will run for a minimum of 12 weeks.

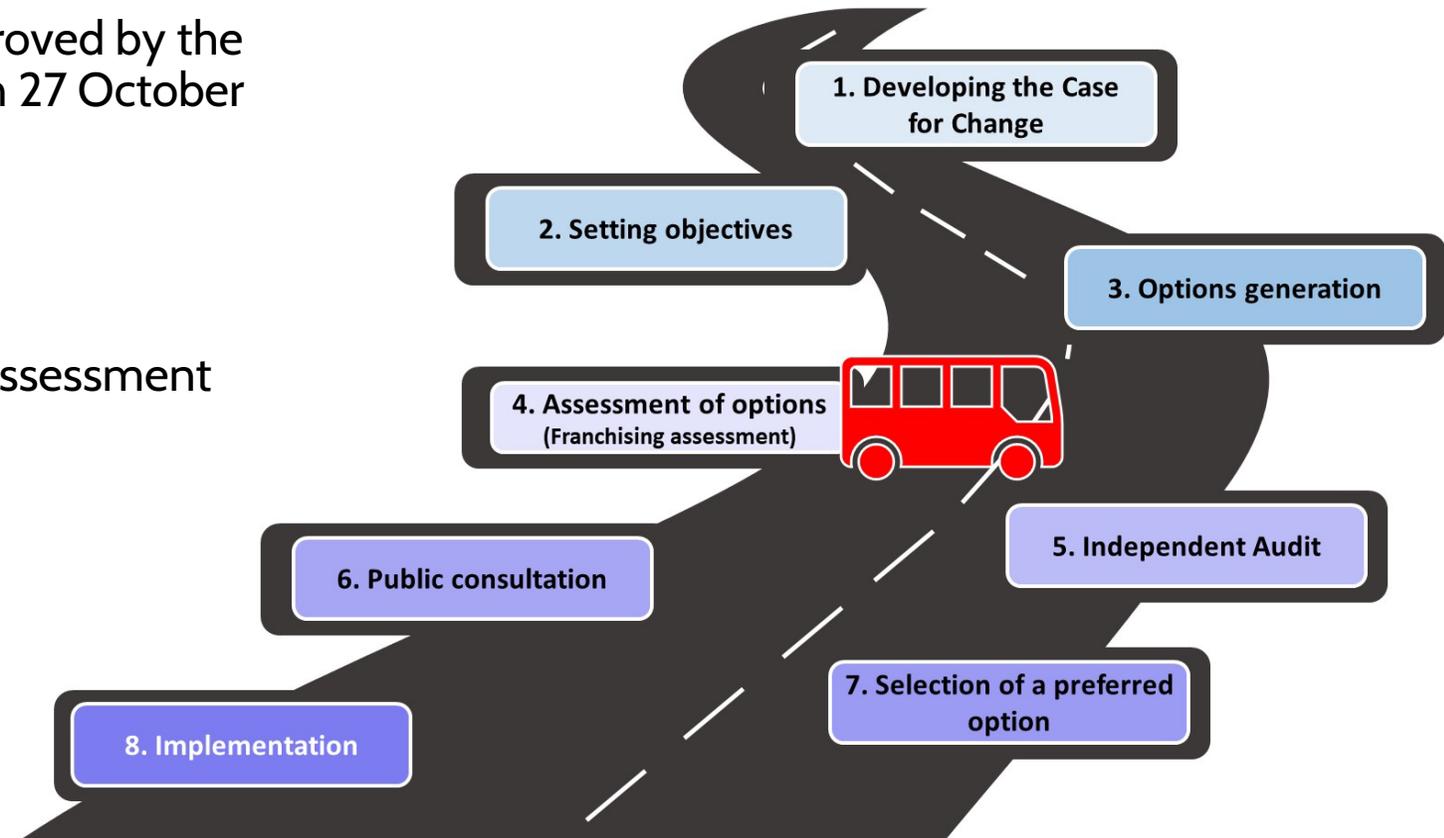
The decision whether to make a Franchising Scheme is a decision to be taken by the Mayor on behalf of the MCA.

Statutory stages

The legal steps an Authority must follow to undertake an assessment of a Franchising Scheme are set out in the Transport Act (2000) (as amended by the Bus Services Act 2017) and related DfT guidance.

These are:

- Development of a Case for Change (approved by the Transport and the Environment Board on 27 October 2022)
- Setting objectives
- Options generation
- An assessment of options – franchising assessment
- Independent audit
- Public consultation
- Selection of a preferred option
- Implementation



Thank you

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