

Title: Changes to bus market legislation - bus franchising and partnership improvements for inclusion in the Buses Bill IA No: DfT00369 RPC Reference No: RPC-3544(1)-DfT Lead department or agency: Department for Transport Other departments or agencies:	Impact Assessment (IA)			
	Date: 20/09/2016			
	Stage: Final			
	Source of intervention: Domestic			
	Type of measure: Secondary legislation			
Contact for enquiries: Deborah Lewis Deborah.lewis@dft.gsi.gov.uk				
Summary: Intervention and Options				RPC Opinion: GREEN

Cost of Preferred (or more likely) Option				
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANDCB in 2014 prices)	One-In, Three-Out	Business Impact Target Status
£510m	-£304m	-£1m (QRP) £36m (NQRP)	Not in scope	Partially qualifying regulatory provision

What is the problem under consideration? Why is government intervention necessary?

Local bus markets in England outside London have been deregulated since 1986. However, at the aggregate level, the long term decline in bus patronage from its peak in the 1950s has continued under the deregulated environment. Some local bus markets outside of London display, to varying degrees, market failures such as lack of competition, wider social and environmental benefits that buses can bring not being fully realised, and incentives between private operators and local transport authorities (LTAs) who provide bus infrastructure being misaligned. Government intervention is necessary to provide enhanced tools that enable LTAs to deal with market inefficiencies that occur in their local bus markets and deliver more effective bus services.

What are the policy objectives and the intended effects?

The policy objective is to provide LTAs with an effective and appropriate set of tools to allow them to reduce the inefficiencies that exist in their local bus markets. The tools required to address inefficiencies will vary and depend on local circumstances. Some authorities may have the capability and resources to franchise their local bus networks while others may choose to use tools that facilitate improved partnership working between operators and LTAs. The intended effect is not to direct LTA decisions but rather to increase the tools available to LTAs when it comes to bus services, with the goal of improving services for passengers, be that through achieving increased patronage or wider benefits such as environmental improvements.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

- Option 1 - Do nothing, LTAs must deal with inefficiencies in their market under existing legislation and consider best practice guidance on partnership working;
- Option 2 - Amend legislation relating to partnership working;
- Option 3 - Develop an enhanced partnership option to provide more scope for LTAs to achieve better outcomes under partnership without the risks of franchising;
- Option 4: Develop new 'franchising' legislation to allow LTAs to replace the deregulated market with a system of contracting;
- Option 5: combination of options 2-4

Option 5 preferred - A new legislative framework enabling improved partnership working and franchising are required to provide local transport authorities with more effective ways to improve their local bus services.

Will the policy be reviewed? It will be reviewed. If applicable, set review date: April/2022

Does implementation go beyond minimum EU requirements?			N/A	
Are any of these organisations in scope?	Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO₂ equivalent change in greenhouse gas emissions? (Million tonnes CO₂ equivalent)	Traded: N/A		Non-traded: N/A	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible Minister: Andrew Jones Date : 26 January 2017

Summary: Analysis & Evidence

Policy Option 2

Description: Amend legislation relating to partnership working

FULL ECONOMIC ASSESSMENT

Price Base Year: 2014	PV Base Year: 2015	Time Period Years: 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 12.9	High: 25.8	Best Estimate: 19.4

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.1	0.1	0.5
High	0.2	0.1	1.0
Best Estimate	0.2	0.1	0.8

Description and scale of key monetised costs by 'main affected groups'

Operators: (£0.6m to £1.2m): Implementation costs and small increase in operating costs as a result of the increase in patronage.

Government: (£0.0m-£0.1m): Implementation costs

Other key non-monetised costs by 'main affected groups'

Depending on the terms of the partnership agreement, there may be some capital costs to operators. These have not been monetised as it is difficult to generalise about the types of measures which might be implemented by operators in AQPS schemes. It is very unlikely that operators would agree to implement any changes which did not benefit them overall (i.e. through an increase in patronage).

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0.0	1.8	13.4
High	0.0	3.5	26.8
Best Estimate	0.0	2.6	20.1

Description and scale of key monetised benefits by 'main affected groups'

Users: (£14m-£30m): benefits to bus users from service changes

Non-users: (£0.3m-£0.7m): benefits to wider society such as reduced congestion and pollution

Bus operators: (£2.5m to £5.1m): benefits to operators from higher revenues

Government: (-£0.4m to -£0.2m): dis-benefits of reduced fuel duty, reduced revenue to the public account.

Other key non-monetised benefits by 'main affected groups'

Due to a lack of evidence, some of the potential benefits of advanced quality partnership schemes (AQPS) have not been monetised. It is difficult to generalise about the types of improvements which may result from AQPS schemes and so the benefits have been conservatively estimated.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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This policy enables LTAs to implement advanced quality partnership operating model. It is very uncertain how many and which LTAs will choose to use this tool and how many services in the area will be affected by such a scheme. These local decisions will have a significant impact on the final national outcomes in terms of costs and benefits associated with this legislation. This analysis should therefore be treated as being illustrative only due to these significant uncertainties.

BUSINESS ASSESSMENT (Option 2)

Direct impact on business (Equivalent Annual) £m:	Score for Business Impact Target (qualifying provisions only) £m: -0.3	
Costs: 0.1	Benefits: 0.3	Net: -0.3

Summary: Analysis & Evidence

Policy Option 3

Description: Develop an enhanced partnership option to provide more scope for LTAs to achieve better outcomes under partnership working

FULL ECONOMIC ASSESSMENT

Price Base Year: 2014	PV Base Year: 2015	Time Period Years: 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 287.6	High: 468.1	Best Estimate: 377.9

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	0.7	1	1.0	8.5
High	2.1		-5.1	-87.1
Best Estimate	1.4		-11.2	-39.3

Description and scale of key monetised costs by 'main affected groups'

Operators: (-£111m to £11m): Reduced operating costs due to a reduction in total distance travelled as a result of a rationalised network. There are also expected to be some capital costs (AVL costs and staff costs) which outweigh the reduced operating costs in the low scenario.

Government: (£0.3m-£1m): increased payments for supported services due to greater patronage, increased implementation costs to LTAs

Other key non-monetised costs by 'main affected groups'

The capital costs to LTAs for improved interchange facilities between modes have not been monetised. While these costs could have a small impact on the total costs, they would be very context specific to local needs so creating a general estimate is spurious in the absence of knowledge of who will implement enhanced partnerships. Due to a lack of cost evidence, the benefits to passengers from some potential service and vehicle quality improvements which may result from enhanced partnerships have also not been monetised.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	N/A	39.4	296.1
High	0		50.6	381.0
Best Estimate	0		45.0	228.6

Description and scale of key monetised benefits by 'main affected groups'

Users: (£321m-£387m): benefits to bus users from service changes

Non-users: (£10m-£64m): benefits to wider society such as reduced congestion and pollution

Bus operators:(£62m to £64m): benefits to operators from higher revenues

Government: (-£24m to -£11m): dis-benefits of reduced fuel duty, reduced revenue to the public account.

Other key non-monetised benefits by 'main affected groups'

The benefits from improved quality and maintenance standards and increased network stability as a result of enhanced partnerships have not been monetised as the impacts of these are very uncertain and there is limited evidence to support them. Due to a lack of cost evidence, the benefits to passengers from some potential service and vehicle quality improvements which may result from enhanced partnerships have also not been monetised.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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This policy enables LTAs to implement an enhanced partnership operating model. It is very uncertain how many and which LTAs will choose to change their operating model from the status quo. These local decisions will have a significant impact on the final national outcomes in terms of costs and benefits associated with this legislation. This analysis should therefore be treated as being illustrative only due to these significant uncertainties.

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:	Score for Business Impact Target (qualifying provisions only) £m: -10.1		
Costs: -4.6	Benefits: 5.5	Net: -10.1	

Summary: Analysis & Evidence

Policy Option 4

Description: Develop new 'franchising' legislation to allow LTAs to replace the deregulated market with a system of contracting

FULL ECONOMIC ASSESSMENT

Price Base Year: 2014	PV Base Year: 2015	Time Period Years: 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 157.0	High: 764.1	Best Estimate: 460.6

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	12.4	1	55.3	441.9
High	24.5		57.5	469.5
Best Estimate	18.4		56.4	455.7

Description and scale of key monetised costs by 'main affected groups'

Operators: (-£5m to £156m): Reduced operating costs due to responsibilities being passed to LTAs, increased tendering costs, and implementation staff costs.

Government: (£409m-£594m): increased capital costs to LTAs (AVL costs, staff costs and fleet renewal costs), increased implementation costs to LTAs

Other key non-monetised costs by 'main affected groups'

The capital costs to LTAs for improved interchange facilities between modes have not been monetised. While these costs could have a significant impact on the total costs, they would be very context specific to local needs so creating a general estimate is spurious in the absence of knowledge of who will implement franchising. Due to a lack of cost evidence, the benefits to passengers from some potential service and vehicle quality improvements which may result from franchising have also not been monetised.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	N/A	79.7	598.8
High	0		164.1	1,233.6
Best Estimate	0		121.9	916.2

Description and scale of key monetised benefits by 'main affected groups'

Users: (£761m-£1,417m): benefits to bus users from fare and service changes

Non-users: (£27m-£122m): benefits to wider society such as reduced congestion and pollution

Bus operators:(-£540m to -£86m): dis-benefits to operators from lower revenues

Government: (£60m-£581m): dis-benefits of reduced fuel duty, increased revenue to the public account.

Other key non-monetised benefits by 'main affected groups'

The benefits from improved quality and maintenance standards and increased network stability as a result of franchising have not been monetised as the impacts of these are very uncertain and there is limited evidence to support them. Due to a lack of cost evidence, the benefits to passengers from potential service and vehicle quality improvements which may result from franchising have also not been monetised. These benefits could be substantial but will be dependent on whether and to what extent the LTA thinks they would be worth implementing.

Key assumptions/sensitivities/risks

Discount rate (%)

3.5

This policy enables LTAs to implement a franchising operating model. It is very uncertain how many and which LTAs will choose to change their operating model from the status quo. These local decisions will have a significant impact on the final national outcomes in terms of costs and benefits associated with this legislation. This analysis should therefore be treated as being illustrative only due to these significant uncertainties.

BUSINESS ASSESSMENT (Option 4)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m: 0.0
Costs: 6.8	Benefits: -29.4	Net: 36.2	

Summary: Analysis & Evidence

Policy Option 5

Description: Combination of options 2 – 4: Amend legislation relating to partnership and develop an enhanced partnership option to ensure partnership working between operators and LTAs is easier, and develop a new franchising option to make this a more realistic option for LTAs to use

FULL ECONOMIC ASSESSMENT

Price Base Year: 2014	PV Base Year: 2015	Time Period Years: 10	Net Benefit (Present Value (PV)) (£m)		
			Low: 193.9	High: 827.1	Best Estimate: 510.5

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	11	1	40	443.3
High	22		41	465.1
Best Estimate	17		40	454.2

Description and scale of key monetised costs by 'main affected groups'

Operators (-£7m to £120m): Reduced operating costs due to responsibilities being passed to LTAs (franchising only), increased tendering costs (franchising only), implementation staff costs, and increased capital costs (under the partnership model).

Government (£290m-£438m): increased implementation costs to LTAs

Other key non-monetised costs by 'main affected groups'

The capital costs to local governments for improved interchange facilities between modes have not been monetised. While these costs could have a significant impact on the total costs, they would be very different depending on area type and local needs so creating a general estimate is not possible given the lack of certainty as to who will implement franchising. Due to a lack of cost evidence, the impacts of some potential service and vehicle quality improvements which may result from franchising have not been monetised.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	0	N/A	66	637.2
High	0		128	1,292.2
Best Estimate	0		97	964.7

Description and scale of key monetised benefits by 'main affected groups'

Users (£620m-£1,100m): benefits to users from fare and service changes

Non-users (£21m-£97m): benefits to society such as reduced congestion and pollution

Bus operators(-£430m to -£68m): dis-benefits to operators from changing fares and services

Government (£55m-£463m): dis-benefits of reduced fuel duty, increased revenue to the public account.

Other key non-monetised benefits by 'main affected groups'

The benefits from improved quality and maintenance standards and increased network stability as a result of franchising have not been monetised as these are very uncertain and there is not much evidence to support them. Due to a lack of cost evidence, the impacts of potential some service and vehicle quality improvements which may result from franchising have not been monetised either. It is likely that these benefits could be substantial but each LTA would have to determine whether they would be worth implementing.

Key assumptions/sensitivities/risks	Discount rate (%)	3.5
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This policy provides LTAs with the powers to implement either a franchising operating model or an enhanced partnership model, or to use the improved Quality Partnership Scheme powers. It is very uncertain how many and which LTAs will choose to change their operating model from the status quo. These local decisions will have a significant impact on the final national outcomes in terms of costs and benefits associated with this legislation. This analysis should therefore be treated as being illustrative only due to these uncertainties.

BUSINESS ASSESSMENT (Option 5)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m: -1.0
Costs: 6.8 (NQRP) -0.2(QRP)	Benefits: -29.4 (NQRP) 0.8 (QRP)	Net: 36.2 (NQRP) -1.0 (QRP)	

Evidence Base

1. Problem under consideration

1.1 Current status and performance of the bus market

1. Deregulation of the bus market outside London was effected through the Transport Act 1985¹ (“the 1985 Act”). Bus services in England, outside London, are currently planned, specified and provided by private bus operating companies, with Local Transport Authorities (LTAs) tendering for supported services where they think that the commercial offering does not meet the needs of local communities. Within the Greater London Area, bus services are planned and specified by Transport for London (TfL) through a contracting or franchising model. TfL specify the services they want to be provided and the particular standards that those services are required to meet, and private bus companies then bid to provide those services.
2. At the aggregate level, bus travel has been in long term decline since the 1950s, with the number of passenger journeys on local bus services declining by 59% between 1950 and 2013/14². Deregulation of the bus industry was introduced in 1985/86, and since then local bus passenger journeys in England have decreased by further 2%³.
3. In London, under franchising, the use of local bus services has more than doubled since 1985/86 and in 2013/14 accounted for 51% of bus journeys made within England (the equivalent figure was 24% in 1985/86). There are a number of other social, economic and political factors which may also have an influence on bus usage in London including levels of car ownership, population density and growth and also policy choices such as implementation of the congestion charge. TfL also have control over fares and service levels of alternative modes of transport in the city, such as the London Underground.
4. Although overall patronage outside of London is falling, trends in bus use vary greatly across the country. Patronage is falling in our biggest conurbations, but there are some other places where authorities and operators have worked effectively to improve services, or bus companies have been particularly progressive in the way in which they have provided services. For example growth in patronage can be seen in places like Oxfordshire and Brighton and Hove. In many other areas bus patronage has fallen significantly with the number and frequency of services also falling at the same time. This decline is likely to be due to a large extent to the expansion in private car ownership, but the deregulation of the industry introduced in 1985/86 is also considered by some LTAs to be part of the problem.
5. Across all areas of England, local bus fares have increased in real terms since March 1995. Metropolitan areas have seen the largest real-terms increase with local bus fares increasing by 59%. In London, fares have increased by 36%, while non-metropolitan areas have seen the smallest increase of 33%⁴. Fares have also risen beyond the rate of inflation, at a time when the real cost of motoring has fallen.
6. Competition in the bus market currently takes place ‘on the road’, with different bus operators competing with each other to provide services along particular roads and at bus stops. The Competition Commission found that local bus markets were not working in the most efficient way, concluding that it is not perfectly competitive, with little in the way of head-to-head competition, and that barriers exist that allow local bus markets to sustain an environment that lacks competitive pressure. This was found to be largely in the form of operators pursuing predatory behaviour or exclusionary tactics that limit competition; fares being higher than they would be in a perfectly competitive market; and/or service levels being lower than they would otherwise be.

¹ Transport Act 1985 c.67.

² DfT statistics, Table BUS0101

³ DfT statistics, Table BUS0101

⁴ DfT statistics, Table BUS0405

7. In addition, the Competition Commission's 2011 report found that there were some aspects of competitive conduct which delivered no benefit to customers⁵, for example the obstruction of a rival's services by deliberately blocking or delaying their services on the road or by preventing them from using bus stops or stands.

1.2 Government support and subsidy provided to the bus market

8. Government currently supports the bus market in England outside London by providing a subsidy in the form of the Bus Service Operators Grant (BSOG). BSOG is paid to operators in support of all commercially-run services (those planned and provided by bus companies), to LTAs for their supported services (those planned and put out to tender by LTAs) and for community transport services, and is calculated on the basis of fuel consumption. BSOG helps to keep fares 4% lower, allows operators to run a network 7% larger, and allows passenger numbers to be 4%⁶ higher than they would otherwise have been if BSOG was not provided.
9. In addition to the services provided commercially, LTAs also have a duty to provide services which they deem as socially necessary which are not being provided commercially. LTAs can use the block grant they receive from the Department for Communities and Local Government to support these services and the BSOG that is devolved to them.
10. LTAs also have a number of policy and legislative tools available to them to help improve their local bus services, with changes to the deregulated regime contained in the Transport Act 2000, as amended by the Local Transport Act 2008. These legislative changes included provisions to allow LTAs to enter into statutory partnerships with operators to deliver particular outcomes and improve services, introduce multi-operator ticketing regimes to provide a better, more co-ordinated offering to the customer, or to suspend the deregulated market and deliver a Quality Contract scheme. These existing options are set out in more detail below:
- Quality Contracts – this is the current legislative route to franchising whereby the LTA, subject to being satisfied that a five-part public interest test is satisfied together with consulting and responding to the recommendations of an independent Quality Contract Board, can suspend the deregulated market, determine a network of services to be delivered and invite competitive bids from bus companies to provide those services in the area;
 - Quality Partnerships – legislation to bring about statutory partnership arrangements between LTAs and bus operators to improve services. The LTA invests in bus-related infrastructure, such as bus lanes, in the scheme area, and in return for the right to use the improved infrastructure, local bus operators agree to provide higher quality standards of services, such as for example newer buses;
 - Voluntary partnerships or agreements – voluntary agreements between LTAs and bus operators to improve services, whereby the operators and LTAs agree to provide certain things on a voluntary basis to satisfy mutual objectives; and
 - Multi-operator ticketing schemes – LTAs have the power to impose a ticketing scheme in their area which operators must comply with in line with competition law. LTAs can specify the ticket types and products to be made available by operators but they do not have control over the fares to be charged.

1.3 Issues with existing legislative options

11. The Quality Contract legislation was introduced in the Transport Act 2000 and amended by the Local Transport Act 2008, but since then only one LTA (Nexus on behalf of the North East Combined Authority) has attempted to introduce a Quality Contract Scheme (QCS) and the QCS board published their report in early November 2015 which concluded that the Nexus proposal did not satisfy all five of the public interest test criteria set out in the QCS legislation. Experience from that process suggests that practical implementation of the current legislation has been very time-consuming, resource-intensive and costly. The post legislative assessment of the Local Transport

⁵ Competition Commission Local Bus Services market investigation, page 7, accessed online at http://webarchive.nationalarchives.gov.uk/+/http://www.competition-commission.org.uk/inquiries/ref2010/localbus/pdf/00_sections_1_15.pdf

⁶ Based on Department's National Bus Model outputs, 2014

Act 2008 reflects that various LTA groups such as the Association of Transport Coordinating Officers (ATCO) and the Urban Transport Group (UTG) view the QCS process as an expensive, complex and time consuming undertaking, likely to be potentially viable only within larger urban areas overseen by the Passenger Transport Executives (PTEs)⁷.

12. Before a LTA can make a QCS it must comply with the procedural requirements set out in the Transport Act 2000, undertake a consultation exercise and satisfy itself that a five-part public interest test is met. A QCS Board is then established by the senior traffic commissioner for the area, whose role is to form an opinion as to whether the authority has met the necessary consultation requirements and whether the public interest conditions have been met. The public interest test includes consideration of whether:
 - the proposed scheme will result in an increase in the use of bus services in the area to which the proposed scheme relates,
 - the proposed scheme will bring benefits to persons using local services in the area to which the proposed scheme relates, by improving the quality of those services,
 - the proposed scheme will contribute to the implementation of the local transport policies of the authority or authorities,
 - the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective, and
 - any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraphs (a) to (d).”.
13. In particular, criticism has been directed at the five-part public interest test. An LTA has to satisfy itself that the test conditions have been met and the QCS Board must also consider whether the conditions are met. The five-part test itself is seen as too narrow and prescriptive by many LTAs, and not reflective of wider considerations outside pure transport policy, such as consideration of how bus services can contribute to wider development or planning policies.
14. The QCS Board process has, as discussed, taken a significant length of time and substantial resources to administer. The time-limited nature of the legislation has also been criticised, as a Quality Contract Scheme is limited to 10 years, and many LTAs see any move to a franchising as a much longer commitment which would require more than 10 years to fully mature and become established. Since the legislation has not resulted in a QCS being introduced yet, it is difficult to comment further on the practicalities and impacts following implementation.
15. The Quality Partnership legislation has also not been used as fully or widely as anticipated, and LTAs have previously suggested that there are a number of barriers inhibiting them from introducing such schemes. These include the link in the Quality Partnership legislation to the provision of infrastructure as a prerequisite to establishing a Quality Partnership. Infrastructure projects can be difficult to fund and may not be the appropriate local solution to issues with bus services, which could be better addressed through other means such as changing city centre parking charges or availability. The Post Legislative Assessment of the Local Transport Act 2008 identifies that the use of Quality Partnerships to set fares and impose registration restrictions has been limited. Feedback from some LTAs and from ATCO suggests that this may be due in part to perceived issues with the policing and enforcement of Quality Partnership Schemes⁸.
16. In addition to the issues highlighted above, the Competition and Markets Authority (CMA) can investigate and take legal action where they think a partnership is acting in breach of competition legislation. The CMA has the ability to level a fine on operators of up to 10% of group turnover. This CMA oversight is perceived to as a continual threat to partnerships by operators (despite no record of

⁷ Post legislative assessment of the Local Transport Act 2008, Page 13, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259164/pla-lta2008.pdf

⁸ Post legislative assessment of the Local Transport Act 2008, Page 11, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259164/pla-lta2008.pdf

the CMA exercising these powers), and introduces a barrier to the use of Quality Partnership Schemes (QPS) powers. Many in the industry perceive the CMA powers as a threat, and it was raised by both LTAs and bus operators at the Bus Reform Workshops carried out in September and October 2015 as one of the key issues holding them back from pursuing partnerships further.

1.4 Recent Government commitments

17. In addition to trying to address the problems highlighted above, as part of Government's commitment to devolution, several authorities have asked to be given greater control of the bus services in their local area but have requested that a new approach is developed that is more effective than the existing legislative provisions.
18. The Government has signed devolution deals with a number of areas, including Greater Manchester, Cornwall, the Sheffield City Region, the North East Combined Authority, Tees Valley, the West Midlands and the Liverpool City Region in which it committed to providing the powers to enable those local authorities to franchise their local bus services. A 'Buses Bill' was then announced as part of the Queen's Speech in May 2015.
19. [Devolving powers over transport is a Conservative manifesto commitment, and Government is currently in discussion with many other places on their devolution deals](#) with areas ranging from Combined Authorities to County Councils requesting franchising powers as part of their deal.

1.5 Summary

20. Many LTAs are keen to take action to improve their local bus services, particularly looking to:
 - reduce over-bussing on key routes (because on-the-road competition causes congestion and bunching of vehicles at bus stops, creating long gaps between services);
 - improve integration between bus services and the wider public transport system;
 - improve congestion in town centres;
 - improve air quality standards in town centres; and
 - improve the ticketing offer to passengers.
21. Through our engagement with LTAs and the Government's devolution deal process, it has become clear that LTAs do not believe that the existing range of tools provides them with the necessary freedoms and flexibilities to achieve the objectives appropriate to their local areas.

2. Rationale for intervention

22. As discussed above, the combination of falling bus patronage, reductions in the levels of Government subsidy provided to the bus industry and a legislative framework that has not been utilised as expected has led us to conclude that action is needed to ensure effective bus services continue to be provided to the public and that LTAs have access to the range of tools needed to bring about change.
23. Government intervention is necessary to enable LTAs to deal with market inefficiencies that exist in their local bus markets. This could be achieved by changing the funding and subsidy mechanisms that are currently used to support bus services, or by making changes to the tools that LTAs have available to control and influence bus services in their local area.
24. The Competition Commission (CC) reviewed the local bus market in England outside of London in 2011. They found that the local bus market was not working in the most efficient way, concluding that it is not perfectly competitive and that barriers exist that allow the local bus market to sustain an environment that lacks competitive pressure. This was found to be largely in the form of operators pursuing predatory behaviour or exclusionary tactics that limit competition; fares being higher than they would be in a perfectly competitive market; and/or service levels being lower than they would otherwise be.
25. The CC also found that head-to-head competition is limited and that many local markets exhibit persistently high levels of concentration, with the five largest bus operators running 69 per cent of all

local bus services⁹. The majority of services in most local areas were found to be served by just one or two providers, with the largest operator providing on average, 69 per cent of bus services in urban areas¹⁰.

26. The local bus market was also found to generate periods of intense short-lived rivalry, leading to the exit of one operator. This ultimately reduces the extent of head-to-head competition, and the anticipation of this type of behaviour creates a barrier to entry and expansion; thus reducing the competitive constraint from potential competition and new entry.
27. Further to the CC findings, an independent review of the bus market commissioned by the Department for Transport (DfT) and completed by KPMG in 2015 (the 'Local bus market study'), found that passenger numbers using bus services in England outside of London fell almost continuously from the time of deregulation to the mid-2000s, but have remained relatively stable since then. It also found that bus fares for services in England outside of London have risen at a higher rate than general inflation since 2005 and have risen at a significantly faster rate in metropolitan areas than in non-metropolitan areas, increasing by 24% and 4% in real terms respectively.
28. In addition to the lack of competition, the KPMG study found that some local bus markets can also display the following market failures to varying degrees:
 - Network economies relating to service coordination, ticket integration and joint marketing;
 - Misaligned incentives between operators and the infrastructure provider/manager;
 - A lack of contestability of markets and ability for new entrants to enter the market; and
 - Economic, social and environmental benefits that occur to society as a by-product of bus travel but are not captured fully by private bus operators.
29. Each type of market imperfection is discussed in further detail below.

2.1 Network economies

30. Effective bus services connect people to the places where they want to go and in many situations this requires a co-ordinated and integrated network of services and routes. Where services are provided by competing operators, the coordination of timetables, fares and ticketing arrangements is complex and unless it is carefully managed it could potentially be in breach of competition law.
31. Where there is a need, government intervention can help to coordinate services and align fares and ticketing to help passengers transfer seamlessly between services provided by different operators.

2.2 Misaligned incentives

32. The delivery of a high quality bus network generally requires partnership working between those who are responsible for providing and maintaining transport infrastructure and managing road network performance, and those who are responsible for operating the bus services themselves. The separation of these inter-related activities and lack of formal or informal arrangements on how to manage the interface between them can lead to a misalignment of incentives.
33. Operators have limited incentives to unilaterally invest in bus infrastructure where this investment can be used by their competitors. Similarly, in the absence of partnership arrangements, LTAs may have limited incentives to invest in bus infrastructure where they cannot be sure that the level of service provided by operators using the facility will be maintained or that the benefits of the investment will ultimately flow to passengers and the wider community. There may also be conflicts or misaligned incentives associated with investment in other transport schemes (such as light rail) for which competition from bus services could impede the realisation of scheme benefits.

⁹ Competition Commission Local Bus Services Market Investigation, Page 3, accessed online at http://webarchive.nationalarchives.gov.uk/+http://www.competition-commission.org.uk/inquiries/ref2010/localbus/pdf/00_sections_1_15.pdf

¹⁰ Competition Commission Local Bus Services Market Investigation, Page 4-5, accessed online at http://webarchive.nationalarchives.gov.uk/+http://www.competition-commission.org.uk/inquiries/ref2010/localbus/pdf/00_sections_1_15.pdf

34. Where there is a need, LTA intervention can reduce the misalignment of incentives to invest in infrastructure by establishing formal or informal agreements between the LTA and operators.

2.3 Lack of contestability of markets or ability for new entrants to enter the market

35. A lack of effective, sustainable competition between bus operators could lead to higher fares for passengers, fewer services, reduced service quality, reduced innovation and higher operator profits relative to those delivered by a more competitive market. A lack of effective competition could also lead to inefficiencies in the market for supported services.

36. In theory, competition in the bus market takes place 'on the road', but in reality head-to-head competition is relatively scarce, the market is sometimes regarded as being 'contestable' with the threat of market entry providing an incentive to operators and the market to work efficiently. Competition from other modes of transport and cars in particular could also provide an incentive for the market to work efficiently. Whilst the CC could not find evidence to support this view there is a strong relationship between household car ownership levels and bus use.

37. Where there is a need, LTA intervention can protect passenger interests by providing favourable conditions for competition to arise or by regulating market power where competition is not sustainable.

2.4 Wider economic, social and environmental benefits

38. Bus services can generate wider economic, social and environmental benefits which can mean that it is economically efficient to increase supply above the levels determined by the commercial market. Buses connect people to jobs and customers to businesses, they provide access to essential services, promote social inclusion and provide environmental improvements by encouraging a switch from private to public transport.

39. Where these wider benefits or 'positive externalities' exist, LTAs can improve market efficiency by expanding supply and/or keeping fares lower than they would otherwise be.

40. The prevalence of the market imperfections identified above and their impacts on local markets will vary from place to place, depending on:

- Travel patterns and behaviours, the complexity of the network and the need to make multi-stage, multi-operator trips.
- The level of integration between infrastructure and operations, including the quality of the road network, levels of congestion, and availability of bus lanes and priority measures.
- The level of market power held by operators which in turn will be influenced by the number of operators, competition from other modes of transport, and the extent to which the market is contestable.
- The relative importance of generating wider economic, social and environmental benefits, and the level of investment in complementary transport and spatial planning.

41. An assessment of each of these factors might reveal that there are particular issues with the performance of a local market which in turn might be indicative of a market imperfection. In practice the assessment of market imperfections is complicated by the fact that the imperfections are not mutually exclusive and at times may work in opposite directions, for example a lack of competition could lead to better coordination and integration of services and ticketing due to the ability of a small number of operators to co-ordinate products.

42. Each LTA will be best placed to carry out an assessment of the market imperfections that exist in its area, whether a change in operating model is required and if so what the most suitable action to take may be.

2.5 Funding and subsidy

43. With the current fiscal climate, there is no guarantee that BSOG will be retained at its current rate in the future. In addition, it is extremely unlikely that funding for bus services will be increased over the

coming years. In parallel, LTA funding to support bus services is also decreasing due to the restrictions on wider LTA budgets.

2.6 Summary

44. In order to enable LTAs to address the market failures that exist in their local bus market we need to legislate to either introduce new tools or to amend and improve the existing tools. As part of the devolution deal process, a number of local areas have asked that Government make a new 'franchising' process available to them, to allow them to suspend the deregulated bus market and implement a franchised network of services or partnership working if this would help drive improvements in services.
45. We therefore need to intervene to ensure that a viable franchising option is available to LTAs that are well placed to make it a success, together with improving and expanding the existing toolkit of options for all LTAs. This will provide LTAs with a wide range of tools which can be used to improve the efficiency of their bus markets, and the LTA will then be able to determine which of the tools available is best suited to addressing their local needs.

3. Policy objective

46. To provide a more effective set of tools for LTAs to use to address inefficiencies, including imperfect competition, in their local bus markets and provide better local bus services for passengers. This will include a more effective route to franchising than is currently offered through the QCS legislation and a new partnership option to enable more effective joint working between LTAs and bus operators.
47. The aim of this legislation is to provide LTAs with enabling powers, it does not mandate changes to operating models by central government. LTAs will be required to determine how best to use these powers to address the inefficiencies in their local bus market.

4. Description of options considered (including do nothing)

48. The options that have been considered are set out in more detail below. All options are all OUT of scope of One-In-Three-Out (OI3O) due to being a manifesto commitment.
49. Illustrative analysis has been carried out for option 2, option 3, option 4 (as through devolution deals we have already committed to changing legislation to enable some LTAs to franchise their bus services should they wish to do so) and the preferred option (option 5) to demonstrate a possible set of costs, benefits and an illustrative range of their magnitude in the subsequent chapter.

4.1 Option 1 - Do nothing, LTAs must deal with inefficiencies in their market under existing legislation and consider best practice guidance on partnership working

50. This option represents the 'do nothing', reflecting that currently LTAs can attempt to address inefficiencies in their local bus markets by establishing partnership arrangements in their local area to work with operators towards joint goals or use the QCS legislation to suspend the deregulated market for a period of 10 years and contract to provide local bus services.

4.1.1 Voluntary partnerships

51. Voluntary partnerships are simple to create and have substantial flexibility. They work best where an authority already has a positive relationship with the local operator(s), and can deliver good results in terms of service improvements and increased passenger numbers. There are many examples of voluntary partnership arrangements, such as in Birmingham, Norfolk and Cheshire. However, the voluntary nature of the agreement makes withdrawal a relatively easy matter and enforcement of stated commitments difficult, relying on reputational damage and any contractual commitments.
52. For example South Yorkshire PTE have recently consulted on proposals to introduce a network of planned routes in Sheffield, to regulate the gaps between individual buses, control of the number of vehicles operating along certain corridors to ease general congestion (and thereby improve bus reliability) and improve air quality. The proposals also include a standard ticketing framework that allows travel on all buses in the partnership area. All is being delivered voluntarily by the local bus operators, and can be

delivered because of the good relationship between the authority and the operators, and their commitment to making partnership work.

53. There are many examples of where voluntary partnerships may not be particularly effective and where a statutory approach may be required. This could be due to a combination of:
- The market being very lucrative in terms of financial return, which means there is strong competition between individual operators who are therefore less likely to compromise because of the potential financial effect;
 - A lack of trust between the key players – particularly between the LTA and the bus operators – neither trusts the other to deliver on their part of the bargain, often due to personality clashes;
 - Wavering or lacklustre political commitment within the LTA to improving bus services;
 - The objectives of the LTAs and the bus operators not aligning, which fosters conflict rather than consensus; and
 - A lack of confidence on the part of either (or both) the LTA and the bus operators that they can plan and implement partnership arrangements that meet the competition tests to the satisfaction of the Competition and Markets Authority – and therefore avoid the legal action and heavy financial penalties that can follow.

54. These effects have resulted in partnership working either stalling or being restricted to relatively simple models.

4.1.2 Quality Partnerships

55. Statutory Quality Partnership Schemes (QPS), which are enforceable by law, are generally seen as more useful where a LTA is considering investment in major infrastructure improvements, and areas that have utilised this tool include Birmingham and Nottingham. In these cases a voluntary partnership might be considered to provide inadequate safeguards against the consequences of one or more partners failing to fulfil their obligations.
56. A QPS is a legal arrangement between a LTA and one (or more) bus companies. The schemes are developed through negotiations between LTAs and local bus operators, though ultimately the LTA can impose a QPS on a given area and take steps to ensure that operators who will not agree to abide by the scheme cannot make use of the facilities provided by the LTA under the scheme. Under a QPS an authority can specify frequencies, timings and maximum fares to be included where there were no admissible objections from relevant bus operators. It also provides scope for the Traffic Commissioner to disallow the registration of additional services in the partnership area if it risks undermining the successful operation of the QPS. Any LTA may make a QPS, though in doing so it is required to meet a self-completed competition test, ensuring that, among other things, any adverse impact on competition is proportionate to the benefits of the scheme. To take forward a QPS, a LTA (or two or more LTAs jointly) must agree to invest in improved facilities at specific locations along bus routes (for example bus stops/bus lanes) and operators who wish to use those facilities undertake to provide services of a particular standard (for example new buses or driver training standards). Only those operators prepared to provide services to the standards specified in the scheme are permitted to use the facilities.
57. For example, there has been a successful QPS in place in Birmingham City Centre for a number of years. The [“Birmingham Statutory Quality Partnership Scheme”](#), which was introduced in July 2012, is considered by Centro to be the biggest of its kind in the UK, and involved a multi-million pound investment in bus infrastructure for the city centre by the LTA and requires all bus operators who enter the city centre to improve their quality standards.
58. Nottingham City Council introduced a QPS in 2010, with the following aims:
- To facilitate an increase in the modal share of bus as part of the Greater Nottingham Growth Strategy and sustainability objectives;
 - To provide additional City Centre bus infrastructure in order to accommodate more bus services/higher frequencies in-line with modal share targets;
 - To provide information and reassurance to customers already on a journey or to help customers plan a journey in the future, key information will be provided at all bus stops and bus shelters, from timetable information to mapping and journey planning information;

- To improve the range of City Centre destinations served by bus routes and in particular to better serve major new developments;
- To reduce pressure on congested bus priority streets and bus stops to help improve journey reliability and reduce delays;
- To achieve better environmental conditions and improve pedestrian and cycling amenities on bus priority streets;
- To manage bus stop use so as to maximize capacity within a quality framework, whilst maintaining high environmental standards; and
- Provide management of on street stops on a similar basis to bus station management, with the introduction of a Slot Booking System.

59. Similarly to the Centro scheme, Nottingham's QPS aims to enhance the quality of the vehicles in the city centre to improve environmental standards, and to reduce congestion.

60. The post legislative assessment of the Local Transport Act 2008 found that full use of the Quality Partnership powers, such as setting maximum fares, has been limited, and that this may be due in part to perceived issues with the policing and enforcement of QPSs¹¹. It also found that there is a general sense that potentially complex statutory schemes, requiring additional resource to manage and long-term financial commitment, do not necessarily represent the best available option for all LTAs¹², and that the limited number of QPSs suggests that many LTAs believe their objectives can be met through less bureaucratic, non-statutory arrangements. Recent engagement with stakeholders through a series of "Bus Reform Workshops" highlighted that the 'Competition test' aspect of the legislation also acted as a deterrent to use of the powers due to the potential for the Competition and Markets Authority to impose penalties.

4.1.3 Multi-operator ticketing powers

61. Authorities are currently unable to ensure multi-operator ticketing is competitively priced, effectively marketed, and clearly understood by the public. Availability of multi-operator ticketing was identified in 2010 by Passenger Focus as one of passengers' top priorities, and whilst powers exist in the Transport Act 2000 allowing authorities to mandate participation in such schemes, the powers have been little used and are thus ineffective.

62. Section 135 of the Transport Act 2000 provides LTAs with the powers to introduce a ticketing scheme in their area and mandate participation from operators. It does not, however, provide authorities with the powers to set fares for those tickets or to restrict operators from offering competing products to these tickets. This can mean that the passenger is provided with a plethora of ticketing options at different prices which can be confusing. For example, an authority can require two operators that compete on the same route to sell inter-available tickets, but they can't require them to sell them at the same price as each other, or at the same price as tickets that are valid only on their own buses. Passengers are likely to find this confusing and/or poor value for money.

63. Authorities such as MerseyTravel, Centro and Nottingham City have introduced multi-operator ticketing schemes, with products such as the Walrus, Swiftcard and Kangaroo available to passengers in those areas. However, these products tend not to be well used due to the availability of alternative operator products and tickets which tend to provide a better price to passengers due to the premium which is usually attached to multi-operator tickets.

4.1.4 Summary

64. Approaches currently adopted through both voluntary and statutory partnerships demonstrate that where partnerships are operated effectively, congestion can be reduced, environmental and service standards improved and multi-operator tickets provided to passengers. The permanency of a voluntary partnership

¹¹ Post legislative assessment of the Local Transport Act 2008, page 11, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259164/pla-lta2008.pdf

¹² Post legislative assessment of the Local Transport Act 2008, page 11, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/259164/pla-lta2008.pdf

arrangement will however depend on the ongoing strength of the relationships in the area, and if new entrants enter the market then the partnership would be disrupted. Statutory partnerships are being used in a few areas across the country, and where they have been put in place the authority can address congestion and air quality problems, but there are difficulties in enforcing the requirements in the partnership agreements and with providing the infrastructure necessary to establish a partnership in the first place.

65. Partnerships allow LTAs to have greater influence over local bus services to varying degrees, and can enable them to have greater control over the frequency of services and the quality of vehicles enabling them to improve congestion and air quality in town centres. However, partnerships do not provide authorities with certainty, even where QPSs are utilised, because of the need for partnerships to accommodate competition and new entrants. This means that authorities are not able to fully integrate bus services with wider transport networks, or to promote a common brand, so there will continue to be a range of differently branded bus services on offer. The perceived risk of the competition test means that LTAs also tend to be less ambitious than they may otherwise have been in utilising all the powers available because of the perceived threat of sanctions.
66. The powers to introduce a multi-operator ticketing scheme enable LTAs to specify and promote a joint product, but they do not provide the LTA with any powers over the fares or with the ability to exclude competition in the form of single operator products. This means that multi-operator products tend to have a price premium and the existence of a wide range of products due to competition means that passengers are often faced with so much choice that it can be confusing.

4.3 Option 2 - Amend legislation relating to partnership working (advanced quality partnership scheme option)

67. As explained under option 1, existing legislation allows a LTA to introduce a statutory Quality Partnership Scheme (QPS) by agreeing to invest in improved facilities at specific locations along bus routes (e.g. bus stops and bus lanes) and operators wishing to use those facilities then undertake to provide services of a particular standard (e.g. new buses, or driver training standards). The LTA can specify requirements as to frequencies, timings or maximum fares as part of the standard of service to be provided under a scheme, in addition to quality standards – with safeguards to ensure unrealistic conditions are not imposed.
68. The Quality Partnership legislation has not been utilised by LTAs as fully as expected. The [post-legislative assessment of the Local Transport Act 2008](#) found that LTAs were generally not making use of the additional powers to set fares and impose registrations standards due to the perceived issues with policing and enforcement. Complex statutory schemes that required long-term financial commitment may not necessarily be seen as the best option for all LTAs. The issues with the existing legislation include:
 - The link between quality partnerships and infrastructure provision which can be (a) difficult to fund; (b) may not necessarily represent the optimal local response to bus related issues and (c) can often result in schemes that are route-specific; and
 - The perceived risk of challenge from the Competition and Markets Authority (CMA) in establishing a QPS.
69. We are proposing amendments to the existing QPS legislation to try to address some of these issues, to create a new advanced quality partnership scheme (AQPS) option. Our proposals include removing the requirement for a partnership to be built around the provision of infrastructure. Instead, a partnership could be established around a commitment to a set of pro-bus policies, for example reducing the provision of free parking spaces in town centres, where these measures are considered to provide more benefit to passengers. Existing QPS schemes will also benefit from an exemption from CMA penalties against operators if they are acting in good faith.
70. In addition, the existing QPS approach could be amended to allow ticketing promotion and marketing standards to be mandated as part of the QPS. Currently, a LTA can establish a multi-operator ticketing scheme, but these products are not always clearly or widely marketed by all participating operators. As part of the existing QPS, we are proposing to provide the LTA with the ability to ensure that joint ticketing products were being consistently advertised and marketed by participating operators to ensure that the passenger is aware of the availability of such products.

71. Effective partnership working requires comprehensive data on how passengers use the services. We are also proposing to amend the existing QPS provisions to provide the local transport authority with powers to request certain information from participating operators to help develop the QPS proposals further and deliver a better range of services to passengers - with appropriate safeguards to ensure commercial confidentiality – so that the partnership can ensure that the plans and proposals it implements remain up to date.
72. These proposals would address some of the issues highlighted in the post legislative assessment of the Local Transport Act 2008 and the feedback received at the “Bus Reform Workshops” conducted in September/October 2015 which both pointed to the need to provide infrastructure as limiting the use of the QPS powers, and that this could be broadened to reflect wider priorities.
73. Making the QPS approach easier to implement is likely to make these powers more appealing for LTAs. Even with these additional features, LTAs have told us that the Quality Partnership legislation cannot deliver all LTA objectives. This is because the LTA still has limited influence over network planning, meaning that they cannot ensure that the bus network is integrated with other modes and the wider public transport system. The lack of change to the enforcement mechanism also means that partnership may be perceived by the authority as unenforceable, making it a less attractive proposition. The use of an amended partnership approach will help some LTAs to achieve their objectives, but a wider range of tools is required to enable more LTAs to address the range of issues they may experience in their local areas.

4.4 Option 3- Develop an enhanced partnership option to provide more scope for LTAs to achieve better outcomes under partnership

74. As discussed under option 2, the QPS legislation, even when amended and utilised fully, is unlikely to allow all LTAs to achieve their objectives. This option builds on option 2 by providing an additional tool for LTAs to use – an enhanced partnership. This new partnership option bridges the gap between franchising and Quality Partnerships, bringing some of the benefits of franchising, such as the ability for the authority to plan an integrated network in partnership with the operators, but with less of the risk.
75. Under the new model, the LTA and the operators in the area would come together to form a statutory enhanced partnership. The partnership would then collectively develop a bus ‘Plan’ setting out exactly what was to be achieved over a defined period of time, with the option of developing a ‘scheme’ setting out what requirements are placed on local bus services in the area of the scheme to achieve those outcomes. The scheme would consider the services required and/or the standards of those services, for example the gaps between individual buses on a particular route or the emission standards of the buses.
76. The partnership would then request that the operators in the partnership voluntarily agree on how to meet any route-level restrictions. If operators could not sort this out voluntarily then the LTA can impose the route restrictions as service registration standards. If it were to do so, the LTA may, in order to comply with EU regulations 1370/2007, be obliged to award any resulting exclusive right in a competitively tendered Public Service Contract.
77. One of the criticisms of the existing QPS is that it is seen as unenforceable. In addition to the processes set out above, the LTA may take on the registration powers that currently sit with the Traffic Commissioner. The LTA would then have the power to add conditions to any registration that are consistent with the scheme and would be responsible for ensuring that individual operators are running services in accordance with the registration. The LTA would also have the power to revoke or refuse registrations if there is evidence of non-compliance. This would ensure that the enhanced partnership model could be locally managed and enforced. As part of that, the enhanced partnership would also be able to charge a fee, as the Traffic Commissioner currently does when processing registration applications, to cover the costs of the registration function.
78. One of the key issues raised at the “Bus Reform Workshops” held in September/October 2015 was the perceived threat of action by the Competition and Markets Authority (CMA), and the barrier that creates to the use of QPSs. To address this we are proposing three new measures as part of this statutory, enhanced partnership option, including:
 - Compliance with a EP ‘scheme’ will be exempt from CMA powers to levy fines on operators;

- Including the CMA as a statutory consultee on all bus strategies developed by a statutory enhanced partnership, and placing a duty on the partnership to have regard to the CMA response; and
 - Allowing the LTA to certify that partnership arrangements meet the requirements of competition legislation.
79. On ticketing, whilst there are current powers to impose a ticketing regime in a particular area, there can sometimes be an issue regarding the price premium that multi-operator tickets currently attract. The enhanced partnership model would provide the LTA with the powers to set the price of a multi-operator ticket to make it attractive to passengers. The detailed methodology of how the price premium could be restricted under an enhanced partnership is still to be worked through, but the principle would need to be agreed by the partnership.
80. The bill also makes provision for the local bus services operating wholly within the geographical area of an EP scheme to be registered with the LTA rather than the traffic commissioner. This will allow for local enforcement of the requirements of an EP scheme by the LTA, rather than relying on the traffic commissioner.
81. Under an enhanced partnership, a joint set of information provisions and marketing standards could also be agreed and applied across the area. For example, one condition of an enhanced partnership could be that all operators provide plans of the whole area-wide network of services and the area-wide ticketing products on their websites and on their buses to help improve the passenger understanding of the wider network or routes and services.
82. In addition to a joint set of standards that could be applied, an enhanced partnership would require comprehensive data on how passengers use the services. As such, the LTA will have powers to request certain information from incumbent operators, such as patronage and revenue data, to help develop the enhanced partnership proposals - with appropriate safeguards to ensure commercial confidentiality – so that the partnership can ensure that the plans and proposals it implements remain up to date.
83. These measures would provide some reassurance to parties entering an enhanced partnership that they would be able to seek the advice and views of the CMA upfront, and would be exempt from the threat of financial penalties if they complied with the requirements of a scheme. This may make this option a more attractive tool for authorities to use to address the market inefficiencies that may exist.
84. The new enhanced partnership model could go a significant way to delivering the outcomes that LTAs are looking for. It builds on the previous option, and also provides the ability for the LTA to provide input into the network planning process to ensure the bus network takes account of the wider public transport system and can be integrated more effectively with other local transport offerings. This new model will also allow the LTA to locally enforce the partnership, addressing some of the issues highlighted in the post-legislative assessment of the Local Transport Act 2008.
85. This model does however have some drawbacks from an LTA perspective, meaning it is unlikely to meet all LTA objectives. The legislation includes a requirement for operators of local services to be able to object to certain stages of an EP plan or scheme proceeding. The precise mechanism is still being worked out, but it will mean that LTAs would not have overall control, and the new provisions would also need to account for the need for competition, meaning that the LTA could not restrict operators from providing their own ticketing products. Ultimately, this option is built on partnership and relies on the LTA and the majority of the bus operators in the partnership reaching a consensus – if this is not possible then the authority will not be able to achieve their objectives.
86. It should be noted that community transport services will be exempted from enhanced partnership schemes, and will be allowed to continue to operate as they do currently. Community transport providers tend to operate flexible and bespoke services to their local communities, and it is not our intention to disrupt these services.
87. This option provides another tool for LTAs to use to address inefficiencies in their local bus markets, but it will not meet the objectives of all LTAs due to the desire of some to have complete control over the planning and commissioning of services.

4.5 Option 4: Develop new 'franchising' legislation to allow LTAs to replace the deregulated market with a system of contracting

88. The Quality Contract legislation allows LTAs to suspend the deregulated bus market for a 10 year period and specify and contract for all the local bus services in their area. The QCS process was brought into effect through the Transport Act 2000, and amended in 2008 to make it easier to use, but has only been pursued by one LTA since that time, and that authority decided not to proceed with its QCS following consideration of its analysis and the QCS Board's opinion. They found that the process took much longer and proved much more costly to administer than anticipated.
89. Through Government's devolution deal process, some local areas have told us that the only way they can effectively address all the market inefficiencies in their area is to suspend the deregulated market and open competition, and for the LTA to specify the services required, the standards of those services and a common brand to align with their wider objectives. Some LTAs argue that this is the only way to fully integrate the bus network with the wider public transport network, and for the LTA to provide a common, uniform brand and series of ticketing products without the existence of 'on-road' competition.
90. Through our discussions with LTAs as part of devolution deals, some local areas have told us that the current QCS process is not a useful mechanism for moving to franchising and that there are several shortcomings, including:
- the time-limited nature of the legislation, leading to the suspension of the deregulated market for 10 years;
 - the 5-part public interest test which the LTA must pass before introducing a QCS, because this is seen as lacking the wider strategic, environmental and social considerations of the LTA; and
 - the independent board process which has proved time and resource intensive to administer.
91. A new process is required which is distinct from the QCS process and which addresses the shortcomings identified and fits with the wider devolution agenda. The new franchising proposal will allow Combined Authorities with directly-elected Mayors, and other LTAs following the Secretary of State's consent, to locally decide whether or not to implement franchising depending on the strength of the business case. The new franchising process will address the shortcomings with the QCS process by:
- creating a permanent change to a model of contracting for services, rather than limiting the authority to a 'scheme' lasting 10 years;
 - replacing the prescriptive 5-part public interest test with a wider requirement to develop a business case using Government best practice guidance such as the HMT Green Book and business case model guidance, allowing the LTA to align their objectives in relation to buses to their wider aims and strategies; and
 - removing the independent board process by providing the LTA with the power to take the decision independently, based on the strength of its business case, with some safeguards built in to ensure the key analytical and financial data is robust.
92. As part of the franchising proposals, LTAs would be able to request information from incumbent operators, such as revenue and patronage data, to help plan the network and develop their business case. Some of the information that can be requested is set out on the face of the Bill with further information specified in regulations. In addition to letting a number of franchises, the LTA would also be responsible for administering a permit system. The main aims of this would be to 'permit' cross-border services that operate both outside and inside the franchising area to continue to run, and to allow bus operators who have identified a gap in the franchising authority's provision to also run services. This 'open access' provision would require that franchising authorities issue permits to bus operators who wish to run services which serve the needs of passengers in the area while not adversely affecting the franchised network. As part of the permit process, the cross-border operators may be required to adhere to certain 'conditions' which for example could require them to provide their services to higher standards, or to participate in joint ticketing schemes. The LTA will also be able to charge a fee to recover the costs of administering the permit system. Further detail regarding the procedure to be followed when applying for a permit, the situations in which a LTA can suspend or revoke a permit, and the sorts of conditions that LTAs can apply is set out in regulations.

93. In addition, LTAs will have the ability to extend the notice period that operators must give before they can stop running services in the area. This is to provide more certainty for passengers and to give LTAs more time to arrange for replacement services if required. LTAs will be able to increase the notice period for the current 56 days to a maximum of 112 days. Further detail regarding the procedure that LTAs should follow to extend the notice period and notify operators is set out in regulations.
94. To ensure continuity of service and protection for affected staff, the Bill specifies that those staff whose employment is principally connected to the bus services that are affected should TUPE transfer¹³ over to new employers on the coming in to force of franchising contracts. The Bill also requires those staff to be provided with broadly comparable pension benefits. The detail regarding how to determine whether an employee is principally connected and the process authorities should follow when allocating staff to new franchise contracts will be set out in regulations together with the processes that should be followed to certify that pension benefits are broadly comparable.
95. Franchising would allow some LTAs to achieve their objectives in relation to buses, as they would have control over which services were provided and could fully integrate the bus network with wider transport modes and planning proposals. Depending on the contracting method used, the authority will potentially have control of the fare levels and ticketing products, and will also be able to develop a common brand to be provided, creating a unified and simple offering to passengers, much as exists in London. However, some LTAs will not want to move to a franchising model because of the potential risks and the resources needed to deliver and manage franchising. As such, introducing a new franchising option on its own will not sufficiently broaden the scope of tools available and will not allow all LTAs to take positive steps to address inefficiencies in their local bus markets.
96. As with enhanced partnerships, community transport services will be exempted from franchising schemes and will be allowed to continue to operate as they currently do.
97. The current assumption is that LTAs that move to a franchising model will have the BSOG that is currently paid for commercial services devolved to them to support their franchised services. The quantum of this funding will however be dependent on future Spending Reviews.
98. The LTA will be able to choose the type commercial model they think will work best in their area, and could introduce gross cost franchising contracts and retain the revenue risk, or enter into a concession-types agreement where the operator takes the revenue risk. The authority will need to think carefully about the risks associated with whichever model they prefer.

4.6 Option 5: combination of options 2-4

99. The performance of local bus markets vary significantly, and as such the issues that are faced will be different in different places. For example some markets may have one dominant operator with little competition to encourage innovation, while others may have several competing operators on key routes leading to over-bussing and congestion issues. Other LTAs may be perfectly content with the services provided by the bus companies, but may want to address certain issues, such as an air quality issue in a town centre, or the introduction of a multi-operator ticketing scheme.
100. Through the devolution deal process, some areas have expressed their desire to have powers to move to a franchising model to ensure they can deliver a single, integrated network of services to passengers with a common brand and simple ticketing. But other areas have expressed their desire to continue to work with operators under voluntary partnerships to achieve their goals, or to use a QPS or an enhanced partnership to deliver better outcomes for passengers. Franchising is likely to bring risks and costs to LTAs and requires some specialist expertise, so it is unlikely to be something that all LTAs will want to implement. It is therefore important to provide a range of ways in which different LTAs can address their differing objectives.
101. It is clear to us that central Government's role lies in making the necessary suite of powers and options available to LTAs, to enable them to use the approach they deem as likely to be most effective and proportionate in response to their issues they are facing in their local bus market.

¹³ Transfer of Undertakings Protection of Employment regulations.

102. Delivering options 2, 3 and 4 will enhance the range of tools that LTAs have available to improve their local bus services, and provide them with the choice as to which options best addresses their individual circumstances and needs.
103. Going forward, we would like to ensure that local authorities cannot both commission bus services and provide them. As such, we intend to restrict LTAs from establishing a company for the purposes of operating bus services. Existing LTA links to bus companies, such as the existence of municipal bus operators, will not be affected.
104. The table below summarises how the different options could address LTA objectives. A key is provided below:

	Unlikely to be used consistently to achieve the objective
	May be able to achieve the objective in some circumstances
	Likely to effectively achieve the objective in all circumstances

	Option 1 – do nothing	Option 2 – Amend existing partnership legislation	Option 3 – Develop an enhanced partnership option	Option 4 – Develop new franchising legislation	Option 5 – combination of options 2-4
Over-bussing	Where relationships are effective, voluntary partnerships and QPSs can be used to a limited extent, but variable and unreliable	QPSs can address this issue to some extent, but maximum frequencies cannot be specified. Reducing the barriers to the use of the powers would help more LTAs address this issue	An enhanced partnership would allow a network plan to be developed and agreed to address this issue – but majority agreement required	Under a franchising regime, the authority would have full control over the number and frequency of services	Would provide authorities with a range of tools to address this problem
Integration between services and modes	Where relationships are effective, voluntary partnerships and QPSs can be used to a limited extent, but variable and unreliable	An easier to use QPS could help to address this issue, but unlikely to be effective at integration between different modes due to the fact that the LTA does not have a role in network planning	An enhanced partnership would allow a network plan to be developed and agreed to address this issue to a certain extent, but integration with other modes would remain difficult due to the need for majority agreement	Under a franchising regime, the authority would have full control over the services, and could integrate them with other local-authority run transport systems	Would provide authorities with a range of tools to address this problem
Congestion	Where relationships are effective, voluntary partnerships and QPSs can be used to address, but variable and unreliable	An easier to use QPS could help address this issue, but cannot specify maximum frequencies so may not be particularly effective	An enhanced partnership would allow a network plan to be developed and agreed to address this issue but majority agreement would still be required	Under a franchising regime, the authority would have full control over the number and frequency of services	Would provide authorities with a range of tools to address this problem
Air quality	Where relationships are effective, voluntary partnerships and QPSs can be used to address, but variable and unreliable	Air quality issues can be dealt with as part of a QPS, but as few have been implemented it has not proved a useful tool for dealing with this	An enhanced partnership could help address this issue	Under a franchising regime, the authority would have full control over the standards of vehicles	Would provide authorities with a range of tools to address this problem

		issue. An easier to use QPS that is implemented by more authorities could go further towards addressing these issues			
Integrated ticketing	Where relationships are effective, voluntary and QPSs can be used to address, but variable and unreliable	Multi-operator ticketing can be implemented without the need for a QPS. Improvements to the QPS to allow the authority to mandate ticketing marketing standards could help with the effectiveness of multi-operator ticketing	An enhanced partnership would allow a network plan to be developed and an integrated ticketing strategy could form part of that plan, but majority agreement would still be required	Under a franchising regime, the authority would have full control over the ticketing offer	Would provide authorities with a range of tools to address this problem
Deliver on Government's devolution commitments	Would not deliver on Government's devolution commitments	Would not deliver on Government's devolution commitments	Would not deliver on Government's devolution commitments	Yes	Yes
Provide flexibility and a wider range of tools	Tools would remain as they are currently and existing issues would remain	Tool could be applied in more circumstances, as the link to infrastructure would not be required	Would add a new tool	Would add a new tool but not provide all LTAs with the means to improve their bus network	Would provide a fuller range of tools enabling LTAs to choose which tool best suits their needs

4.7 Summary of discussions at a series of “Bus Reform Workshops”

105. In September and October 2015, the Department for Transport hosted a series of “Bus Reform Workshops” across the country. Ahead of the workshops the Department published a [background document](#) which set out some initial ideas on a number of bus policies including franchising, partnership and data provision. Seven workshops were held in total with over 400 participants, including a range of bus operators, LTAs and passenger groups.
106. On franchising, the feedback was based around the detail of how franchising would work in practice, including the different models of franchising that could be implemented. There were also queries about the impact of franchising on operators, particularly SMEs, and on bus services in surrounding areas. Concerns in particular were raised regarding the process that a LTA would need to go through to make the case for moving to a franchising model and the level of independent scrutiny that should be included in the process. Discussions also centred on cross-border services, and how they could be accommodated in a franchising system.
107. We have considered the feedback from the workshops as we have developed the policy further, and have developed a clear process that LTAs would have to follow before moving to a franchising system, including a level of independent scrutiny. We are also carefully considering how cross-border services can be accommodated, including the permit system that might be necessary to facilitate them.
108. On partnerships, some of the feedback was about the need to have more effective enforcement mechanisms and that the link to infrastructure could be amended or built upon. There was also discussion about the risk levels associated with partnership, given the ability of the CMA to levy fines and take legal action.
109. We have considered the feedback from the workshops as we have developed our partnership policies, and are proposing to address the issue of enforcement by providing LTAs with the powers to refuse and revoke registrations where they are not in accordance with the enhanced partnership model. We have also attempted to address the issues associated with the CMA’s role in the new enhanced partnership model, to provide more certainty and clarity for LTAs and operators.

5. Costs and Benefits for options 2, 3, 4 and 5

110. Under the preferred option (option 5), LTAs will have the powers to implement partnerships without being tied to making infrastructure improvements, adopt an enhanced partnership model or choose to franchise their bus network.
111. As the aim of this legislation is to provide enabling powers to LTAs rather than to mandate changes in operating models in various markets by central government, the analysis below is of the costs and benefits that will occur under an illustrative scenario. This impact assessment therefore includes a number of assumptions, both about the numbers and types of LTAs that might implement particular approaches and about how those LTAs would implement the approaches in practice and what the impacts of their approaches might be.
112. Should any LTA wish to implement bus franchising or an enhanced partnership, the types and scale of measures, and the costs associated with these will be very context specific. Our modelling is purely illustrative and makes several generic assumptions as we are limited by lack of area specific data or knowledge of their intentions for a move to a different operating model. Thus there are large uncertainties associated with our modelled estimates and we would expect individual LTA business cases for a move to a different operating model to be significantly more accurate in identifying the costs and benefits related to those specific areas.
113. A spreadsheet model that is compliant with the department’s transport appraisal guidance (WebTAG) has been used to assess the likely costs and benefits to the places that choose to change their market models to either franchising or partnership working in our illustrative scenario.
114. Under these different operating models, LTAs will have varying powers to influence attributes of the bus market. The model allows the user to input assumptions on the changes that authorities make under the do something scenario for the following attributes:
- Fare level

- Fare structure: this includes fare simplification such as zonal fares
 - Vehicle quality: This includes improving vehicle age, low floor buses, CCTV on buses, general maintenance and cleanliness and real time information for passengers
 - Service quality: This includes provision of journey planning information and general information provision for services
 - Network integration: This includes providing improved interchange facilities between bus services and or to other modes in the area
 - Ticket integration: This includes increasing smart ticketing coverage and or introducing multi operator and multi modal ticketing
115. For attributes other than fares, the assumptions on improvements made have to be measured as changes to the generalised journey time associated with passengers' bus journeys. Generalised journey time is a measure of the total cost associated with travel, i.e. journey time and other factors such as comfort and convenience expressed in the unit of journey time minutes.
116. The model also requires as inputs, some estimates of the likely costs associated with changes made to the different attributes in the new operating model, and who will bear the associated costs (i.e. LTA, bus operators or both).
117. The impacts of changes to attributes on demand are estimated by using generalised journey time and fare elasticities for passengers. In line with DfT's national bus model, a long run fare elasticity of -0.4 is used for metropolitan areas and a fare elasticity of -0.5 for non-metropolitan areas. A national estimate of generalised journey time elasticity of -0.58 has also been used in the calculations.¹ The fare elasticity measures the proportionate change in demand as a result of a proportionate change in fares while the generalised journey time elasticity measures the proportionate change in demand that occurs as a result of a proportionate change in the total generalised journey time of an average bus trip.
118. We have used generalised journey time improvement estimates associated with improvements to various attributes such as smart ticketing and vehicle quality from the 'The Role of Soft Measures in Influencing Patronage Growth and Modal Split in the Bus Market in England' study commissioned by the Department in 2009. The generalised journey time improvement estimates in the study are now included in the Department's transport appraisal guidance and used by LTA scheme promoters in appraising schemes such as bus priority measures and regional smart ticketing schemes.
119. Using the inputs for changes in fare structure, fare level and other attributes, the model estimates impacts as follows:

5.1 User impacts

120. These are the impacts on bus users as a result of any fare changes and or quality attributes. User impacts are estimated using the rule of a half method² and the change in consumer surplus (the additional amount that consumers would be willing to pay for a good/service above what they actually have to pay) that occurs as a result of the change in fare or quality attributes.

5.2 Non user impacts

121. Using inputs provided on fare changes, quality factors and fare elasticities, the model estimates the change in passenger demand that occurs as a result of the changes made to various attributes. It is assumed that a proportion of this change in demand will be as a result of car users now shifting their travel to buses. The diversion factor, or the proportion of additional trips generated that are assumed to have been shifted from cars is 31% in line with 'TRL 593, The Demand for Public Transport: a Practical Guide' from 2004. Applying the diversion factor to additional demand generated under the new operating model, the model calculates the following non user impacts:
- Decongestion: where reduced crowding on roads as a result of fewer cars outweighs additional congestion as a result of more buses on the road, there will be positive decongestion benefits

¹ The GJT elasticity is assumed to be the same as the in-journey time elasticity from TRL (2004) 'The Demand for Public Transport: A Practical Guide'. This is due to a lack of a specific elasticity for GJT and is consistent with the approach taken in the National Bus Model.

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/427089/TAG_Unit_A1.3_-_User_and_provider_impacts_November2014.pdf

- Infrastructure costs: where the lower infrastructure damage costs from fewer cars on the road outweighs any additional damage to infrastructure from more buses on the road, there will be positive infrastructure cost benefits
 - Local air quality: measuring net impact on NOx and PM10 emission
 - Greenhouse gases: measuring net impact on CO2 emissions
 - Accidents: measuring net impact on road safety
 - Indirect taxes: measuring the net impact on HMT of the reduction in fuel duty received from car usage vs increased fuel duty from buses and BSOG as per paragraph 122-3 below
122. All the impacts above minus indirect taxation are referred to as marginal external costs or MECs of transport. The department publishes guidance on the monetary values to be used in estimating net total marginal external costs for cars and buses (classified as Public Service Vehicles) in its appraisal guidance.³ The prescribed values here have been used appropriately in the model.

5.3 Central Government Impacts

123. The lost revenue to the exchequer from reduced car fuel tax payments is calculated by multiplying the reduction in distance travelled by cars by the average car fuel efficiency data from WebTAG to get the reduced fuel use by cars. This is multiplied by the car fuel duty for diesel and petrol cars (taken from the WebTAG data book) to get the reduction in car fuel duty paid as a result of the scheme.
124. The increased revenue to the exchequer from increased bus fuel duty payments is calculated in the same way as for car fuel duty. For enhanced partnerships, the increased BSOG payments are calculated using the increased distance travelled by buses and the rate for BSOG payments. The reduced revenue from car duty and the increased BSOG payments are then taken away from the increased bus fuel duty payments to give the net reduction in indirect taxes. For franchising, BSOG will no longer be paid to bus operators so this is not factored into the tax revenue.

5.4 Operator impacts

125. This provides a measure of the change in revenue and the change in costs for bus operators in the industry in comparison to the do nothing scenario. The changes in revenue and costs are dictated by:
- changes in demand as a result of changes in fares and other quality attributes;
 - whether operators face additional operating costs as a result of the new operating model; and/or
 - whether they have control over their own revenues and costs in the new operating model.

The net impact here will mask any individual winners or losers who enter or leave the market as a result of the change in operating model.

5.5 LTA impacts

126. This provides a measure of the change in revenue and the change in costs for LTAs in the industry in comparison to the do nothing scenario. The changes in revenue and costs are dictated by:
- changes in demand as a result of changes in fares and other quality attributes;
 - whether LTAs face additional operating costs as a result of the new operating model; and/or
 - whether they have control over their own revenues and costs in the new operating model.
127. The model calculates total additional costs associated with the move to a new operating model over the appraisal period as follows:
- **Administrative and implementation costs** - The model requires inputs on any additional administrative costs and implementation costs (both one off and ongoing) associated with a move to a different operating model for LTAs and operators. For example: under bus franchising we

³ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/427105/webtag-tag-unit-a5-4-marginal-external-congestion-costs.pdf

would expect the LTA to face additional administrative costs associated with network planning, fare setting and franchise procurement.

- **Capital costs** - The model requires inputs on any additional capital costs incurred by LTAs and operators as a result of a move to new operating model. For example, under the enhanced partnership model, if LTAs were to set vehicle quality standards requiring operators to buy new Euro 6 buses in order to operate in the area, there would be some additional capital costs for them.
128. For a more detailed methodology explaining how the costs and benefits are calculated in the model, please see Annex B.

5.6 Modelling the monetised costs and benefits for options 2, 3, 4 and 5

129. The costs and benefits of options 2, 3, 4 and 5 have been modelled using illustrative scenarios due to the substantial uncertainties underpinning the data. Through the devolution deal process, Government has already committed to provide LTAs with a wider range of tools to address inefficiencies in their local bus markets.
130. As the policy is to give LTAs a choice of options to manage local bus services, there is a high degree of uncertainty as to which option each LTA will choose to implement. Currently, a number of LTAs have requested access to the franchising powers through the devolution deal process, with others keen to explore enhanced partnership options. We have therefore produced illustrative scenarios for options 2, 3, 4 and 5.
131. For the scenarios presented for option 2, we have assumed that advanced quality partnership schemes will be mainly implemented in rural areas because this option is more light-touch and hence is more likely to be favoured by smaller authorities who would not consider the potentially more costly quality partnership option which is currently available. Advanced quality partnership schemes could be implemented on individual routes rather than entire local authority areas but we have assumed that the total number of services that will be affected by this policy will be equivalent to the area of five rural local authorities. For the illustrative scenario for option 3, we have assumed that six metropolitan areas and two non-metropolitan areas will take up enhanced partnership, and for option 4, we have assumed that the six metropolitan areas will undertake franchising. For the illustrative scenario for option 5, we have assumed that the six metropolitan areas will implement bus franchising; two non-metropolitan areas will undertake enhanced partnerships and that an area equivalent to five rural local authorities will implement advanced quality partnerships.
132. Currently a number of metropolitan areas have been promised access to franchising powers through their devolution deals, together with Cornwall Council which is a non-metropolitan area. Some of the areas granted access to franchising powers may not choose to use those powers and may prefer to pursue partnership instead. Likewise some urban local authorities may wish to implement advanced quality partnership schemes. These illustrative scenarios should therefore not be taken as firm indicators of the places that are likely to implement franchising or enhanced partnerships. It is expected that LTAs will undertake further analysis of options prior to taking final decisions. As a result this scenario is not intended to be robust and there is significant uncertainty with regards to the number of areas that will pursue franchising or enhanced partnership models.
133. Furthermore, in order to estimate likely costs and benefits under these scenarios, we have had to make several assumptions (as are set out below). The actual costs and benefits will depend on how franchising and enhanced partnerships are implemented at the local level.
134. Bus franchising currently exists in London, but a wholesale move from the deregulated to a completely regulated market is largely untested in the UK. The effects of an enhanced partnership are similarly difficult to quantify given a lack of historical precedent. Therefore, to reflect the large uncertainties in several of the estimates used, a high scenario (with optimistic passenger growth, greater competition for the market driving down operator margins, and service quality improvements introduced by the LTA) and a low scenario (which assumes more modest passenger growth and service quality improvements and no impact on operator margins as a result of the move to franchising) have been modelled for options 4 and 5. The central estimate of costs and benefits are at the midpoint of the high and low scenarios.

135. Table 2 in Annex A presents the assumptions made for the areas which are assumed to undertake bus franchising in the illustrative scenarios. Table 3 in Annex A presents the assumptions made for the areas which are assumed to undertake enhanced partnerships in the illustrative scenarios. Table 4 in Annex A presents the assumptions made for areas which are assumed to undertake advanced quality partnerships.

5.7 Appraisal period, price and value base

136. For option 2, it is assumed that all local authorities who choose to implement advanced quality partnership schemes will do so in 2017. For option 3, it is assumed that 2 PTE areas and 1 non-PTE area will implement enhanced partnerships in 2017 and 2018 and that 2 PTE areas will implement enhanced partnerships in 2019. For options 4 and 5, it is assumed that there will be staggered take up of bus franchising amongst the PTEs once the new legislation is introduced with two PTEs implementing franchising in 2017, two more in 2018 and the remainder in 2019. For the analysis of option 5, it is also assumed that one non-PTE area will implement an enhanced partnership in 2017 and one will implement an enhanced partnership in 2018. As with option 2, it is assumed that all local authorities who implement advanced quality partnerships in option 5 will do so in 2017 because this option should be fairly straightforward to implement in comparison with the other options. The costs and benefits have been appraised from 2017 to 2026. All costs and benefits are undiscounted unless otherwise stated and all monetary values are in 2014 prices.

5.8 Analysis outputs for illustrative scenarios

137. The analyses for options 2, 3, 4 and 5 follow the same methodology. The analysis for option 5 includes all of the impacts from the six PTE areas implementing franchising in option 4 and for the areas implementing advanced quality partnerships in option 2, but also includes the impacts of two non-PTE areas implementing enhanced partnerships. For option 3, it is assumed that 6 PTE areas and 2 non-PTE areas will implement enhanced partnerships. The summary of monetised impacts for options 2-5 are shown in tables 1-4. Due to the uncertainties behind many of the key assumptions, in particular around the types of vehicle or service improvement measures which might be taken under an enhanced partnership or franchising, sensitivities have been run around the key assumptions with the more optimistic assumptions being shown in the high scenario and the more pessimistic assumptions being shown in the low scenario. This demonstrates how variable the impacts of the each option may be.

Table 1: Summary of the monetised impacts of option 2 for an illustrative level of take up

Undiscounted appraisal outputs ⁴	£m (2017-2026), 2014 prices		
	Low	Central	High
BENEFITS			
User benefits			
From fare changes	£0.0	£0.0	£0.0
From service changes	£14.4	£21.7	£28.9
Non user benefits			
Benefits to other road users (decongestion)	£0.4	£0.6	£0.8
Infrastructure	-£0.1	-£0.1	-£0.1
Local Air Quality	£0.0	£0.0	£0.0
Noise	-£~	-£~	-£~
Greenhouse Gases	-£~	-£~	-£~
Accident reductions	-£~	-£~	-£~

⁴ -£~ denotes a non-zero negative value less than £0.05m; £~ denotes a non-zero positive value less than £0.05m.

Operator benefits			
Bus revenue impacts	£2.5	£3.8	£5.1
Wider social benefits			
Health and well being	£0.5	£0.8	£1.1
Government benefits			
Indirect tax revenues from modal transfer (fuel duty)	-£~	-£~	-£~
Change in public account revenue	-£0.2	-£0.3	-£0.4
Total benefits	£17.6	£26.5	£35.3
COSTS			
Operator costs			
Bus cost impacts	£0.5	£0.7	£1.0
Capital costs - operators	£~	£~	£0.1
Implementation costs - operators	£0.1	£0.1	£0.1
Government costs			
Change in public account costs	£~	£~	£~
Capital costs - local authority	£0.0	£0.0	£0.0
Implementation costs - local authority	£~	£0.1	£0.1
Total costs	£0.6	£0.9	£1.3
Net Impact	£17.0	£25.5	£34.0

138. This analysis for our illustrative scenario and assumptions suggests that option 2 is likely to have a small positive effect on society with a Net Present Value of £13m-£26m (discounted to 2015). The greatest benefits are those to consumers from service improvements (£14m-£30m). There is substantial variability between the high and low scenarios but this option is low risk and low cost to both operators and local authorities.

Table 2: Summary of the monetised impacts of option 3 for an illustrative level of take up

Undiscounted appraisal outputs	£m (2017-2026), 2014 prices		
	Low	Central	High
BENEFITS			
User benefits			
From fare changes	£0.0	£0.0	£0.0
From service changes	£321.3	£354.2	£387.1
Non user benefits			
Benefits to other road users (decongestion)	£10.6	£27.7	£44.7
Infrastructure	-£1.0	£2.9	£6.7
Local Air Quality	£~	£0.1	£0.1
Noise	-£0.1	£0.4	£0.9
Greenhouse Gases	-£~	£1.7	£3.5
Accident reductions	£~	£4.2	£8.4

Operator benefits			
Bus revenue impacts	£61.7	£62.9	£64.0
Wider social benefits			
Health and well being	£12.2	£13.4	£14.7
Government benefits			
Indirect tax revenues from modal transfer (fuel duty)	-£0.6	-£7.7	-£14.8
Change in public account revenue	-£10.3	-£9.9	-£9.5
Total benefits	£393.8	£449.9	£505.9
COSTS			
Operator costs			
Bus cost impacts	£9.1	-£52.1	-£113.2
Capital costs - operators	£1.1	£1.1	£1.1
Implementation costs - operators	£0.4	£0.8	£1.1
Government costs			
Change in public account costs	£~	£0.1	£0.1
Capital costs - local authority	£0.0	£0.0	£0.0
Implementation costs - local authority	£0.3	£0.6	£1.0
Total costs	£10.9	-£49.5	-£110.0
Net Impact	£382.9	£499.4	£615.9

139. This analysis for our illustrative scenario and assumptions suggests that option 3 is likely to have a large positive effect on society with a Net Present Value of £288m-£468m (discounted to 2015). The greatest benefits are those to consumers from service improvements (£321m-£387m). Compared to options 2 and 4 here is not as much variability between the high and low scenarios.

Table 3: Summary of the monetised impacts of option 4 for an illustrative level of take up

Undiscounted appraisal outputs	£m (2017-2026), 2014 prices		
	Low	Central	High
BENEFITS			
User benefits			
From fare changes	£196.5	£197.0	£197.6
From service changes	£564.6	£892.0	£1,219.4
Non user benefits			
Benefits to other road users (decongestion)	£30.5	£64.1	£97.6
Infrastructure	-£2.8	£1.7	£6.2
Local Air Quality	£~	£0.1	£0.2
Noise	-£0.2	£0.5	£1.1
Greenhouse Gases	-£0.1	£2.3	£4.8

Accident reductions	£~	£5.9	£11.8
Operator benefits			
Bus revenue impacts	-£86.4	-£313.0	-£539.5
Wider social benefits			
Health and well being	£35.2	£47.9	£60.6
Government benefits			
Indirect tax revenues from modal transfer (fuel duty)	-£1.7	-£12.3	-£22.8
Change in public account revenue	£61.3	£332.5	£603.7
Total benefits	£796.9	£1,218.8	£1,640.8
COSTS			
Operator costs			
Bus cost impacts	£150.3	£71.5	-£7.3
Capital costs - operators	£0.0	£0.0	£0.0
Implementation costs - operators	£6.1	£9.0	£12.0
Government costs			
Change in public account costs	£148.3	£146.5	£144.7
Capital costs - local authority	£254.0	£345.6	£437.2
Implementation costs - local authority	£6.3	£9.4	£12.5
Total costs	£565.0	£582.1	£599.2
Net Impact	£231.9	£636.7	£1,041.6

140. This analysis for our illustrative scenario and assumptions suggests that option 4 is likely to have a large positive effect on society with a Net Present Value of £157m-£764m (discounted to 2015). This may be greater than for option 3 although the variability between the high and low scenarios is higher reflecting the greater risks associated with franchising compared to enhanced partnerships. The analysis also suggests that bus operators are likely to lose out as a result of this policy with a net loss of £243m-£544m compared to a business as usual counterfactual. The greatest benefits are those to consumers from service and fare improvements (£761m-£1,417m) and the greatest costs are the capital costs to LTAs (£254m-£437m). It is worth noting that the analysis for this option assumes that only 6 PTE areas will implement franchising compared to the assumption that 6 PTE areas and 2 non-PTE areas will implement enhanced partnerships in option 3. This is because it is assumed that any LTAs who would choose to implement franchising in option 4, would choose to implement enhanced partnerships instead if the option to implement franchising were not available. However it is thought that some LTAs who would implement enhanced partnerships if they were able to, would not choose to implement franchising as this is an operating model which would require a far more significant level of LTA involvement in the bus market.

Table 4: Summary of the monetised impacts of option 5 for an illustrative level of take up

Undiscounted appraisal outputs	£m (2017-2026), 2014 prices		
	Low	Central	High
BENEFITS			

User benefits			
From fare changes	£196.5	£197.0	£197.6
From service changes	£606.2	£943.6	£1,281.0
Non user benefits			
Benefits to other road users (decongestion)	£31.8	£66.8	£101.7
Infrastructure	-£2.9	£1.8	£6.6
Local Air Quality	£~	£0.1	£0.2
Noise	-£0.2	£0.5	£1.2
Greenhouse Gases	-£0.1	£2.5	£5.1
Accident reductions	-£~	£6.2	£12.4
Operator benefits			
Bus revenue impacts	-£79.2	-£304.4	-£529.5
Wider social benefits			
Health and well being	£36.8	£49.9	£63.0
Government benefits			
Indirect tax revenues from modal transfer (fuel duty)	-£1.8	-£12.8	-£23.8
Change in public account revenue	£60.5	£331.6	£602.7
Total benefits	£847.5	£1,282.7	£1,718.0
COSTS			
Operator costs			
Bus cost impacts	£151.5	£68.8	-£13.8
Capital costs - operators	£0.3	£0.3	£0.3
Implementation costs - operators	£6.2	£9.3	£12.3
Government costs			
Change in public account costs	£148.4	£146.6	£144.8
Capital costs - local authority	£254.0	£345.6	£437.2
Implementation costs - local authority	£6.4	£9.6	£12.8
Total costs	£566.8	£580.2	£593.6
Net Impact	£280.7	£702.6	£1,124.4

141. The analysis for option 5 suggests that providing LTAs with a range of operating models would be more beneficial than only providing enhanced partnerships (as in option 3), or franchising powers (as in option 4). The discounted Net Present Value for option 5 ranges from £193.9m - £827.1m. This is estimated to be £94m lower to £359m higher than for option 3, and £37m-£63m higher than for option 4 (discounted to 2015). There is expected to be a net cost to bus operators (£237m-£528m) but a large benefit to bus users (£803m-£1,479m). The text below describes the costs and benefits for option 5 in more detail but the methodology is equivalent to the methodology for options 2, 3 and 4. For a more detailed methodology, see Annex B.

Costs

Costs to operators

142. The major costs to bus operators are tendering costs under franchising and administration costs such as implementation meeting costs under enhanced partnerships and advanced quality partnerships. These may be offset by a reduction in operating costs because there is expected to be a reduction in vehicle mileage as a result of less on-road competition and because many of the costs currently borne by bus operators (such as marketing costs) would be taken over by LTAs under a franchising model. Therefore for option 5, there is estimated to be a net reduction in costs for operators of £0.1m per annum in the high scenario and a net increase in costs for operators of £16m per annum in the low scenario. Additionally, we expect that there will be a dis-benefit to operators from reduced revenue as a result of simplified fares which will be offset to some extent by an increase in bus journeys. This is explained further in the benefits to operators section.

Costs to government

143. The biggest costs to government under option 5 are estimated to be the capital costs of renewing the bus fleet (£5m-£14m per LTA per annum)⁵. From a theoretical point of view, welfare maximising local transport authorities will be less likely to display certain behaviours that profit maximising operators exhibit in the deregulated environment, such as price discrimination and the removal of non-profitable routes. To proxy for this effect, we have assumed that there will be greater operating costs per vehicle mile over time as a result of greater inefficiencies from public control of the bus market compared to private control under business as usual. This is modelled by increasing costs per vehicle mile by 1% each year compared to a do nothing scenario.

144. The costs of implementing franchising are also expected to be substantial. The staff costs and marketing costs of implementation are based on the [analysis by Bristol City Council](#)⁶ which suggested that implementing franchising would cost £1m-£2m. This has been doubled for PTE areas as it is assumed that implementing a franchising in model in these areas will be significantly more complicated. The costs of implementing enhanced partnerships are estimated to be between £64,000 and £273,000 per area in the first year of the scheme based on expert advice. This includes the costs of meetings to set up the scheme (£10,000-£160,000) and the costs of running a consultation (£50,000-£100,000) and actuarial costs for TUPE and pensions (£4,000-£13,000). It is estimated that the total costs to government for option 5 will be between £41m and £60m per year.

Benefits

User benefits

145. For both enhanced partnerships and franchising, it is thought that there would be significant user benefits as a result of improvements in the service quality. These are estimated to be £1m-£9m per LTA per annum for enhanced partnerships and £8m-£32m per LTA per annum for franchising. The total annual user benefits for advanced quality partnership schemes are estimated to be £1m-£3m. It is not possible to determine what the benefits per authority might be because we have not made an assumption about the number of authorities who might implement advanced quality partnership schemes as we expect them to be implemented on a route by route basis rather than over entire local authority areas. For the franchising analysis, based on assumptions made in the Nexus QCS business case it has also been assumed that the new operating model will lead to a simpler fare structure for bus users which will give annual benefits of £3m-£5m per LTA.

Non-user benefits

⁵ For this and subsequent cost/benefit ranges presented in this section, we have taken the average annual cost/benefit for the smallest, and largest, LTA areas respectively, in the low (for the smallest) and the high (for the largest) scenarios, to give an indication of the range of per year costs/benefits associated with each of the impacts across different localities. These cost/benefit ranges do not, therefore, necessarily aggregate up to the overall cost and benefit figures shown in the summary tables.

⁶https://www2.bristol.gov.uk/committee/2013/sc/sc024/1219_11.pdf

146. For non-bus users and society as a whole, there will also be benefits resulting from greater numbers of bus journeys and fewer car journeys such as reduced carbon emissions, noise, congestion and accidents. These benefits will be offset to some extent by a reduction in fuel duty paid to the Treasury as a result of fewer car journeys. The net external impact is estimated to be £0.3m-£2.9m per LTA per year for franchising and £0.03m-£1.4m per LTA per year for enhanced partnerships. The total annual non-user benefits for advanced quality partnership schemes are estimated to be £0.03m-£0.07m.

Operator benefits

147. There is likely to be a significant reduction in operating revenue for bus operators overall as a result of franchising. This is due to a simplification of fares which will be offset to some extent by an increase in bus journeys. In the high scenario for franchising, there is also assumed to be reduced profit margins for bus operators which will further reduce their operating revenue. The net reduction in revenue for operators is estimated to be £0.6m-£19m per LTA per annum. This reduced revenue also captures the impact on the incumbent bus operators who stand to lose out by more than bus operators as a whole because it is likely that they will lose some business to new competitors and face reduced operating margins as a result of the increased competition generated by franchising. For enhanced partnerships, fares are assumed to remain as they would be in a business as usual scenario. Therefore, we estimate an increase in operator revenue as a result of journey quality improvements implemented under enhanced partnerships of £0.2m-£1.6m per LTA per year. For advanced quality partnerships, the annual benefits to operators are estimated to be around £0.3m-£0.5m.

Wider social benefits

148. As both of these schemes are anticipated to lead to a greater number of bus journeys, there will be some health and wellbeing impacts as a result of greater walking (to and from bus stops). These impacts are estimated to be up to £0.4m per LTA per annum for areas engaging in enhanced partnerships; up to £0.1m per annum for all areas engaging in advanced quality partnerships and up to £2m per year for areas which chose to implement franchising. The calculations for wider social benefits are not calculated using WebTAG but the methodology is included in Annex B.

Government benefits

149. There are expected to be increased revenues to LTAs as a result of their taking over control of bus fare revenue from bus operators. This benefit is estimated to be in the region of £0.3m to £20m per LTA per year for areas which implement franchising but this will not happen in areas which implement enhanced partnerships or advanced quality partnerships as revenues from fares will remain with bus operators under this operating model. It is estimated that central government will lose revenue from reduced fuel duty as a result of a modal switch from cars to buses. This impact is estimated to be up to £0.5m per year from franchising, up to £0.3m per year from enhanced partnerships and negligible for advanced quality partnerships.

5.9 Non monetised costs and benefits

150. Given the limited information available on generalised journey time improvements that can be associated with changes to several attributes and the lack of information available on potential costs we have not estimated the following:

- Costs and any positive benefits from any quality standards set by the LTA on cleaning and maintenance.
- In addition to the positive impact on air quality that results from passengers shifting mode from car to buses, the fact that in our illustrative scenario LTAs will require that bus fleets are renewed to Euro 6 standards means that there will be some additional and potentially significant air quality improvement benefits. The model used to assess impacts currently does not have the capability to model this impact.
- The capital cost or benefits associated with improved interchange facilities between modes and individual stages of trips. While we have evidence on the costs associated with such infrastructure from large major schemes associated with public transport interchange, we concluded that the nature of infrastructure required would vary by area type and local need,

meaning any generalisation of costs will be spurious. However, we expect the costs associated with this could have a significant impact on total costs associated with franchising for a LTA.

- Increased network stability: LTAs may wish to increase network stability by minimising route changes as part of their franchise. This is likely to have a small positive impact on generalised journey time and hence demand, but could result in a loss of some cost efficiencies.
- Fare simplification under enhanced partnerships: There is also likely to be some fare simplification under enhanced partnerships but this has not been valued as there is insufficient evidence to support this.
- Increased CCTV coverage: It is possible that LTAs may choose to install CCTV in buses which do not currently have it. This will increase the overall journey quality and will lead to increased user benefits. While there is reasonable data for the costs and benefits of implementing this measure, the likelihood of it being implemented is far less certain and so it has not been monetised.
- Audio announcements and real time passenger information: Some LTAs may choose to implement these measures under a franchising model. They would lead to improved journey quality and thus higher user benefits. While these measures could lead to substantial benefits, we do not currently have good cost data for these so we have chosen not to monetise them in this analysis.
- It is possible that wages for bus drivers could be different under franchising than under the current unregulated market depending on the detail of the contracts issued by LTAs. However this has not been modelled because there is no data with which to quantify this.
- The costs for either operators or LTAs of staff transfers and pension requirements. While we have attempted to model some of the costs associated with staff transfers (i.e. the cost of hiring an accountant to manage the transfer), these costs will be variable across LTAs. Protecting the pension benefits and T&Cs of employees that transfer under TUPE will have an associated impact on the costs of contracts for LTAs and there is potential for impacts on operators as a result of staff existing pension schemes. These effects will be highly dependent on local circumstances however and will need to be factored into the franchising authority's assessment of its proposed franchising scheme.
- No costs or benefits from exempting community services from franchising and enhanced partnership schemes have been monetised. Community transport providers tend to operate flexible and bespoke services to their local communities, and it is not our intention to disrupt these services. Exempting these services will allow them to continue to operate which is likely to have a positive effect for passengers, but they could also potentially compete with franchise operators. However we would expect the costs of this measure to be negligible due to the bespoke nature of community transport services.
- The impacts of the 'permit' system for cross border and open access operators have not been monetised. These would be very area-specific and so it is not possible to generalise about what the effects might be. It is unlikely that these permits would impose a substantial additional cost to bus operators beyond what has already been included in the analysis. It is also not obvious that these costs would be direct.
- The effects of preventing local authorities from setting up new municipal bus operators have not been monetised because this policy will not have an impact on existing municipal operators and we do not expect any local authorities to set up new municipal operators. The impacts of this policy are therefore likely to be minimal.
- There is likely to be a small impact on the CMA in terms of an increased workload due to its scrutiny role in the enhanced partnership model. The CMA already have oversight of the bus market, but they will now be required to engage with any enhanced partnerships that are formed. This impact has not been monetised as it is likely to be small and there is little evidence to base any analysis on.
- It is possible that enhanced partnerships might deliver higher benefits per scheme where the authority in question also has access to franchising powers, so it is possible that enhanced partnerships could deliver higher benefits in option 5 than in option 3 as a standalone scheme. This is because the ability for local authorities to exercise franchising powers could compel

operators to act more constructively in an enhanced partnership scheme. This impact is highly uncertain though and so has not been monetised.

- During the transition to franchising, LTAs will have the option to extend the service de-registration and variation notification periods from 56 days to 112 days, which will mean that operators will be required to give more advanced notice to local authorities of changes to services. The purpose of this requirement is to give local authorities more time to react to the changes, for instance to procure a replacement service, however the increased notice period will impose costs on bus operators. These costs have not been monetised because it is not possible to estimate the impact that the increased time requirement will have on individual operators or indeed the frequency with which operators may vary services for each local authority.

5.10 Risks and assumptions

151. The franchising and enhanced partnership options provide the ability for LTAs to require improvements in the quality of services if this will improve the outcomes for passengers. Improving the partnership options available and introducing an 'easier to use' franchising option may create environments whereby smaller operators are not able to provide services in accordance with those requirements or are unlikely to win bids for franchising due to the competition from larger operators. This could result in a reduction in the number of smaller operators in the market, potentially reducing competition depending on how procurement and contracts are designed.
152. This policy would grant LTAs with the power to implement enhanced partnerships or franchising but it is extremely uncertain as to which LTAs would implement each option. The effects of this policy are therefore highly uncertain.
153. This uncertainty is exacerbated by the differences between various regions. A solution which works for one LTA might not make sense for another. The effects of this policy will vary substantially not only based on how many LTAs implement franchising and enhanced partnerships but also based on which LTAs implement franchising and enhanced partnerships.
154. Local authorities considering implementing franchising will need to think carefully about how they procure their bus services to ensure that the routes or packages of routes that are put out to the market are attractive and achieve value for money. In some instances, this may be achieved by packaging up routes, whereas other areas may prefer a route-by-route approach. There is a risk that unprofitable routes could reduce the overall value of a package of routes and dissuade operators from bidding, and there is also the risk that franchising becomes commercially unsustainable for operators due to the design of the tender packages. We expect any authority looking to implement franchising to think carefully about the commercial viability of their proposition as part of the business case development process.

5.11 One-In Three-Out and Business Impact Target

155. As defined in the [Better Regulation Framework Manual](#) section 1.9.5, One-In, Three-Out (OI3O) applies to all changes in, or introduction/removal/expiry of, measures that require RRC clearance. These policy options contribute to the delivery of a manifesto commitment and are out of scope of OI3O.

Advanced quality partnerships

156. Advanced quality partnerships are a qualifying regulatory provision (QRP) and are therefore in scope of the Business Impact Target (BIT). These give a net benefit to business with an Equivalent Annual Net Direct Cost to Business (EANDCB) of -£0.3m and a Present Value of Net Costs to Business (PVNCB) of -£2.2m from 2017 to 2026.

Enhanced partnerships

157. Enhanced partnerships are a QRP and therefore in scope of the Business Impact Target. These provide a net benefit to business with an EANDCB of -£10.1m and a PVNCB of -£87.1m from 2017 to 2026.

Franchising

158. Franchising is a regulatory provision that promotes competition and has the potential to lead to significant costs to businesses (with an EANDCB of £36.2m and a present value of net costs to Business of £312m). It is therefore considered to be a non-qualifying regulatory provision (NQRP) that is not scored towards the Business Impact Target. An assessment of the four pro-competition criteria is set out below:

- a. *The measure is expected to directly or indirectly increase the number or range of sustainable suppliers; to strengthen the ability of suppliers to compete; or to increase suppliers' incentives to compete vigorously.*

In its investigation into the bus market, the Competition Commission found that many local markets exhibit persistently high levels of concentration, with little head-to-head competition which can create a barrier to entry. Currently, new operators have to compete 'on-road' with well-established operators. Providing that tender contracts are well designed, there should be lower barriers to entry to the bus market under franchising, and a new range of suppliers, both large and small, should be able to compete for contracts to operate in the area. Franchising therefore has the potential to increase the range of suppliers in the market and to also increase the incentive for incumbent operators to compete as they will both need to actively compete to continue to operate their services, and will also be able to compete with other operators to secure new services more easily. While there are hundreds of bus operators around the country, there are typically many areas in which there is no effective competition with big operators choosing to operate in different areas. Franchising should strengthen the ability of suppliers to compete and increase their incentives to compete vigorously by setting up tendering rounds in which the incumbent is given no innate advantage over other bus operators. The open access provision (which allows operators who have identified a gap in the services offered by the franchised network to exploit the opportunity and offer additional services), should increase the opportunities for bus operators to run services while not undermining the franchised services.

- b. *The net impact of the measure is expected to be an increase in effective competition (i.e. if a policy fulfils one of the criteria but results in a weakened position against another)*

While unproductive on-road competition is expected to fall as a result of this measure, off-road competition for tendered contracts should lead to an increase in the overall level of competition in the bus market as incumbents will no longer be able to keep the same established bus routes and will be able to compete for other operators' routes. The Competition Commission's 2011 investigation into the bus market found that the majority of bus services face no effective competition. This policy will allow operators to more easily compete for contracts on all services which will result in an increase in the overall level of competition within local bus markets.

- c. *Promoting competition is the primary expected impact of the measure*

The primary intended impact of this measure is to deliver better outcomes for bus users by improving competition in the bus market. The expected costs to business from this measure will be brought about by an increase in competitive market pressures rather than by an increase in regulatory burdens. If this measure does not lead to increased competition, bus operators will be able to bid for tenders unchallenged and so should be able to run services as they currently do so without any additional costs.

- d. *It is reasonable to expect a net social benefit from the measure (i.e. benefits to outweigh costs), even where all the impacts may not be monetised*

Our illustrative analysis demonstrates that franchising has a strong positive NPV ranging from £157m to £764m with a central value of £461m. The impacts which have not been monetised as part of this NPV are not expected to cause any substantial change to the overall scale of

the positive impact expected to result from bus franchising. It is therefore very likely that this scheme will result in a net social benefit.

6. Wider Impacts

6.1 Economic/financial impacts

6.1.1 Competition assessment

Franchising

159. In the deregulated market, competition takes place 'on road' whereby bus operators actively compete with each other on the road and at bus stops to pick up passengers.
160. 'On-road' competition can lead to better outcomes for passengers where it encourages lower fares and higher service quality, but it can also have some negative effects such as predatory practices, or over-bussing on a particular route adding to congestion.
161. In its investigation into the bus market⁷, the Competition Commission found that, 'in the vast majority of Urban Areas a substantial proportion of services do not face effective head-to-head competition.' They also found that many local markets exhibit persistently high levels of concentration, with the five largest bus operators operating 69% of all local bus services. The majority of services in most local areas are served by just one or two providers, with the largest operator providing, on average, 69% of bus services in urban areas.
162. The Competition Commission's report also found that the local bus market can generate periods of intense short-lived rivalry, leading to the exit of one operator. This ultimately reduces the extent of head-to-head competition, and the anticipation of this type of behaviour can create a barrier to entry and expansion.
163. One other issue that the Competition Commission found was that competition in local bus markets had been diminished by operator conduct leading to geographic market segregation. This reduces the constraint to incumbent operators from potential competition and new entrants, and can lead to stagnation of local bus markets.
164. The introduction of franchising will lead to competition 'for the market' whereby operators will compete with each other through a tendering exercise. Franchising is likely to reduce the barriers to entry to new operators as they will not have to compete 'on-road' with well-established operators, but could compete on cost and quality grounds through a tendering process. If the franchising contracts are designed well, then a new range of suppliers, both large and small, should be able to compete for contracts and to operate in the area. Franchising therefore has the potential to increase the range of suppliers in the market and to also increase the incentive for incumbent operators to compete vigorously.
165. One of the issues that could drive a LTA to pursue franchising is the lack of progress made through partnerships, potentially due to the fact that the incumbent operators do not feel that the constraints from potential competition are strong enough to encourage them to act. Franchising could potentially promote competition in these areas by opening up the market to new entrants and therefore creating an incentive for incumbent operators to compete.
166. However, enabling LTAs to take forward franchising is likely to bring uncertainty for incumbent bus operators, as the impacts on their businesses will be dependent on the choices of various LTAs. This uncertainty also has the potential to filter through and have an impact on other businesses, such as manufacturers.
167. The permit system, which will allow cross border and open access operators to run services, should increase the opportunities for bus operators to run services provided that these services do not interfere with the existing franchising network. This is likely to have a small net positive impact on bus operators although this has not been quantified as the effects are likely to be fairly small and the interest that bus operators will have in applying for these permits is uncertain.

⁷ Competition Commission (2011) 'Local bus services market investigation'

168. The exemption from franchising schemes for community transport should not have an adverse effect on competition due to the bespoke nature of community transport services and the limited competition with commercial providers. The impacts of this have not been quantified as the effects are likely to be fairly small.
169. Local authorities will be restricted from establishing new bus companies. Currently there are only 8 existing municipal bus companies operating services in England, and we are not aware of any current plans to establish new municipal bus companies. This policy will not affect existing LTA links to bus companies, so existing municipal operators will be unaffected. We therefore expect this policy to have a negligible impact on competition. This has not been quantified as the effects are likely to be fairly small.
170. While it is likely that this policy will lead to some net losses to businesses, it has a strongly positive impact for society as a whole. It will bring significant benefits to passengers and society and promote competition by remedying some of the market failures identified in the bus market by the competition commission.

Enhanced Partnership

171. Partnerships can result in increased concentration of the bus market and have the potential to benefit incumbent operators who have good relationships with the LTA. The enhanced partnership proposals will mitigate the risk of market segregation and barriers to entry by ensuring that new entrants can join the partnership at any time, and putting in the appropriate mechanisms to ensure that operators are given an equal and fair opportunity to register their interest to run routes. As with franchising, the exemption for community transport schemes should have negligible effects on competition.

Advanced Quality Partnership

172. We would not expect advanced quality partnerships to increase competitiveness within local bus markets. They should help to bring greater benefits to consumers but may increase barriers to entry in markets depending on the nature of the partnership agreements. We expect that many of these arrangements will be implemented in rural areas where bus services tend to be less commercially lucrative than in metropolitan areas. These agreements are likely to result in net benefits for operators which could attract other operators to the area.

6.1.2 Small and micro business assessment

173. Currently, bus operators determine which routes they want to operate and local authorities fill in the gaps by subsidising the provision of other services that are not commercially viable. The desire to move away from this piecemeal approach to bus service delivery to a more joined-up and centrally-planned system of delivery may be one of the key factors that drives an authority to pursue franchising or an enhanced partnership approach. If an authority thinks that franchising is the best method to use to achieve their desired outcomes then they will take responsibility for specifying the services to be delivered. Under an enhanced partnership approach the authority will work with the operators to determine the outcomes they want to jointly achieve, and the services needed to achieve those outcomes.
174. Some of the key aims of authorities are likely to be to push up standards and improve the coverage and integration of services. To achieve these aims it will be important to provide the authority with the freedom and flexibility it needs to determine the optimum mix of services, and not be constrained by the services that are currently provided by the operators. The market share of small and micro bus companies is approximately 11% for England outside London, with approximately 5% of the market share in PTE areas being held by small and micro businesses⁸. Allowing services operated by small or micro businesses to continue to run in a deregulated environment rather than have to participate in a franchising or enhanced partnership scheme would mean that 5-11% of services in the area would be operating to a potentially different standard, and the authority would be unlikely to achieve their aims and could reintroduce inefficiencies and duplication in the provision of bus services.

⁸ Approximated using DfT statistics table BUS0701

175. We recognise that it may be more difficult for some smaller businesses to compete under a franchising model as they may not have the resources and information to be able to deliver competitive bids. If smaller operators are unsuccessful in their bids to operate franchises in their incumbent market they are also less likely to be able to bid for contracts in other areas as it will be more difficult for them to move their resources and businesses. The end of a contract may also create a barrier for smaller businesses as they may not be able to absorb the loss of a service as easily as a larger operator might. However, franchising may give innovative and agile smaller bus operators a better chance to grow their businesses than under the status quo where they find it difficult to compete or enter the market due to the barriers posed by 'on road' competition.
176. We have attempted to mitigate the impacts on SMEs in a franchising scenario by requiring any authority that is looking to pursue franchising to clearly state in their consultation materials how, in conducting the franchising procurement processes, the authority proposes to facilitate the involvement of small and medium-sized enterprises. The authority will then be required to consult all incumbent operators to get their views on the proposed approach to involving small and medium-sized enterprises in the procurement process. We anticipate that most local authorities looking to franchise will want to work constructively with the incumbent operators to ensure a smooth transition from the status quo to franchising, and as such are likely to take the views of incumbents into account and think carefully about small and medium-sized enterprises when designing their procurement processes. They will however need to design processes which align with procurement law, and therefore cannot ensure that small and medium-sized operators can continue to operate the same services in the future.
177. In the enhanced partnership model it is possible that any higher standards required by particular partnership areas may be difficult for smaller operators to meet. SMEs would, however, have the same ability join the partnership and run routes as larger operators and our partnership proposals will also require the majority of bus operators to agree to the proposals, meaning that small and medium-sized operators will be able to voice their concerns regarding changes to services. The enhanced partnership legislation will also ensure that any voting system gives SMEs a fair say in determining the objectives of the partnership.
178. The advanced quality partnership approach will require buy-in from both operators and local authorities and so smaller operators are unlikely to agree to any arrangements which will damage their competitiveness. Small operators have been able to participate in existing quality partnership schemes and we do not see any reason why they would be unable to do so under advanced quality partnerships. The operator benefits which these schemes are expected to generate, should make services more profitable for smaller operators.

6.1.3 Justice impact test

179. A move to franchising in a local area could be controversial and there is a risk that a decision by a local area to move to franchising is judicially reviewed. We do not anticipate wide-scale take-up of franchising powers however, so would expect this impact to be minimal. Under both franchising and enhanced partnership proposals, the powers that the Traffic Commissioner has to impose sanctions on operators will be extended and amended which could create additional burdens for the justice system. We are in the process of considering how best to resource the Traffic Commissioners to cover these additional requirements, and a more detailed justice impact test is being developed.

6.2 Environmental impacts

6.2.1 Greenhouse gas assessment

180. The impact of these policies on greenhouse gases will be dependent on how they are implemented by the LTAs involved. We would expect LTAs to specify similar or higher standards of vehicles in an enhanced partnership or a franchise, and to try to reduce congestion and over-bussing where it is occurring as part of either franchises or partnerships, so would not expect a negative impact. However we do anticipate that these policies would lead to an increase in bus use which might increase carbon emissions. This is likely to be offset to a certain extent by a reduction in car use.

6.2.2 Wider environmental issues

181. The impact of these policies on pollution and air quality will be dependent on how they are implemented by the LTAs involved. We would expect LTAs to specify similar or higher standards of

vehicles, and to try to reduce congestion and over-bussing where it is occurring as part of either franchises or partnerships, so would not expect a negative impact.

6.2.3 Sustainable development

182. Once franchising powers are used in an area it will be difficult to move back to a deregulated system should franchising not deliver the required benefits anticipated. We are providing enabling powers to allow LTAs to move to a franchising model, but we would expect local areas to consider the sustainability of the model, particularly in relation to finances.

183. The enhanced partnership model will be easier to adapt and change than the franchising model and will not result in a permanent change in the regulatory model. We would however expect authorities to consider the sustainability of an enhanced partnership model, particularly if the LTA is taking on responsibility for managing the registration system.

6.3 Social Impacts

6.3.1 Equalities impact

184. People in the 17-20 and 70+ age groups make the most trips using the bus⁹ meaning that groups such as pensioners and university students tend to use bus services more frequently than other groups. Women also tend to use bus services more frequently than men across all age groups¹⁰.

185. People in the lowest income groups make three times as many trips on buses than those in the highest income groups¹¹, with 36% of bus users below pension age from the lowest income group and 40% of these using the bus for work or education purposes. The impacts of either franchising or enhanced partnerships will impact most on these demographics.

186. The impact of these policies on equalities will be dependent on how they are implemented by the LTAs involved. We would expect LTAs to specify similar or higher levels of service than are currently being provided, so would expect a neutral or positive impact on these groups.

6.3.2 Health and wellbeing

187. Buses are used by many as their principle mode of transport, so changes to bus services in an area have the potential to impact both positively and negatively on the health and wellbeing of local residents. The impact of these policies on health and wellbeing will therefore be dependent on how they are implemented by the LTAs involved. We would expect LTAs to specify similar or greater networks of services, so would not expect a negative impact.

6.3.3 Family life

188. We do not anticipate that these policies would have any impact on family life.

6.3.4 Human rights

189. We do not anticipate that these policies would have any impact on human rights.

6.3.5 Rural proofing

190. The impact of these policies on rural areas will be dependent on how they are implemented by the LTAs involved. The extent of the bus network in any area will depend on the funding available to support that network, which may or may not be greater under a franchising or enhanced partnership scenario. As part of the franchising policy we will also ensure that LTAs are required to consider the impact of their franchising proposals on neighbouring authorities, which should help to address any unintended consequences.

6.3.6 Post Implementation Review (PIR) Plan

PIR planning insert for IA template

Post Implementation Review (PIR) Plan

⁹ DfT statistics, NTS0601

¹⁰ DfT statistics, NTS0601

¹¹ DfT statistics, NTS0705

1. Review status: Please classify with an 'x' and provide any explanations below.

<input type="checkbox"/>	Sunset clause	<input checked="" type="checkbox"/>	Other review clause	<input type="checkbox"/>	Political commitment	<input type="checkbox"/>	Other reason	<input type="checkbox"/>	No plan to review
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2. Expected review date (month and year, xx/xx):

01	04	/	20	22
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Rationale for PIR approach:

Describe the rationale for the evidence that will be sought and the level of resources that will be used to collect it.

- Will the level of evidence and resourcing be low, medium or high? (See Guidance for Conducting PIRs)

High

- What forms of monitoring data will be collected?

As a minimum, we expect to collect data on how local authorities respond to the new legislation, i.e., how many places take up franchising, enhanced partnerships etc. Data relating to fares before implementation of a new model and after will also be collected. We will be able to use this information in conjunction with the data that department routinely collects on service levels and patronage, together with passenger satisfaction data collected by Transport Focus, to determine the impact of the legislation on the market and whether it has demonstrated benefits to passengers. We also expect to collect information on the costs to local authorities and operators where the market is reformed after this legislation is introduced. In addition we expect to collect information on features of market reform that are implemented, for example: vehicle standards set under franchising or quality partnerships. This information will help validate the assumptions we have made in the illustrative scenarios presented in this IA. Qualitative information from operators and LTAs in relation to some of the 'softer' policy outcomes that the different models have facilitated will also be useful. This will aid our understanding of whether the policy changes implemented have helped to address the market inefficiencies identified, such as whether the LTA has found it easier to integrate services, or link up services with new developments.

- What evaluation approaches will be used? (e.g. impact, process, economic)

A mixed approach to evaluation is proposed, but with an emphasis on assessing the impacts of uptake of either franchising, enhanced partnership or quality partnerships on the services provided, and the associated costs to both operators and LTAs. The evaluation approach is likely to include engagement through surveys and interviews with LTAs, operators & end users to understand how well the new options are working and the reasons why. This will be complemented by analysis of Departmental statistics to observe whether there is any change in data relating to bus services that can be observed in those areas which have implemented a new operating model. Transport Focus' ongoing passenger research into passenger satisfaction and passenger priorities for improvement will give a more qualitative view.

- How will stakeholder views be collected? (e.g. feedback mechanisms, consultations, research)

A variety of collection methods will be used, including feedback from LTAs and bus operators. Passengers' views on information provision will be picked up through Transport Focus' ongoing work, including their annual Bus Passenger Survey.

7. Summary and preferred option with description of implementation plan.

191. The preferred option is option 5 – amendments to the existing Quality Partnership tool to make it more effective, providing a new statutory enhanced partnership tool which bridges the gap to franchising but without the associated risks, and developing a new legislative process whereby franchising powers can be provided to a LTA as part of a wider devolution of powers and responsibilities.
192. This option will improve the range of tools that LTAs have available to improve their local bus services, and provide them with the choice as to which options best address their individual circumstances and needs. Use of the legislative tools will be at the discretion of the LTAs, and no particular option will be mandated in specific places by central Government.
193. The powers have already been promised to a number of LTAs, with Manchester requesting that the powers are in place by early 2017 in time for their Mayoral elections. The aim is to have the necessary powers in place, including any necessary secondary legislation, before the Mayoral elections in Greater Manchester.

Annex A: Modelling assumptions

Table 2: Assumptions used for the areas which undertake franchising

Variable	Calculation methodology	Assumptions and sources of evidence	Inputs under high ¹ scenario	Inputs under low scenario	Duration over which impact occurs
Fare level + Fare structure	<p>The fare level is assumed to be unchanged, however as a result of fare simplification we expect that the average fare will be lower overall</p> <p>Assuming total revenue will fall by 5%, calculating the fall in fares required by using the relationship between total revenue and fare elasticity</p>	<p>Expert opinion: rail yield management software typically assumes that maximising price discrimination will increase yield by 5%. We have assumed that fare simplification will result in a 5% reduction in total revenue in the high scenario</p>	Fare reduction of roughly 5%	N/A	Gradual reduction in average fare over 10 years
Vehicle age	<p>With no evidence available on the likely additional improvement that can be gained in the PTEs in terms of vehicle quality, a range of likely improvements are assumed</p>	<p>Generalised journey time (GJT) improvement for a new bus of 1.52 minutes, softer factors (2009) (scaled down by 20% for non-commuting journeys). Based on data from the national Transport Survey, the average GJT is 35 minutes for commercial journeys and 40 minutes for supported journeys.</p> <p>The average lifetime of a bus is assumed to be 17 years based on DfT bus statistics for vehicle age</p>	50% of bus fleet renewed, implying 0.76 minutes GJT improvement	25% of bus fleet renewed, implying 0.38 minutes GJT improvement	Gradual renewal of fleet over 10 years in the high scenario and 12 years in the low scenario

¹ We have defined the high scenario as bringing the high generalised journey time improvements and revenue for the authority. The low scenario has lower unit costs because of more pessimistic assumptions about generalised journey time improvements that are brought about in the Do Something.

Improved passenger information	No evidence is available on the likely improvement on this under a franchised scenario, so a 50% increase in provision is assumed in the high scenario and 25% improvement is assumed in the low scenario	Generalised journey time improvement of 1.43 minutes, softer factors (2009) (scaled down by 20% for non-commuting journeys). Based on data from the national Transport Survey, the average GJT is 35 minutes for commercial journeys and 40 minutes for supported journeys.	50% improvement implying 0.72 minutes GJT improvement	25% improvement implying 0.36 minutes GJT improvement	Improvement occurs gradually over 10 years
Smart and integrated ticketing	No evidence is available on the likely improvement of this attribute under franchising. A 40% increase is assumed in the high scenario A 20% increase is assumed in the low scenario	Generalised journey time improvement of 1.43 minutes, softer factors (2009) (scaled down by 20% for non-commuting journeys). Based on data from the national Transport Survey, the average GJT is 35 minutes for commercial journeys and 40 minutes for supported journeys. Web search of smart and integrated ticketing available in the metropolitan areas.	40% improvement implying a GJT improvement of 0.57 minutes	20% improvement implying a GJT improvement of 0.29 minutes	Improvement occurs gradually over 10 years
Costs associated with renewing bus fleet	Use available evidence on total bus fleets in the metropolitan areas and weighting by the patronage in each area to estimate vehicle fleet Multiply bus fleet by proportion of fleet renewed	Bus statistics on total fleet in metropolitan areas and bus patronage by LTA LowCVP ² advice on average cost of a Euro 6 bus of £130,000	10% of fleet renewed per year	8% of fleet renewed per year	Costs incurred by LTA annually over 15 years

² Low Carbon Vehicle Partnership

	by an estimate of the average cost of a new bus				
Costs associated with installing AVL	Use available evidence on the level of AVL coverage on buses, expert advice on the costs associated with AVL device installation and inputted bus fleet estimates for each area	Bus statistics on AVL coverage, expert LTA advice on AVL costs (£4,000 per bus).	50% of buses without AVL fitted with AVL devices	25% of buses without AVL fitted with AVL devices	Costs incurred by LTA over first 3 years
Cost of reporting data for bus operators	This has been estimated using the same methodology as in the 'Making bus service registration digital by default and mandating the provision of fares and punctuality data' IA which is also part of the buses bill.	DfT bus statistics on the number of operators per LTA. The average UK hourly wage for administrative jobs from the ONS's Annual Survey of Hours and Earnings. An assumption that each operator will spend approximately one FTE hour per week reporting to each LTA.	£6,000 per area per year	£3,000 per area per year.	Costs incurred by LTAs in each year of the scheme
Profit margins	Use published evidence on operator margins and bus operator market share to calculate weighted average profit margins in the deregulated market	Competition Commission investigation into the bus market (2011), DfT bus statistics on operator market share of weekly bus trips	Profit margins assumed to reduce under franchising to margins estimated by the CC to occur under perfectly competitive conditions of roughly 8-9%	No change in profit margins	N/A
Franchise model type	Assumed to be gross cost contracts assuming that LTAs retain revenue risk	TfL currently uses gross cost contracts	Gross Cost	Gross Cost	N/A
LTA staff costs	Based on the staff costs in the Nexus Quality Contract proposal but scaled up by	Nexus Quality Contract proposal	£0.6m per LTA per year	£0.6m per LTA per year	Costs incurred by LTA in each year of the scheme.

	15% to account for optimism bias				
LTA marketing costs	Based on the marketing costs in the Nexus Quality Contract proposal but scaled up by 15% to account for optimism bias	Nexus Quality Contract proposal	£1.3m per LTA per year	£1.3m per LTA per year	Costs incurred in by LTA in each year of the scheme.
Consultation costs	There is no evidence underpinning these costs and so they are varied between the scenarios in order to account for this.	Assumption	£100,000 per LTA	£50,000 per LTA	Costs incurred by LTA in the first year of the scheme.
Implementation costs	These have been taken from an estimate by Bristol City Council and scaled up for larger local authorities	Bristol City Council report into the potential costs of franchising	£4m for large LTAs and £2m for small LTAs	£2m for large LTAs and £1m for small LTAs	Costs incurred by LTA in the first year of the scheme.
Reduction in vehicle miles/hours	A reduction in total bus mileage is assumed as there will be no competition over the same route under franchising	Assumption based on expert opinion.	3% reduction in bus mileage and vehicle hours. No change in PVR	0% reduction in bus mileage and vehicle hours. No change in PVR	Change occurs over 10 years

Table 3: Assumptions used for the areas which undertake enhanced partnerships

Variable	Calculation methodology	Assumptions and sources of evidence	Input under high scenario	Input under low scenario	Duration over which impact occurs
Fare level + Fare structure	N/A	The fare level and structure are assumed to be unchanged from the do nothing case	N/A	N/A	N/A
Improved passenger information	No evidence is available on the likely improvement on this under an enhanced	Generalised journey time improvement of 1.43 minutes, softer factors (2009) (scaled	25% increase in improved passenger information implying	25% increase in improved passenger information implying	Improvement occurs gradually over 10 years

	partnership, so a 25% increase in provision is assumed in both scenarios	down by 20% for non-commuting journeys). Based on data from the national Transport Survey, the average GJT is 35 minutes for commercial journeys and 40 minutes for supported journeys.	0.36 minutes GJT improvement	0.36 minutes GJT improvement	
Smart and integrated ticketing	No evidence is available on the likely improvement on this attribute under an enhanced partnership. A 20% increase is assumed in the high scenario A 10% increase is assumed in the low scenario	Generalised journey time improvement of 1.43 minutes, softer factors (2009) (scaled down by 20% for non-commuting journeys). Based on data from the national Transport Survey, the average GJT is 35 minutes for commercial journeys and 40 minutes for supported journeys. Web search of smart and integrated ticketing available in metropolitan areas	20% improvement implying GJT improvement of 0.29 minutes	10% improvement implying GJT improvement of 0.14 minutes	Improvement occurs gradually over 10 years
Costs associated with installing AVL	Use available evidence on the level of AVL coverage on buses, expert advice on the costs associated with AVL device installation and inputted bus fleet estimates for each area	Bus statistics on AVL coverage, expert LTA advice on AVL costs (£4,000 per bus).	25% of buses without AVL fitted with AVL devices	25% of buses without AVL fitted with AVL devices	Costs incurred by bus operators in each year of the scheme
Cost of reporting data for bus operators	This has been estimated using the same methodology as	DfT bus statistics on the number of operators per LTA. The average UK	£3,000 per area per year	£3,000 per area per year	Costs incurred by bus operators in each year of the scheme

	in the 'Making bus service registration digital by default and mandating the provision of fares and punctuality data' IA which is also part of the buses bill.	hourly wage for administrative jobs from the ONS's Annual Survey of Hours and Earnings. An assumption that each operator will spend approximately one FTE hour per week reporting to each LTA.			
Consultation costs	There is no evidence underpinning these costs and so they are varied between the scenarios in order to account for this.	Assumption	£100,000 per area	£50,000 per area	Costs incurred by LTAs and bus operators in the first year of the scheme.
Profit margins	N/A	Profit margins are assumed to stay the same under enhanced partnerships as in the do nothing case.	N/A	N/A	N/A
Implementation meeting costs	These costs are illustrative estimates due to a lack of evidence	Estimated based on expert advice	£80,000 meeting costs per enhanced partnership scheme	£10,000 meeting costs per enhanced partnership scheme	Costs incurred by LTAs and bus operators in the first year of the scheme
Reduction in vehicle miles/hours	A reduction in total bus mileage is assumed as there will be no competition over the same route under franchising enhanced partnership?	Assumption based on expert opinion.	2% reduction in bus mileage and vehicle hours. No change in PVR	0% reduction in bus mileage and vehicle hours. No change in PVR	Change occurs over 10 years

Table 4: Assumptions used for the areas which undertake advanced quality partnerships

Variable	Calculation methodology	Assumptions and sources of evidence	Input under high scenario	Input under low scenario	Duration over which impact occurs
Fare level + Fare structure	N/A	The fare level and structure are assumed to be unchanged from the do nothing case	N/A	N/A	N/A
Improved passenger information	No evidence is available on the likely improvement on this under an advanced quality partnership scenario, so a 10% increase in provision is assumed in the high scenario and a 5% increase is assumed in the low scenario.	Generalised journey time improvement of 1.43 minutes, softer factors (2009) (scaled down by 20% for non-commuting journeys). Based on data from the national Transport Survey, the average GJT is 35 minutes for commercial journeys and 40 minutes for supported journeys.	10% increase in improved passenger information implying 0.14 minutes GJT improvement	5% increase in improved passenger information implying 0.07 minutes GJT improvement	Improvement occurs gradually over 10 years
Smart and integrated ticketing	No evidence is available on the likely improvement on this attribute under an advanced quality partnership. A 10% increase is assumed in the high scenario A 5% increase is assumed in the low scenario	Generalised journey time improvement of 1.43 minutes, softer factors (2009) (scaled down by 20% for non-commuting journeys). Based on data from the national Transport Survey, the average GJT is 35 minutes for commercial journeys and 40 minutes for supported journeys. Web search of smart and integrated ticketing available in the Mets	10% improvement implying GJT improvement of 0.14 minutes	5% improvement implying GJT improvement of 0.07 minutes	Improvement occurs gradually over 10 years

Costs associated with installing AVL	Use available evidence on the level of AVL coverage on buses, expert advice on the costs associated with AVL device installation and inputted bus fleet estimates for each area	Bus statistics on AVL coverage, expert LTA advice on AVL costs (£4,000 per bus).	10% of buses without AVL fitted with AVL devices	5% of buses without AVL fitted with AVL devices	Costs incurred by bus operators in each year of the scheme
Cost of reporting data for bus operators	This has been estimated using the same methodology as in the 'Making bus service registration digital by default and mandating the provision of fares and punctuality data' IA which is also part of the buses bill.	DfT bus statistics on the number of operators per LTA. The average UK hourly wage for administrative jobs from the ONS's Annual Survey of Hours and Earnings. An assumption that each operator will spend approximately one FTE hour per week reporting to each LTA.	£1,000 per area per year	£500 per area per year	Costs incurred by bus operators in each year of the scheme
Consultation costs	There is no evidence underpinning these costs and so they are varied between the scenarios in order to account for this.	Assumption	£100,000 per area	£50,000 per area	Costs incurred by LTAs and bus operators in the first year of the scheme.
Profit margins	N/A	Profit margins are assumed to stay the same under advanced quality partnerships as in the do nothing case.	N/A	N/A	N/A
Implementation meeting costs	These costs are illustrative estimates due to a lack of evidence	Estimated based on expert advice	£80,000 meeting costs per area	£10,000 meeting costs per area	Costs incurred by LTAs and bus operators in the first year of the scheme

Reduction in vehicle miles/hours	It is assumed that there will be no reduction in vehicle mileage/hours under advanced quality partnership schemes	Assumption	0% reduction in bus mileage, vehicle hours and PVR	0% reduction in bus mileage and vehicle hours and PVR.	Change occurs over 10 years
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Annex B – description of the calculations for the costs and benefits presented in the franchising and enhanced partnerships analysis summary tables.

Overarching notes

- All of the analysis is compliant with the Department of Transport's standardised transport appraisal guidance (WebTAG) unless otherwise stated.
- Do minimum scenario (DM) refers to a scenario in which no action is taken (i.e. franchising, an enhanced partnership, or an advanced quality partnership are not implemented) and do something scenario (DS) refers to a scenario in which either franchising, an enhanced partnership or an advanced quality partnership are implemented.
- The change in demand for buses as a result of changes in fares and service quality have been estimated using bus fare elasticities from Wheat and Toner (2010)¹ and generalised journey time elasticities derived from in-vehicle time elasticities from [Balcombe et al. \(2004\)](#).
- All values have been rebased to 2014 prices and discounted to 2015 using a social discount rate of 3.5%.
- For basic values such as the number of bus trips per area and the distance travelled by buses in each area, [DfT bus statistics](#) are used.

User benefits

From fare changes

The change in consumer surplus as a result of fare changes for fare paying passengers is calculated using the rule of a half methodology as outlined in WebTAG ([Unit A1.3](#)) using the following equation.

$$\text{Benefits from fare changes} = -\frac{1}{2} \times (\Delta \text{Fares} \times (\text{No. of trips DM} + \text{No. of trips DS}))$$

Where DM is do minimum scenario and DS is do something scenario. The change in fares is calculated so as to reduce revenues by 5% as it is assumed that fare simplification will lead to an initial fall in revenue of 5%.

From service changes

The change in consumer surplus as a result of service changes for fare paying and concessionary passengers is calculated using the rule of a half methodology as outlined in WebTAG ([Unit A1.3](#)) using the following equation.

$$\text{Benefits from service changes} = -\frac{1}{2} \times (\Delta \text{Service quality} \times (\text{No. of trips DM} + \text{No. of trips DS}))$$

Where DM is do minimum scenario and DS is do something scenario. The change in service quality is calculated by multiplying the change in the generalised journey time as a result of service improvements (given by [DfT 2009](#)) by the appropriate values of time as given in the WebTAG data book ([A1.3.2](#)).

Non user benefits

Benefits to other road users (decongestion)

It is estimated that while franchising and enhanced partnerships will lead to an increase in the demand for buses, there will be an overall reduction in the distance travelled by buses due to less on-road competition. The increase in demand for buses as a result of franchising and enhanced partnerships will lead to a modal switch from cars to buses which will result in less distance travelled by cars. This will lead to less congestion which will benefit non bus users. This benefit is calculated using the following equation:

¹ Wheat, P. and Toner, J. (2010), Concessionary Fares Project, Research Report 8, Whole market demand elasticity variation, Report to the Department for Transport

Benefits to other road users

$$\begin{aligned} &= -((\Delta \text{ Distance travelled by buses} \\ &\times \text{ Average external impact of congestion per distance travelled by buses}) \\ &+ (\Delta \text{ Distance travelled by car} \\ &\times \text{ Average external impact of congestion per distance travelled by cars})) \end{aligned}$$

Where the average external impact of congestion per distance travelled by buses comes from a DfT national transport model estimate and the average external impact of congestion per distance travelled by cars comes from the WebTAG data book ([table 5.4.2](#)). The change in the distance travelled by car is estimated using the following equation:

$$\begin{aligned} &\Delta \text{ Distance travelled by car} \\ &= \frac{-\Delta \text{ No. bus trips} \times \text{ Average bus journey length} \times \text{ Diversion factor from cars to buses}}{\text{Average car occupancy}} \end{aligned}$$

Where the average bus journey length comes from the 2013 national transport survey; the diversion factor from cars to buses comes from [Balcombe et al. \(2004\)](#); and the average car occupancy comes from the WebTAG data book ([table 1.3.3](#)). For advanced quality partnerships, it is assumed that there will be no reduction in on-road competition but it is still estimated that there will be a net reduction in congestion due to a modal shift from cars to buses.

Infrastructure

As franchising and enhanced partnerships are expected to result in less distance being travelled by buses and cars, there will be less stress on the transport infrastructure. This benefit is estimated in the same way as for the benefits to other road users above but WebTAG values for the external impact of car travel on infrastructure ([table 5.4.2](#)) rather than congestion are used. For advanced quality partnerships, there is expected to be a net increase in the total distance travelled by buses which will lead to a small net cost. This is because there is not expected to be any reduction in bus mileage due to less on-road competition.

Local Air Quality

As franchising and enhanced partnerships are expected to result in less distance being travelled by buses and cars, there will be less air pollution resulting in better local air quality. This benefit is estimated in the same way as for the benefits to other road users above but WebTAG values for the external impact of car travel on local air quality ([table 5.4.2](#)) rather than congestion are used. The benefit from buses is calculated using a DfT national transport model estimate for the external impact of bus travel on local air quality. Again, for advanced quality partnerships, there is not expected to be a reduction in on-road competition so there is not expected to be a small net cost to in terms of air quality.

Noise

As franchising and enhanced partnerships are expected to result in less distance being travelled by buses and cars, there will be less noise pollution. This benefit is estimated in the same way as for the benefits to other road users above but WebTAG values for the external impact of car travel on noise pollution ([table 5.4.2](#)) rather than congestion are used. For advanced quality partnerships, there is expected to be a small net cost in terms of noise pollution as there is not expected to be a reduction in total bus mileage from reduced on-road competition. (as is the case with franchising and enhanced partnerships)

Greenhouse Gases

As franchising and enhanced partnerships are expected to result in less distance being travelled by buses and cars, there will be lower greenhouse gas emissions. This benefit is estimated in the same way as for the benefits to other road users above but WebTAG values for the external impact of car travel on greenhouse gas emissions ([table 5.4.2](#)) rather than congestion are used. The benefit from buses is calculated using a DfT national transport model estimate for the external impact of bus travel on local air quality. Again, for advanced quality partnerships, there is not expected to be a reduction in on-road competition so there is not expected to be a small net cost to in terms of greenhouse gas emissions.

Accident reductions

As franchising and enhanced partnerships are expected to result in less distance being travelled by buses and cars, there are likely to be fewer accidents. This benefit is estimated in the same way as for the benefits to other road users above but WebTAG values for the external impact of car travel on road accidents ([table 5.4.2](#)) rather than congestion are used. Again, for advanced quality partnerships, there is not expected to be a reduction in on-road competition so there is not expected to be a small net cost to in terms of accident reductions.

Operator benefits

Bus revenue impacts

The impacts on bus operator revenues as a result of franchising or enhanced partnerships are calculated by subtracting the bus operator revenues in the do minimum scenario from bus operator revenues in the do something scenario. Bus operator revenues are calculated using the following equations:

Bus operator revenue

$$= (\text{Fare revenue}) + (\text{Concessionary reimbursement}) + (\text{BSOG receipts}) \\ + (\text{Income from tendered services})$$

$$\text{Fare revenue} = \text{Average fares} \times \text{No. of fare paying journeys}$$

$$\text{Concessionary reimbursement} = \text{Average concessionary reimbursement per trip} \times \text{No. concessionary trips}$$

$$\text{BSOG receipts} = \text{BSOG rate per litre of fuel} \times \text{Average fuel efficiency for buses} \\ \times \text{Distance travelled by buses}$$

Income from tendered services

$$= \text{Operating costs for tendered services} \times \text{Tender price as a percentage of operating costs}$$

Where average fares come from DfT estimates; the average concessionary reimbursement per trip from analysis of DfT bus statistics ([BUS0105](#) and [BUS0811](#)); the BSOG rate comes from [gov.uk](#); average fuel efficiency for buses comes from DfT's national bus model; and the tender price as a percentage of operating costs is an assumption. The do minimum scenario tender price is based on an estimate for operating margins for which is calculated based on the operating margins of bus operators in each area and will vary by region. The do something scenario tender price is the same as in the do minimum scenario except in the high franchising scenario where it is assumed to be at the average level found in London.

Wider social benefits

Health and well being

There are expected to be some health and wellbeing benefits from implementing franchising, enhanced partnerships and advanced quality partnerships due to the increased walking to and from buses (which will be offset to some extent by a reduction in walking to and from cars). These benefits are calculated by the following formula:

Wider social benefits

$$= \text{Average health benefit per km walked} \\ \times (\Delta \text{Distance walked by bus users} + \Delta \text{Distance walked by car users})$$

$$\Delta \text{Distance walked by bus users} = \text{Average distance walked in a bus journey} \times \text{No. of bus journeys}$$

Δ Distance walked by car users

$$= \text{Average distance walked in a car journey} \times \text{No. of bus journeys} \\ \times \text{Diversion factor from car journeys to bus journeys}$$

Where the average health benefit per km walked comes from the New Zealand Transport Agency's Economic Evaluation Manual, ([Table A20.3](#)); the average distance walked in a bus and equivalent car journey is taken from the 2011 [Mindlab International study](#) commissioned by Greener Journeys; and the diversion factor for new bus journeys which would otherwise have been car journeys is taken from

[Balcombe et al \(2004\)](#). This methodology is not compliant with the Department for Transport's transport appraisal guidance which does not include wider economic impacts.

Government benefits

Indirect tax revenues from modal transfer (fuel duty)

The government will receive less income from fuel duty as a result of a reduction in transport mileage. The reduction in fuel duty revenue is calculated by multiplying the reduction in vehicle mileage for both buses and cars by the values for the external impact of bus and car travel on fuel duty. The value for cars is found in the WebTAG data book ([table 5.4.2](#)) and the value for buses comes from DfT analysis. The government may gain indirect taxes from consumers choosing to spend the money that they save from paying less fuel duty on other taxed items but this has not been monetised as the effect is likely to be small.

Change in public account revenue

The impacts on public account revenues as a result of franchising, enhanced partnerships or advanced quality partnerships are calculated by subtracting the public account revenues in the do minimum scenario from public account revenues in the do something scenario. Public account revenues are the sum of revenues from fares, concessionary reimbursement, BSOG and income from tendered services.

The public account will gain revenue from fares for supported services in all scenarios. However it will also gain revenue from commercial services under franchising. The revenue from fares is calculated by taking the average fare (based on DfT estimates) and multiplying it by the number of journeys. The government will have to pay the concessionary travel reimbursement to bus operators so it will have a net cost equal to the net benefit for bus operators from concessionary travel reimbursement payments. The BSOG revenue for commercial services will be paid to the local authorities under franchising in addition to the BSOG already paid to authorities for supported services. This is calculated in the same way as for the bus operator revenues. The tendered services revenue paid to bus operators will be paid from the public account so there will be a cost equal to the benefit to the bus operators.

Operator costs

Bus cost impacts

The bus operator cost impacts are calculated by taking away the operating costs under the do minimum scenario from the operating costs under the do something scenario. The operating costs are the sum of the variable operating costs, fixed operating costs, tender administration costs, network planning costs, marketing costs and revenue protection costs. The variable operating costs are calculated using the following formulas:

Variable operating costs

$$= \text{Passenger costs} + \text{Peak Vehicle Requirement (PVR) costs} + \text{Vehicle hour costs} \\ + \text{Vehicle mile costs}$$

$$\text{Passenger costs} = \text{Marginal cost per passenger trip} \times \text{No. of trips}$$

$$\text{PVR costs} = \text{Marginal cost per PVR} \times \text{Total bus fleet} \times \text{Ratio of total bus fleet to PVR}$$

$$\text{Vehicle hour costs} = \text{Vehicle cost per hour} \times \frac{\text{Total distance travelled by buses}}{\text{Average speed}}$$

$$\text{Vehicle mile costs} = \text{Vehicle costs per mile} \times \text{Total distance travelled by buses}$$

Where the marginal cost per passenger trip, the marginal cost per PVR, the vehicle cost per hour and the vehicle costs per mile all come from [DfT guidance](#) for concessionary fare reimbursement to operators. The total bus fleet comes from DfT bus statistics. The ratio of total bus fleet to PVR is assumed to be 90% based on expert opinion. The average speed is assumed to be 12mph on commercial routes and 15mph on supported routes based on data from TfL.

The fixed operating costs are set manually in order to achieve the do minimum operating profit calculated for each area. The tender administration costs are estimated by multiplying the tender administration costs per km (based on expert opinion) by the distance travelled by buses each year. The network planning costs, marketing costs and revenue protection costs are taken from the [Nexus quality contract scheme proposal](#) but are scaled up by 15% to account for optimism bias (WebTAG recommended adjustment for a stage 2 bus scheme, [Unit A1.2](#)) and are scaled to the size of each area based on the different totals for distance travelled by buses.

Under franchising, the tender administration costs apply to both commercial and supported services but under enhanced partnerships and advanced quality partnerships they only apply to supported journeys as commercial journeys will not be tendered. Network planning costs, marketing costs and revenue protection costs are incurred by local authorities under franchising so they are not included in the bus operator cost impacts.

Capital costs – operators

There are no capital costs to operators under franchising as these are incurred by local authorities instead. For enhanced partnerships and advanced quality partnerships, bus operators will have to pay capital costs to install AVL (automatic vehicle location) devices on all buses and staff costs for improved passenger information. The AVL costs are estimated to be £4,000 per bus based on expert opinion and this figure is multiplied by the number of buses and by the percentage of buses which do not currently have AVL devices installed according to DfT bus statistics ([BUS0606](#)). The staff costs for improved passenger information are estimated using the following formula:

Staff costs for improved passenger information
= FTE hours spent per bus operator reporting information to LTAs
× average no. of bus operators per LTA × average wage for administrative occupations

Where the FTE hours to be spent per bus operator reporting information to LTAs is an assumption; the average number of bus operators per LTA comes from DfT bus statistics; and the average wage for administrative occupations comes from the [ONS' Annual Survey of Hours and Earnings](#).

Implementation costs - operators

The implementation costs for enhanced partnerships and advanced quality partnerships are based on expert opinion about the costs for existing quality partnership schemes (which have been scaled up for the more burdensome enhanced partnerships but would be expected to be roughly the same for advanced quality partnership schemes). The implementation costs for advanced quality partnership schemes are very rough because no assumption is made around the number of authorities who choose to implement these schemes. Instead it is assumed that advanced quality partnerships are implemented in areas which are equivalent to the size of five rural local authorities in total. The implementation costs for franchising are based on a [business case](#) developed by Bristol City Council for implementing a Quality Contract Scheme² and these are doubled for metropolitan areas as it is likely to be substantially more expensive for them to implement franchising due to their size.

Government costs

Change in public account costs

The public account cost impacts are calculated by taking away the operating costs under the do minimum scenario from the operating costs under the do something scenario. The operating costs are the sum of the tender administration costs, network planning costs, marketing costs and revenue protection costs. Under partnerships, government will only incur network planning, marketing and revenue protection costs for supported services but for franchising, it will take over these operating costs from bus operators for

² https://www2.bristol.gov.uk/committee/2013/sc/sc024/1219_11.pdf

commercial services. These costs are calculated using the same methodology as for bus operators' operating costs. The tender administration costs will only be incurred for services which are tendered (supported services under enhanced partnerships and advanced quality partnerships; and supported and commercial services under franchising). The tender administration costs are estimated by multiplying the tender administration costs per km (based on expert opinion) by the distance travelled by buses each year.

Capital costs - local authority

There are no capital costs for local authorities under enhanced partnerships or advanced quality partnerships. Under franchising, local authorities are assumed to pay to renew the bus fleet at a quicker rate than under business as usual, install AVL devices and for staff costs to provide passenger information. The latter two are calculated in the same way as for bus operators. The capital costs to renew the bus fleet are calculated using the following formula:

Capital costs for renewing the bus fleet

$$\begin{aligned} &= \text{number of buses} \times (\text{renewal rate DS} - \text{renewal rate DM}) \\ &\times (\text{cost of a new bus} - \text{resale value of an old bus}) \end{aligned}$$

Where the number of buses and the renewal rate in the do minimum scenario come from DfT's bus statistics ([BUS0602](#) and [BUS0605](#)); the renewal rate in the do something scenario is an assumption, the cost of a new bus and the resale value of an old bus are based on expert opinion.

Implementation costs - local authority

The implementation costs for local authorities come from the same sources as for bus operators. In addition, for all schemes it is assumed that local authorities will also have to pay some consultation costs of between £50,000 and £100,000 in the first year of the scheme which have been estimated based on expert opinion.