Y Ffordd Gymreig: Delivering franchised bus services the Welsh way

Tracsis plc for CPT Cymru,
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Foreword

by Aaron Hill Director, CPT Cymru

Buses are an essential part of the social and economic fabric of Wales.

With nearly one in five of the Welsh population having no access to a car, buses are a lifeline to many people. As the most popular form of public transport in Wales, our industry helps around 100 million people every year to get to work, to visit friends and family, and to do their shopping and access vital services.

However, in the years since the start of the COVID-19 pandemic, bus services have been under unprecedented pressure in Wales. The overnight loss of passengers through lockdowns has been followed by interminable economic volatility, alongside long-term changes in the way people work and move around their communities.

For the last three years, a combination of emergency and transition funding from government has provided a lifeline to ensure bus services are able to continue running in many parts of the country.

But the pandemic didn't start the decline of bus patronage in Wales.

The prevailing narrative from decision makers has been that the commercial model, and the de-regulation of bus services has failed, but the truth is far more complicated than that.

The long-term reduction in the numbers of people travelling on buses began in the 1950s, prior to de-regulation, and has been exacerbated by increased car ownership and car-friendly policies, changes on the high street, and an overall reduction in the number and range of bus services provided.

In the ten years prior to the pandemic, the pressure of austerity on Welsh Government and local authority budgets saw the mileage supported by government reduce by more than 50%. At the same time, operators increased their commercial mileage by more than 5%.

Despite carrying three quarters of those who use public transport, buses have been seen for too long as the Cinderella service of public transport, with no long-term plan to maximise the opportunities they provide to the people of Wales.

That is why the Welsh Government's *One Network, One Timetable, One Ticket* White Paper is a welcome move towards a longer-term plan for buses. While the industry does not share every part of Welsh Government's aspirations, we can all get behind the vision of a transport system that works for everyone and offers a real alternative to relying on a car.

The aims and objectives set out in the White Paper, for buses to boost social equity and deliver the level of modal shift required to tackle the climate emergency, are inarguable.

However, Welsh Government's method of delivering this – through a gross cost franchise – presents significant risks to the public purse, to operators, and ultimately to the passengers who use buses now, and who we need to use buses in the future.

Wales is not alone in exploring, or moving towards, franchised bus services. Bus services in London have been delivered through a franchised system for decades, and we have recently seen Combined Authorities in Manchester and Liverpool embraced the franchised system as they seek to rebuild bus services from many of the challenges we have seen here.

But Wales is not London, nor are our biggest cities even directly comparable with the Liverpool or Manchester City regions. The economic and geographic landscape of Wales present distinct challenges to the delivery of bus services, with a complex network of micro-businesses, municipal companies, and large multi-nationals all combining to create a network which must deliver for people in Bethesda as well as it does in Bridgend.

The first of our two research reports – *The Future of Bus Regulation in Wales* – aims to set out the context for reform in Wales, exploring the socio-economic contribution made by bus services, and providing an independent analysis of Welsh Government's franchising proposals. It considers the franchising proposals alongside a range of other regulatory systems, including the status quo, partnership working, and other franchised models.

Finally, it sets out the key decisions that will need to be taken by Welsh Government, and/or a franchising authority such as Transport for Wales, in a new franchise, and posits the challenging questions that will need to be answered if franchising is to be successful.

The research is clear, that regardless off the regulatory system chosen by government, the economics of running bus services in Wales will remain challenging. There are a wide range of policy interventions required to deliver on our collective modal shift ambitions, and franchising alone will not be the "silver bullet".

It also demonstrates that the proposed system of franchising – i.e. a gross cost franchise – presents some risks that, while they are not unique to Wales, come into sharp focus when you consider our economic wellbeing as a nation, and the fiscal and political context in which decisions will be made.

Our ambitions for a better bus network in Wales should not be constrained by the ebb and flow of difficult annual financial settlements from Westminster, but there are serious questions about the affordability of Welsh Government's proposals in the current budgetary context. Delivering the scale of ambition set out in the White Paper will require a level of long-term investment and certainty that does not seem feasible, and indeed the proposals may expose bus service to further funding risks than those they already face.

The Risk Register contained in the report describes 18 risks associated with the gross cost model, with affordability chief amongst them, but Welsh Government should pay close attention to the loss of management expertise and the conflicts between policy priorities that may arise under this system.

We must also keep a close eye on the risk posed to small and medium-sized bus companies, who have seen the challenges similar sized businesses have faced in other franchised environments, and have consistently highlighted fears over their existence in any franchised environment.

In highlighting these risks, the industry is not providing resistance to the idea of franchising.

While CPT Cymru has long advocated for partnership working as an alternative, we recognise the democratic mandate for Welsh Government's moves to improve bus services, and operators will work to make the very best of the reforms that follow.

The second of our research reports – *Y Ffordd Gymreig* – begins to answer the question of *how* a franchised bus system can work for Wales.

Our researchers have taken much inspiration from Jersey, which has had experience of a franchised system for more than twenty years, and has made substantial changes to their franchising arrangements during that time.

While Jersey began their journey to franchised bus services in 2002 with a gross cost franchise – similar to that proposed by Welsh Government – they have since moved away from this to a minimum subsidy model. We have built upon this to create The Welsh Way, or *Y Ffordd Gymreig.*

In using the gross cost model, Jersey found that there was limited incentive for innovation, and there was no opportunity for operators to deploy their own local knowledge and entrepreneurial skill in areas such as network design, ticketing and marketing.

Similarly, both reports show that gross cost can manifest in a higher subsidy bill for the public purse without driving incentives to increase patronage.

Upon addressing the stagnation caused by these issues, the authority deployed their minimum subsidy approach from 2013, working with operators to build upon their baseline network, and drive improvements for passengers and reduced costs, with a share of the rewards for operator and for authority.

There was a sustained and immediate impact as a result of the reforms, including:

- a 13% increase in passengers in the first year, and a 38% increase over four years
- enhanced customer satisfaction, with overall satisfaction up 18% between 2014 and 2020
- cost savings from more efficient network design; and
- several service enhancements over the course of the contract

There is much to be learned from the approach in Jersey, and our research has taken many of the elements of the Jersey model and its central economic proposition and built on it to create the proposals in *Y Ffordd Gymreig*.

In our model, the Welsh Government would gain the control it seeks to set the network, fares, branding and vehicle specification. Operators would then bid against this "base network" specification, meanwhile proposing adjustments to the network that could either grow revenue, through additional patronage or local ticketing schemes for example, or reduce costs through innovation or efficiency.

At the very worst, this model delivers the base network to the specification the Welsh Government seeks. However, it presents opportunities beyond this to save money and grow patronage, while achieving a wide range of other benefits including reduced carbon emissions and increased connectivity, all the while achieving the minimum level of subsidy that could be required to deliver this.

Y Ffordd Gymreig also seeks to answer some of the challenging questions set out in the first report about the other important elements of a franchised arrangement, including fleet ownership, decarbonisation, and technology.

In designing a bus system that works as well for rural Wales, as it does for our large towns and cities, the reality is that there is no "one size fits all", and flexibility and partnership will be critical to resolving these questions as a franchise is rolled out.

For example, a small bus operator may be able to take advantage of a centralised leasing scheme for zero emissions vehicles, and state or council owned charging infrastructure, where the costs to entry would now be prohibitive. Meanwhile, incumbent operators who deliver a franchise and already own larger sites, may prefer to hold on to ownership of their existing infrastructure, or work with the franchising authority to create partnership working arrangements and create a strategic hub for an area.

Taking a flexible approach, we can protect the unique ecosystem of operators that provide bus services in Wales, placing greater value on their local knowledge, expertise and enterprise. Small businesses and municipal operators play a critical role in bus journeys in Wales, and are a key part of both the White Paper and our own vision. Flexibility and partnership will provide some of the answers to the thorny questions of how they are protected and promoted under any new arrangements.

Y Ffordd Gymreig doesn't provide all the answers, but seeks to make a constructive contribution to the debate on the future of buses in Wales. As with any proposals for regulatory change, this will only complete part of the puzzle. Questions will remain around infrastructure, customer choice, and bus speeds and reliability. Those are questions that operators, and both national and local governments will need to grapple with, together, now and in the future.

The decline of our bus services is not inevitable. With a clear long-term plan, careful investment, and by harnessing the collective power of government and operators, we can deliver the services the people of Wales deserve. We must work together to deliver franchising the Welsh way.

Aaron Hill

Director, CPT Cymru

The Future of Bus Regulation in Wales

Tracsis plc for CPT Cymru
October 2023

FINAL REPORT

Contents

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Executive Summary

Introduction

- This report has been prepared for CPT Cymru in response to the Welsh Government's proposals to take control of the country's bus networks, as set out in its White Paper: *One Network, One Timetable, One Ticket: Planning Buses as a Public Service for Wales,* published in March 2022.
- This report:
  - Is designed to make a positive contribution to the debate
  - Considers the proposals themselves and some of the consequential decisions to be faced
  - Looks at the factors influencing demand for bus services and the impact of Covid
  - Considers the economics of bus operation that can be expected to have a decisive influence on the affordability and deliverability of the Welsh Government's proposals.

The Context

- The proposals for reform are set in the context of a long-term decline in bus patronage in Wales (discussed in Chapter 8 of the report) and in the wake of the Covid-19 pandemic (discussed in Chapter 9)
- Though the current regulatory system has often been criticised, commercial operators were supplying more mileage in 2018/19 than in 1987/88, whilst the supply of supported services had been reduced – by more than 51% in the decade prior to the Covid pandemic[1].

The Role of the Bus (Chapter 2)

- Bus is a flexible and responsive mode, able to respond the shifts in demand more rapidly and more cheaply than other forms of public transport
- Bus plays a vital role in several public policy areas and contributes to outcomes well beyond the narrow field of transport. These are examined in the report and include:
  - Economic prosperity and development
  - Social inclusion for communities
  - Social mobility for young people
  - Promoting active travel (including walks to and from the bus stop) as a contribution to the health of the wider nation
  - Health care and social care for elderly people
  - Health care and social care for disabled and chronically ill people
  - The delivery of Net Zero targets and modal shift away from the private car.
- In order for the bus to be able to deliver these benefits, bus operators need to:

[1] *Annual Bus Statistics, Department for Transport, Sheet BUS02.*

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    - provide an extensive network of high quality services, delivered by a highly qualified and motivated workforce
    - meet customer demand for access to vital employment, education, shopping, health and leisure opportunities
    - offer value for money fares
    - engage with government to deliver concessionary travel for those segments of the population which they wish to support
    - be ready to accommodate additional demand
    - invest in new technology and equipment, including zero emission vehicles.
- Government funding and support is an essential element for delivering these advances, particularly where there is a desire to provide free or discounted travel for specific groups of the population. This applies whichever regulatory regime is adopted.

The Government's Vision: A Commentary (Chapter 3)

- Bus operators in Wales are supportive of the Welsh Government's aims and objectives set out in the White Paper
- However, achievement of these objectives is not necessarily reliant on the implementation of the proposed gross cost franchise system, nor will the introduction of such a system of itself remove all the practical barriers to change that currently exist.

Affordability and Future Demand (Chapter 4)

- Recent changes have adversely affected bus networks, impairing viability and network coverage:
    - Patronage has failed to recover to pre-Covid levels
    - Operating costs have increased sharply
    - Interest rates and corporation taxes have both increased
    - Investment has been cut, creating a backlog in vehicle replacement requirements
    - Costs of zero emission buses result in increased upfront capital costs for vehicles and associated depot infrastructure.
- Operators are obliged to cover their costs of operation and to generate sufficient surplus to meet their financial obligations. If sufficient revenue is not forthcoming from government support or the farepayers, service cuts or fare increases will inevitably follow
- If the vision set out in the Government's White Paper are to be delivered, there would need to be some attempt to increase service provision from its current low levels to tempt customers back on to the network
- Funding such developments would be challenging in the current climate. A necessary precursor to such spending would be the adoption of a hierarchy of policy priorities and a set of criteria by which proposals could be assessed, including a robust methodology for assessing social need.

Changes to Regulation and Ownership (Chapter 5)

- We have identified a number of options for the future of bus regulation in Wales:

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- **Maintain the status quo**, with a mix of commercial and supported services: minimising the risk of disruption during reform but would not give the Welsh Government the additional influence over the future network that it seeks
- **Enhanced Partnership**: the model being pursued by many local transport authorities in England, leaving the bulk of commercial risk with the private sector, but giving local authorities greater influence over service levels and fares in return for additional funding
- **Gross Cost Franchise**: similar to the system used in London since the mid-1990s and now being introduced in Greater Manchester. The public authorities specify the service levels, fares and vehicle types, and award contracts to operators by competitive tender
- **A Net Cost Franchise**: combines public sector specification of a minimum network with a tendering process, but subsidy is only paid if the farebox revenue falls below the cost of operation. Operators have some commercial freedom, but with a profit share agreement with the tendering authority. This possible alternative to the Government's proposals has been the subject of a detailed review contained in a separate report by Tracsis, *Minimum Subsidy Franchising: Towards a New 'Welsh Model'*.

- Recognising the Welsh Government's aspiration to see more widespread municipal ownership, we have reviewed the history since 1986 and reviewed some key measures concerning the remaining eight council-owned bus operations in Great Britain. We conclude that the conditions necessary to success, including a densely populated urban area, and a critical mass for fleet size, do not exist in Wales outside Cardiff and Newport
- We are concerned that the proposed Gross Cost franchising system could pose serious risks to the SME sector upon which many areas currently rely, both for supported bus services but also Home to School Transport. We have identified a number of key risks which need to be considered in designing any future regulatory system. These include:
  - Complex and time-consuming bidding procedures
  - High money and time cost of bidding for contracts
  - Costs of contract compliance and reporting regimes
  - The nature and complexity of any penalty regimes for non-compliance
  - The complexity and cost of moving to zero emission vehicles – especially where investment in depot infrastructure might be required and current premises might be unsuitable or insecure.

The Current Proposal (Chapter 6)

- Our consultations with CPT Cymru members show that they are committed to providing successful bus networks in Wales to serve the public as well as possible whatever the regulatory regime in place. They recognise that the changing circumstances mean that there may be a need for the regulatory regime to change
- If the Welsh Government legislates in the form proposed in the White Paper, the bus operators will do their very best to make the new system work as well as possible. However, that is not to say that operators necessarily support the current proposals or consider them to be the best way forward

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- The provision of bus services in Wales under a franchised system would be constrained by the funding available as stated in the White Paper. Constraints on borrowing and current spending (especially the NHS and social care), present a clear and serious risk to current funding levels for buses, further jeopardising bus service provision
- Over the decade prior to Covid, constraints on funding available resulted in a reduction of almost 52% in supported bus service provision. Even during the pandemic, over 75% of bus mileage in Wales was provided commercially with the support of emergency funding[2]. These services would also be in jeopardy if they became permanently dependent on government funding
- These challenges have been most evident during recent months, as the industry has worked with Welsh Government to move away from the emergency funding provided during the pandemic.

Analysing Risks and Rewards (Chapter 6)

- The report includes a high-level SWOT analysis of the franchising proposals, setting out the Welsh Government's perceived strengths and opportunities against the weaknesses and threats which may arise during transition and implementation
- We have provided an outline Risk Register which identifies 18 issues where risks would need to be managed and mitigated by the authorities, covering the transition, operating and termination phases of a gross cost franchise system
- Using a methodology used previously in 2003 and 2015, we have undertaken an analysis on the likely staffing requirements and costs needed to manage the franchising process. This would include functions such network planning, procurement, contract monitoring and revenue protection. We estimate annual administrative costs in excess of £9.6m, a 75% increase on the current level of spending by local authorities on transport co-ordination, as reported by Stats Wales.

The Franchising Decisions (Chapter 7)

- Even within the proposals set out in the White Paper, there are a number of questions to be considered which could affect the cost and outcomes of any move to franchising. The report examines each, including:
    - Type of operating contract (gross cost or net cost)
    - Type of franchise (local networks versus individual routes)
    - Asset ownership (authorities or operators)
    - Vehicle provision (owned or leased, by authorities or operators)
    - Governance: (Who's in Charge - Welsh Government/TfW, Individual Local Authorities or Corporate Joint Committees).

The Bus Market in Wales (Chapter 8)

- We are concerned that the factors determining demand for bus services are not well understood and are outside the scope of the proposed changes to regulation

[2] *Department for Transport Annual Bus Statistics, Sheet BUS02*

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- If demand for buses in Wales is to be revived, it is important to understand these factors, and how the Welsh market is influenced by them. They include:
    - Economic performance
    - Employment
    - Demographics, including population density, age and sex distribution and overall trends
    - Levels of car ownership
    - Journey purpose.
- Where demand levels and trends diverge from other parts of Great Britain, including London, it is important to understand how and why this happens.

Covid and its Aftermath (Chapter 9)

- The Covid-19 pandemic in the spring of 2020 led to a sudden and dramatic collapse in demand for bus services in Wales. Published statistics up to June 2022 showed that bus patronage in Wales fell further and recovered less than in other parts of Great Britain
- This is likely to be the result of:
    - a greater reliance on concessionary passholders in Wales (45% pre-Covid against 31% in the English Shire Counties or 38% in Scotland)
    - differing timelines in 2022 on the lifting of Covid restrictions.
- A number of major lifestyle changes occurred during and after the pandemic, influencing the journey purposes of bus users, including travel to work, shopping trips and other journey purposes. This has reduced demand, and the fall is unlikely to be reversed without a reversal of the lifestyle changes or other significant behavioural changes (e.g. modal shift).

Bus Industry Finances (Chapter 10)

- There is an ongoing imperative for bus operators to make an operating profit – regardless of ownership or regulatory system. This is driven by:
    - Financial obligations to lenders and shareholders covering interest and capital repayments
    - The need to fund future investment and to provide for a level of reserves.
- The level of profit required is driven by the cost of capital and we illustrate how this translates into a target operating margin
- The introduction of a franchise system, especially a gross cost one, would transfer significant risks to the public sector, and there would be a need to ensure that the necessary skills were available.

Bus Industry Costs (Chapter 11)

- CPT Cost Monitor data shows that bus industry costs are dominated by labour costs, which in 2022 accounted for over 55% of total costs
- The industry is therefore vulnerable to wage inflation, tending to drive operating costs upwards by more than general inflation

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- Crucial to the level of costs is journey speed, which has a decisive influence on productivity and efficiency in the industry as well as the customer appeal of the bus product
- In the decade before Covid, the unit cost of bus operation rose in real terms by 14.2%. During and after the pandemic, unit costs rose by a further 1.8% - however, the last published figures date from March 2022 and exclude the effects of the Russian invasion of Ukraine or the cost of living crisis
- CPT Cost Monitor figures show that unit operating costs in Wales increased by 16.5% between February 2022 and February 2023.

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Key Conclusions

Overall

- A review shows that regulatory reform would be unlikely to change any of the main factors that influence current market outcomes
- Experience in other areas, particularly Jersey, suggests that the gross cost franchising system proposed by the Welsh Government would have a number of serious medium to long term disadvantages in terms of operator incentives, loss of management expertise and cost control
- An alternative method of franchising, known as "Net Cost" or "Minimum Subsidy" could deliver most if not all the objectives that the Welsh Government seeks whilst still providing revenue and cost incentives for operators.

The Social, Economic and Environmental Role of the Bus

- Bus plays a vital role in helping to deliver key policy objectives in the field of economic growth and efficiency, social inclusion, social mobility and care for elderly and chronically sick people – and is key to the modal shift policies required to achieve Net Zero targets
- Limited resources mean that clear objectives need to be set for the provision of socially necessary bus services and that a set of objective criteria is required for judging priorities in provision
- There is a strong benefit to cost ratio for the spending on supported bus services. Provision has been shown by a DfT study to generate benefits of up to £2 for every £1 spent[3]
- Further erosion of supported service provision risks destabilising the industry further, with further operator closures amongst SMEs, potentially threatening the ability to provide home to school transport in more isolated rural areas.

The Franchising Proposals

- Bus operators in Wales are committed to providing the public with the best possible bus service given the regulatory regime and other circumstances. If the Welsh Government proceeds with the franchising system as proposed, operators will do their very best to make it work
- While there is a wide range of opinions across the industry on franchising, per se, operators consider there to be significant risks attached to the proposals in Welsh Government's White Paper, which could result in a less effective bus service for passengers in Wales
- A SWOT analysis reveals a series of issues concerning affordability and highlights the risks to the size and shape of the bus network if provision is linked entirely to the availability of public funding. This is reinforced by experience over the ten years prior to the Covid pandemic which saw cuts of almost 52% in mileage on supported services, according to DfT statistics, whilst commercial service levels increased by 5% thanks to skilful management by operators[4].

[3] *Value for Money of Tendered Bus Services, Department for Transport, February 2016.*
See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/500158/Value_for_Money_of_Tendered_Bus_Services.pdf
[4] *Department for Transport, Annual Bus Statistics, Sheet BUS02.*

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- We have provided an outline Risk Register which identifies 18 issues where risks would need to be managed and mitigated by the authorities, covering the transition, operating and termination phases of a gross cost franchise system
- We have analysed the expected resource requirement to manage the franchising process, covering tasks such network planning, procurement, contract monitoring and revenue protection functions. We estimate annual administrative costs in excess of £9.6m, a 75% increase on the current level of spending by local authorities on transport co-ordination
- An examination has been undertaken of other decisions that would need to be made prior to or during the implementation of a franchise regime. There are balances to be struck between reducing upfront costs and the level of operating costs during the contract period, and there is a risk that funding constraints could force sub-optimal decisions to be made
- The review also considers the level of government at which decisions should apply, and this suggests that the Corporate Joint Committees should fulfil the role of tendering authority. This would seem to offer the right balance between local knowledge and input (which is regarded as essential in optimising local networks) and critical mass in terms of staff engagement and productivity. TfW could play an advisory/quasi-regulatory role
- The weaknesses and threats identified in the SWOT analysis and the Risk Register suggest that the use of a gross cost tendering regime in Wales would have grave disadvantages. This is supported by experience elsewhere, notably in Jersey, since it provides no incentive to operators either to increase revenue or reduce operating costs
- There are other possible models for giving the authorities the influence they seek over bus network provision whilst continuing to harness the marketing, planning and customer relations skills of the existing operators
- In the end, key element of the gross cost tendering system is affordability. There are grave doubts as to whether, in the current and future fiscal environment in Wales and at UK Government levels, the public resources will be available to deliver the improvements in service quality and provision that the Welsh Government seeks. At the same time, there is a risk that the lack of ongoing operator incentives will make the network even more unaffordable in the medium and long term.

Understanding the Market

- Our analysis of the influences on demand for bus services illustrates the very limited influence that the industry has over many key factors. This would not change under a franchised system
- Economic and social changes such as the spread of online shopping and other services, working from home and car ownership are very powerful determinants of demand, and – through such issues as traffic congestion, have a decisive influence on the quality and reliability of the product that operators can provide
- If a reminder of the decisive influence of external factors on demand were needed, then the events of the last three years provide it. The Covid pandemic and its aftermath have had a particularly strong effect on Wales, so that demand was depressed further and has recovered more slowly that other parts of the UK. This is attributed at least partly to the greater reliance of the Welsh bus market on concessionary pass holders than is the case in England outside London or Scotland

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- The cessation of the National Travel Survey in Wales after 2012, and the limited analysis of bus statistics provided compared with the DfT in England, means that crucial market analysis is not available to policymakers and advisers, and we would strongly recommend that this issue is addressed as soon as possible.

Bus Economics

- There is an ongoing imperative for bus operators to make an operating profit – regardless of ownership or the regulatory system
- This need would not disappear under a franchising system – indeed, profit would be integral to the contracts and, under a gross costs system, would have to be paid to the operators regardless of the commercial performance of the network.

Bus Operating Costs

- The structure of bus industry costs means that the industry is uniquely exposed to increases in labour costs and the volatility in fuel prices
- Journey time and speed are essential determinants of both demand for services and of operating costs There is scope for cost savings and patronage growth in urban areas by making journeys faster and more reliable
- Again, the introduction of a franchised system would not affect these parameters.

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1. Introduction

1.1 The Purpose of this Report

1.1.1 This report has been prepared for CPT Cymru and offers a reaction to, and a commentary on the Welsh Government's proposals to take control of the country's bus networks in the form of franchising. These were set out in its White Paper: *One Network, One Timetable, One Ticket: Planning Buses as a Public Service for Wales,* published in March 2022.

1.1.2 This report is designed to make a positive contribution to the debate, considering the proposals themselves and some of the consequential decisions to be faced, alongside the factors influencing demand for bus services, the impact of Covid on the industry and the economics of bus operation which are likely to affect the affordability and deliverability of the Welsh Government's proposals.

1.2 Setting the Context

1.2.1 The existing regulatory regime for the local bus market dates back to 1986, following the passage of the 1985 Transport Act – a move known as "deregulation". Effectively, this ended quantity controls on bus service provision and blanket revenue support for bus services. This had, since 1974, been provided by local authorities to a broadly publicly owned industry. It was replaced by a new system that divided bus service supply into two types:

- Commercial: licensed private sector or municipal bus operators were given the right to decide on the routes, times, frequencies and fares of the services they wished to run at their own financial risk
- Supported: routes that local transport authorities considered to be "socially necessary" and were not being provided commercially. These routes were planned and specified by the local authorities before being let to operators via competitive tender.

1.2.2 In Wales, at the time of deregulation, total bus service supply amounted to 105 million kilometres a year[5]. After falling in the immediate aftermath the changes, service supply returned to 105 million kilometres in 1987/88, of which 81 million (77.1%) were operated commercially and 24 million (22.9%) were operated on supported services. In 2018/19, the last year completely unaffected by the pandemic, 85.4 million (80.5%) were operated commercially and 20.7 million (19.5%) supported[6].

1.2.3 There were fluctuations in between, with service level increases, and these are illustrated in the chart at Figure 1-1 below. Service supply increased substantially, but the onset of the 2008/09 financial crisis led to a series of cuts, especially after the imposition of the UK Government's austerity programme after 2010. This resulted in a 51.8% reduction in the supply of supported services between the peak year of 2008/09 and 2018/19[2].

1.2.4 It will be seen that more service was being supplied commercially in 2018/19 than in 1987/88, whilst the supply of supported services had been reduced. It would thus be misleading and incorrect to attribute service cuts to the regulatory regime – and unsafe to

[5] *Bus patronage in 1984. Annual Bus & Coach Statistics, Department of Transport.*

[6] *Source Annual Bus Statistics, Department for Transport, BUS02_km.*

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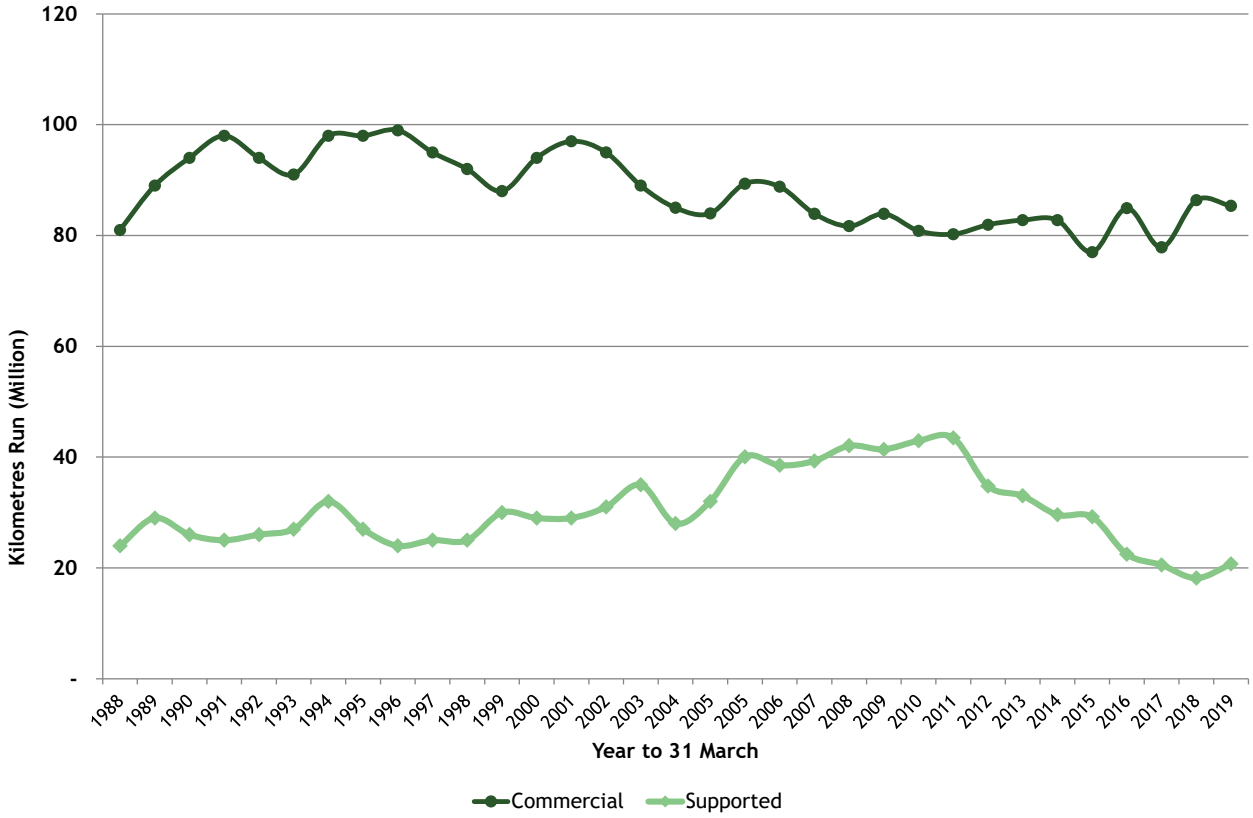
assume that simply changing the regime would solve the problems of bus service provision in Wales.

Figure 1-1: Bus Service Supply 1988-2019 in Wales, Commercial and Supported



Source: Department for Transport Annual Bus Statistics, Sheet BUS02_km

1.2.5 The current proposals for reform are set in the context of a long-term decline in bus patronage in Wales (discussed and analysed in more detail in Chapter 8 of this report) and in the wake of the economic and social upheavals that have followed the Covid-19 pandemic (of which more in Chapter 9).

1.2.6 Before considering the reform proposals themselves, it is important to understand the social, environmental and economic role of bus networks, including an appreciation of their value and the need to set criteria to evaluate need and determine priorities.

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2. The Role of the Bus in Economic, Social and Environmental Policies

2.1 Introduction

2.1.1 As will be discussed in section 8.5 below, much of Wales is thinly populated and difficult to serve with commercially viable bus services. Many rural residents without access to a car are dependent upon the bus to provide vital links to essential services. Sadly, a combination of spending cuts and rising costs has meant that many of these links have been withdrawn in recent years. Some have been replaced by demand responsive services such as Fflesci, but others have been lost altogether.

2.1.2 As noted above, the provision of tendered services in Wales, as measured by kilometres run, was reduced by 51.8% between 2009/10 and 2018/19, with spending on supported services falling by 18% in real terms. By the end of 2021/22, it had fallen by a further 5.6%[7].

2.1.3 It has become increasingly recognised that bus plays a vital role in several policy areas, including:

- Economic prosperity and development
- Social inclusion for communities
- Social mobility for young people
- Promoting active travel (including walks to and from the bus stop) as a contribution to the health of the wider nation
- Health care and social care for elderly people
- Health care and social care for disabled and chronically ill people.

2.1.4 Bus can also play a vital role in the delivery of Net Zero targets and modal shift away from the private car. Bus is a flexible and responsive mode, able to respond the shifts in demand more rapidly and more cheaply than other forms of public transport.

2.1.5 Each of these is reviewed in more detail in the paragraphs that follow. They are all important, but they are not always necessarily compatible, especially when resources are scarce. For example, pursuing network development to maximise modal shift in pursuit of net zero targets (which necessarily involves a focus on the busiest corridors) can conflict with a desire to use those same resources to maximise social inclusion and mobility.

2.2 Economic

2.2.1 The role of the bus in the economy can be categorised in four ways:

- Efficiency – including value for money from public expenditure, optimising resource allocation and maximising benefits from capital expenditure
- Prosperity and Development, including short-term recovery from the pandemic
- Employment and Regeneration

[7] *Department for Transport Annual Bus Statistics, Sheet BUS02_km*

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- Planning – facilitating and enabling land use development.

2.2.2 There is an explicit link between economic growth and transport efficiency, which can be summarised as to minimise the generalised cost (the cost in time and money) of all forms of transport. Thus will maximise productive work time and the population's available leisure time.

2.2.3 This will be achieved by minimising or eliminating time wasted by traffic congestion and unproductive travel time, encouraging people to use the most efficient and effective means of transport to undertake their journey.

2.3 Social Inclusion

2.3.1 As part of the Blair and Brown governments' social inclusion policy, government developed tools to measure the ability of local communities to access a range of key services, including:

- Employment centres
- Primary schools
- Secondary schools
- Further Education institutions
- GPs
- Hospitals
- Food stores
- Town Centres.

2.3.2 The Welsh Government's current proposals will require a similar process and this needs to be considered in developing the proposals further. Measurement of accessibility is a vital tool in planning bus networks, so that standards can be set, and tendering authorities' performance measured against them. In a time of scarce resources, the identification of need and necessity is vital.

2.3.3 Software tools such as CUBE Access, the successor to the Accession software developed in the early years of the century, still exist to help. An alternative approach, more suitable for urban areas, is the Transport for London's Public Transport Access Level (PTAL) tool.

2.4 Social Mobility

2.4.1 Buses play a vital role in providing affordable access to services and facilities, but especially to educational, training and employment opportunities. This applies to the whole population, but also for specific age groups or sub-groups in society. It is interesting to note that all four of the key drivers of social mobility identified by the Social Mobility Commission[8] in their *State of the Nation 2022* report are dependent to a greater or lesser extent on good public transport links, especially (but not exclusively) for households without a car. The four are:

[8] *https://www.gov.uk/government/publications/state-of-the-nation-2022-a-fresh-approach-to-social-mobility*

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- Conditions of Childhood
- Educational Opportunities and quality of schooling
- Work opportunities for Young People
- Social Capital and Connections.

2.4.2 Young people are a particular focus for improvements to social mobility, with the need being the greatest in socially deprived areas and the NEETs (Not in Education, Employment or Training) between the ages of 16 and 24. The Annual Population Survey[9] estimates that there were some 42,800 young people in this category in the last quarter of 2022, representing 12.8% of the population in this age band. The proportion rises in the more rural areas, to 13.4% in the North and 13.6% in Mid and South West Wales.

2.4.3 The wider picture on unemployment rates shows a higher rate in the more rural areas. According to the most recent Labour Force Survey, the figure for all Wales was 3.2%, but this rose to 4.1% in Mid & South West Wales. In South East Wales, the rate was 2.7% whilst in North Wales it was 3.1%[10].

2.4.4 Given the availability of bus services, we know that young people are willing and able to use them. Research undertaken by FirstGroup in 2022[11] showed that 46% of people in the 16-24 age group who had switched to bus did so to save money on petrol, help the environment and also considered the bus more relaxing than driving – demonstrating a keen awareness of the advantages of bus travel.

2.5 Policies for Older and Disabled People and the Chronically Sick

2.5.1 It has been demonstrated that access to transport is an important element of the quality of life agenda for all three of these groups. There is a growing body of evidence[12] that mobility especially on public transport, is good for older people, as it can:

- Help maintain contact with friends and family
- Reduce isolation and increase opportunities for interaction
- Help reduce the impact of giving up driving
- Reduce loneliness and therefore mitigate consequent declines in well-being
- Keep people more active, so contributing to an active, healthy older population, and reducing demand for residential care and home visits.

2.5.2 Research by KPMG and Greener Journeys[13] in 2014 suggested that, across the UK, the free concessionary travel schemes for elderly people provided benefits to the wider community that were worth around 2.9 times the costs of provision. The benefits included:

- Enabling volunteering
- Physical health improvements

[9] *Annual Population Survey, 2018-2022 published by Labour Stats Wales.*

[10] *Labour market statistics (Annual Population Survey): October 2021 to September 2022*

[11] https://www.firstgroupplc.com/news-and-media/latest-news/2022/22092022.aspx

[12] *The Future of Transport in an Ageing Society, AgeUK. https://www.ageuk.org.uk/*

[13] *Bus 2020: The Case for the Bus Pass. https://greenerjourneys.com/wp-content/uploads/2014/09/6-1.pdf*

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- Benefits to other road users through reduced congestion, accidents and environmental impacts
- Benefits to other bus users through increased service provision
- Other benefits were identified in the report but not quantified, including enhanced retail activity, savings in social and child-care costs, savings in community transport provision and social inclusion.

2.5.3 One of the most significant economic and social challenges of the next decade concerns our ageing population. The most recent population projections supplied by ONS with a 2020 base forecast a 15.4% increase by 2030 in the number of people between 60 and 69 in Wales, and a 14.5% increase in the number of those over 70. This would mean an increase of 129,000 in the number of people aged 60 and over who qualify for free travel, taking the total entitlement from 27.3% to 30.6% of the population.

2.5.4 Increasing life-expectancy of the general population and amongst people with disabilities and chronic illnesses may in future create increasingly complex challenges for local authorities and public transport operators.

2.5.5 It is worth reiterating at this point that Concessionary Fares Reimbursement does not constitute a subsidy to the bus industry, as the Government's White Paper erroneously implies. The payments to operators represent the bulk purchase of travel by government on behalf of passholders and are therefore a subsidy to the *passenger* not the operator.

2.6 The Value of Supported Services

2.6.1 It is often difficult to place a value on socially necessary bus services, and this tends to mean that they are not viewed as a priority by some policymakers, especially in times of fiscal constraint. One attempt was made for England by the Department for Transport, which conducted a review of the value for money of spending on supported services which was published in February 2016[14]. It was based on the statistics available for financial year 2013/14.

2.6.2 The paper concluded that the monetised benefits of tendered bus services included:

- benefit to passengers able to travel on the services and access work, leisure, education etc
- net profit to bus operators, comprising revenue from fares and the local authority subsidy, less the operating costs
- the net effect on road congestion from reduced car journeys and increased bus trips
- the net effect of greenhouse gas emissions from reduced car journeys and increased bus trips.

2.6.3 Against these benefits, the monetised costs were the local authority costs of tendered services.

[14] *Value for Money of Tendered Bus Services, Department for Transport, February 2016.*
See https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/500158/Value_for_Money_of_Tendered_Bus_Services.pdf

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2.6.4 The DfT determined that every £1 of local authority costs produced benefits of £2. This rates as high value for money[15]. It varied between metropolitan areas (benefits £2.90 for every £1 of cost – high VfM) and non-metropolitan areas (£1.50 benefits – medium VfM).

2.6.5 The paper notes that several key non-user benefits were omitted from the calculations, including:

- The loss of access to services were supported services to be withdrawn, affecting people without cars – especially in non-metropolitan areas
- The disproportionate effect of withdrawal on low income households, who do not have the income available to use alternatives such as buying a car or using taxis.

2.6.6 It also acknowledged other benefits, which had not been monetised, including:

- productivity benefits and tax receipts associated with the bus services that help people access better paid employment
- greater local area spending from helping passengers to access more markets
- cost savings to health authorities from improved access to preventative healthcare.

2.6.7 In the Welsh context, the SMEs play a crucial role in the delivery of supported services, especially in the rural areas. The future risks to this sector and the need to take their circumstances into account in designing any form of regulatory reform are discussed in section 5.5 below.

2.7 Net Zero Targets

2.7.1 In its 2022 Progress Report *Reducing Emissions in Wales*[16] published on 6 June 2023, the Climate Change Committee (CCC) set eight specific targets for the Welsh Government towards the achievement of the Climate Change Budgets currently in force. One target was associated with transport, namely to:

"Develop and publish a full delivery plan for how to realise the ambition of reducing per-person car demand by 10% by 2030. This should include consideration of how measures that limit car usage will interact with those that enable more sustainable modes."

2.7.2 It is important to understand the size of the change involved. Table 1 below shows the levels of transport demand in Wales immediately pre-Covid, from which it will be seen that travel by car, van and taxi is estimated to account for 94.4% of total demand in Wales, totalling some 40 billion passenger kilometres. Reducing that figure by 10% by 2030 would mean a reduction of just over four billion passenger kilometres, taking traffic back to levels last seen 20 or so years ago.

2.7.3 As with previous CCC reports, it is envisaged that the target would be achieved by a combination of travelling less (e.g. working and/or shopping from home) and mode shift to

[15] *The DfT's value for money (VFM) scale is based on the return for each £1 spent. Less than £1: VfM = poor; between £1 and £1.50: Low; between £1.50 and £2: Medium; between £2 and £4: High, Greater than £4: Very High. For more information, see* https://www.gov.uk/government/publications/percentage-of-dft-s-appraised-project-spending-that-is-assessed-as-good-or-very-good-value-for-money/value-for-money-indicator-2019

[16] https://www.theccc.org.uk/publication/2023-progress-report-reducing-emissions-in-wales/#recommendations-to-government

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active travel and public transport. However, as Table 1 demonstrates, the car is so dominant that even quite small shifts to bus or rail would represent a huge increase in demand. Each one per cent of car demand that switched to bus would represent a 51% increase from 2018/19 levels. A similar number switching to rail would increase demand by 35%.

Table 1: Travel Demand and Mode Share in Wales, 2018/19

Mode	Passenger Kilometres (Billions)	Mode Share
Car, Van and Taxi†	40.16	94.4%
Bus	0.81	1.9%
Rail	1.15	2.7%
Motorcycles	0.20	0.5%
Cycling	0.21	0.5%
Total Demand	42.53	100.0%

† Calculated as 29.1 bn kilometres DfT traffic estimate @ 1.38 persons per vehicle.
Source: 2FM Analysis of figures from Stats Wales.

2.7.4 The bus has a key role to play in accommodating demand that switches away from private car to public transport. These, and the policies required to deliver the shift, were illustrated in the report *Bus and Coach: The Route to Net Zero in Wales*, prepared by WPI Economics for CPT and published in January 2023.

2.7.5 The report suggested that, from the current relatively low base, in order to support the country's Net Zero ambitions, the scale of increase in patronage driven by modal shift would amount to an 82% increase in bus journeys across Great Britain by 2050 (a 25% increase per decade up to 2050).

2.7.6 Turning specifically to Wales, the report continues:

"Focusing on existing funding commitments, with reasonable assumptions about their continuation until 2050, we estimate that a total investment of £540m would deliver almost 115m extra bus journeys across Wales. Of these, almost 35m can be attributed to modal shift (i.e., the journeys would have otherwise been travelled by car). This means that the increase in bus patronage resulting directly from modal shift represents around a 34% increase on the 2018/19 baseline. This means the current policy trajectory would deliver just over one fifth of the total modal shift estimated to be necessary…"

2.7.7 WPI proposes a four-stage programme in order to deliver the required additional shift:

- Increasing the attractiveness of the bus network
- Keeping buses affordable
- Discouraging the use of cars
- Behavioural interventions to influence consumer choices.

2.7.8 The report suggested that investment of £103m a year in the bus network could deliver 403m additional bus journeys a year, quadrupling pre-Covid levels of demand. Increases on

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the scale envisaged in quite a short timeframe would present a number of challenges to industry managers, but equally would be a huge opportunity which operators would relish.

2.7.9 However, there must be some doubt as to whether change of this scale could be delivered successfully against a background of wholesale change resulting from altering the system of regulation and with network size constrained by limited availability of public funding.

2.8 Conditions for Future Success

2.8.1 As we entered a new decade at the beginning of 2020, the economic, social and environmental challenges facing the UK were enormous. The bus industry had endured a difficult period of funding cuts and further decline in passenger numbers in many (though not all) parts of the country.

2.8.2 Since then, the onset of the Covid pandemic has magnified both the country's and the bus industry's problems significantly.

2.8.3 This review of those challenges makes it clear that, given the opportunity, there are many ways in which the bus industry can help to deliver significant advances in a wide range of policy areas.

2.8.4 In order to do so, operators need to:

- provide an extensive network of high quality services, delivered by a highly qualified and motivated workforce
- meet customer demand for access to vital employment, education, shopping, health and leisure opportunities
- offer value for money fares
- engage with government to deliver concessionary travel for those segments of the population which they wish to support
- be ready to accommodate additional demand
- invest in new technology and equipment, including zero emission vehicles.

2.8.5 Government funding and support is an essential element for delivering these advances, particularly where there is a desire to provide free or discounted travel for specific groups of the population. The question is whether the current support and the means by which it is delivered is fit for purpose.

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3. The Government's Vision: A Commentary

3.1 Introduction

3.1.1 The Welsh Government White Paper of March 2022, *One Network, One Timetable, One Ticket* set out a vision for the future of bus services in Wales as a prelude to planned legislation on the future planning and organisation of the network.

3.1.2 Our extensive consultations with operators during the preparations for writing this report showed that there is little in the vision statement with which operators in Wales would disagree. However, there are a number of comments and observations on the White Paper's statements which are discussed further in this chapter.

3.2 The Commentary

3.2.1 The table below sets out the government's vision and objectives, as outlined in the first chapter of the White Paper. The industry's commentary is set out in the right hand column.

Table 2: Government Aims and Objectives: A Commentary

Government Statement	Industry's Comments
A bus system that:	
• is purposely designed to maximise the public good	Maximising the public good will maximise the number of passengers travelling, which is and has always been a key objective of bus operators
• efficiently uses public investment to strategically address public priorities for bus improvements	The sector is consistently lobbying for bus priority measures, however there are often issues around implementation at a local level
• which forms part of an integrated transport network that provides an excellent travel option, wherever people need it, whenever people need it, throughout Wales.	A commendable objective but there must be doubt as to its affordability. Reconciling the needs and aspirations of passengers using different modes will always be a challenge, though.
Objectives	
• A comprehensive network of bus routes to serve the widest feasible range of destinations, both at busy times and less busy times in the evenings and Sundays.	Operators would support this wholeheartedly, albeit with concerns about long-term affordability
• Coordinated timetables for bus-bus connections and bus connections with all other modes of public transport.	A very worthy objective, and the sector would support these aims. Detailed implementation can prove challenging in reconciling different customer needs, coping with conflicting requirements on long and/or infrequent routes and during periods of disruption. These challenges would remain whatever the regulatory system.
• Simple area-wide fares, valid across all bus routes and on all modes of public transport.	If government is taking commercial risk, then fares policy is in their gift.
• Bus services that run quickly and on time, with congestion-busting dedicated road space and bus priority infrastructure enabling buses to offer a time-competitive alternative to private car use.	As noted above, the sector is consistently lobbying to achieve journey time improvements, especially in urban areas. Achieving such improvements in rural or semi-rural areas is likely to be more challenging.

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Government Statement	Industry's Comments
• Stable bus network from one year to the next, that people come to know and trust.	Stability must not be at the expense of responding to ever-changing market requirements – house moves, job changes, land use developments all affect network requirements.
• Easy-to-find comprehensive information and a unified high visibility brand.	Good information is always essential, but evidence from high-performing networks such as Nottingham, Reading and Go-Ahead Group local subsidiaries suggests that passengers identify most closely with route numbers and route branding as opposed to national or regional brands.
• Affordable fares that represent good value in comparison to driving.	Fares must take into account the level of, and changes to, operating costs for the network to be sustainable in the long term.
• Passenger-friendly drivers, trained and supported to be front-line ambassadors providing a day-to-day public face for the bus service that helps attract users.	Driver quality is a key objective for operators already. Operators would be interested to hear how Welsh Government proposes to support the sector to continue to improve.
• Good quality waiting facilities	Waiting facility improvement and accessibility are already the responsibility of local authorities, and this would not change under the White Paper's proposals. Improvements to a good standard across the country will require significant and sustained public sector investment.
• Good quality vehicles, with a rapid transition to zero emission vehicles	Zero emission vehicles present challenges for funding of price difference and infrastructure, with additional complexity in relation to range and suitability in some areas. Questions remain over Government's ability to invest to the level required to meet current and future targets.

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4. Affordability and Future Demand

4.1 Introduction

4.1.1 As noted already in this report, the last few years have seen a series of changes in the operating and commercial environment for bus networks, virtually all of which have been extremely adverse:

- Patronage has failed to recover to pre-Covid levels (but was in any case already falling), prompting reductions in passenger revenue
- Operating costs are rising rapidly. CPT Cost Monitor analysis shows that:
    - in Great Britain outside London, they increased by 18% in real terms between 2019 and February 2023
    - in Wales unit costs rose by 16.5% between February 2022 and February 2023. (see section 11.5 below).
- Interest rates and corporation taxes have both increased, driving up the returns that operators need to make to fulfil their financial obligations
- Investment has been restricted, creating a backlog in vehicle replacement requirements
- There is a desire to introduce zero emission buses to the networks, increase upfront capital costs for vehicles and requiring substantial additional infrastructure costs.

4.1.2 Operators, regardless of who owns them, are obliged to cover their costs of operation and to generate sufficient surplus to meet their financial obligations. There are only two sources of revenue that drive bus operator viability: fares income from passengers or support from Government. The only result of a shortfall can be service cuts or increases in fares.

4.2 Network Recovery

4.2.1 If the vision set out in the Government's White Paper are to be delivered, there would need to be some attempt to increase service provision from its current low levels to tempt customers back on to the network.

4.2.2 This could take two forms:

- improvements to frequencies on existing routes
- the development of new routes (which may or may not be the reinstatement of routes previously withdrawn because of a shortage of funds).

4.2.3 In the current financial climate, it is recognised that funding such developments would be challenging. We believe that the necessary precursor to such spending would be the adoption of a hierarchy of policy priorities and a set of criteria by which proposals could be assessed, including a robust methodology for assessing social need.

4.2.4 Policy priorities are necessary, since these are not always aligned: for example, a process which maximised the possibility of achieving modal shift would typically focus on urban areas, delivering journey time and frequency improvements to make buses more attractive to motorists. This could be shown to have economic and environmental benefits but with a

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limited contribution to social policy objectives. On the other hand, a set of policies aimed specifically at social benefits would focus more on rural and semi-rural populations, the outcomes of which could be very positive. However, economic and environmental benefits might be much more limited.

4.2.5 Achieving a balance between such issues in the face of limited resources but vocal lobbying amongst affected groups is a complex and controversial process. Even so, the chances of medium and long term success will be maximised if these issues are addressed.

4.2.6 At the same time, the question of social need can be addressed by use of Accessibility Planning tools, as discussed in section 2.2 above. These tools can be of considerable assistance in reassessing the best way to meet local needs in a new, post-Covid world.

4.3 Service Increase Scenarios

4.3.1 It is possible to assess the likely costs and revenue requirements for different scenarios using high-level figures from DfT and Wales Transport Statistics.

4.3.2 We have provided some illustrative examples below:

- Scenario 1 is based on a return to supported service levels operated in 2008/09, immediately before the recession that followed the financial crisis. In that year, the stats show supported supply was 83.91m km. This would require an extra 21.4m km compared with the 2021/22 figure.
- Scenario 2 would return the volume of commercial supply to 2017/18 levels, the peak of supply, when 86.38m km were operated. This would require an increase of 23.57m km.
- Scenario 3 would see both increases implemented.

4.3.3 The gross operating cost per kilometre of the Welsh network in 2021/22 was £1.71. An assumed 5% increase would place the figure at £1.79. The resulting calculations are summarised in Table 3 below.

Table 3: Service Increase Scenarios: Cost & Break-Even Calculations

Item	Scenario 1 Supported	Scenario 2 Commercial	Scenario 3 Total
Increase in Km operated (m)	21.39	23.57	44.96
Assumed Cost per Km (£) †	1.79	1.79	1.79
Gross Cost of Extra Km (£m)	38.31	42.19	80.50
With operator margin @ 10% (£m)	42.14	46.41	88.55
Revenue per passenger (£ at 2021 levels) ‡	2.21	2.21	2.21
Extra passengers required to break even	19.04	20.97	40.01
% increase in demand from 2021/22 levels	36%	40%	77%

† - Cost in 2021/22 per DfT Annual Bus Statistics plus 5% allowance for inflation

‡ Revenue per passenger including concessionary fares reimbursement, from figures in Annual Bus Statistics, 2021/22, DfT

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4.3.4 The increases in patronage required to break even on such service increases look formidable. However, there is evidence to suggest that 2021/22 patronage was suppressed because of Covid and has recovered further since, though we have no published statistics to verify that. This means that achievement of the 40 million increase required for both sets of service restorations would bring total patronage in Wales to 92.3m, slightly above 2019/20 levels.

4.3.5 It will be appreciated that the figures contained here are purely illustrative: in the real world, cost of service provision will vary, and the market response would be far more complex and nuanced. However, it does serve to illustrate the point that a revival of the market to pre-Covid levels is by no means impossible, though short-term funding assistance from Government would be needed.

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5. Regulation and Ownership

5.1 Introduction

5.1.1 Before going on to discuss the specifics of the Welsh Government's proposed franchising model, it is necessary to consider the alternative options available to the Government. In broad terms, there are four possible ways forward:

- Maintain the status quo, with a mix of commercial and supported services: this minimises the risk of disruption during reform, but unless patronage and revenue levels recover to pre-pandemic levels, the commercial network is in danger of further shrinkage, especially in the face of ongoing operating cost increases. It has the additional disadvantage that it would not give the Welsh Government the additional influence over the future network that it seeks.
- Enhanced Partnership: this is the model being pursued by many local transport authorities in England, following a process set out in the Bus Services Act 2017. It retains a commercial element, leaving the bulk of commercial risk with the private sector, but giving local authorities greater influence over service levels and fares in return for revenue support and investment in bus priorities and other infrastructure improvements.
- A Gross Cost Franchise: modelled on the approach taken in London and now Greater Manchester, in which the public sector specifies the service they require and award a contract to operators by competitive tender. This is discussed further in paragraph 5.2 below.
- A Net Cost Franchise: also known as the Jersey model, which combines public sector specification of a minimum network with some element of commercial risk remaining with the operator. This is discussed further in section 5.3 below.
- The White Paper mentions the aspirations of the Welsh Government to see an expansion of municipal ownership in the industry, and this is discussed in section 5.4, whilst the importance of SMEs to the future is discussed in section 5.5.

5.2 The Franchising Proposal

5.2.1 The March 2022 White Paper explained the Government's proposals for franchising as "Local Government, Transport for Wales and the Welsh Government will work together to design bus networks and services which best meet people's and communities' needs *within the funding available* [our italics]."

5.2.2 The document continues that "the franchising authority specifies the services and how they will run, including routes, vehicle standards, timetables, fares, branding, passenger information and ticketing. Operators will then bid for contracts to run these services, competing in a tender process to deliver those services as efficiently and effectively as possible rather than competing for passengers at bus stops. Other operators are then unable to register routes within the franchised area."

5.2.3 The essence of these proposals mean that this would qualify as a "gross cost model".

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5.3 The Net Cost Model

5.3.1 One authority that can claim to have experience of bus franchising is the island of Jersey[17]. The island's government and parliament, known as the States of Jersey, regulated its bus network for the first time in 2002, developing a gross cost contract for a ten year period, and awarding it to the French company Connex (later Veolia Transport, now Transdev). The contract was held to have been successful in delivering a robust, reliable network and a fleet of new vehicles for the service.

5.3.2 However, the gross cost model proved to have two disadvantages:

- There was no incentive to reduce unit costs through innovation – or to even have a close interest in cost control.
- There was no incentive for the operator to deploy entrepreneurial skills and experience in network design, scheduling, ticketing, marketing etc since all incremental revenue goes to the contracting authority and not the operator.

5.3.3 This latter point was considered crucial, since the States needed to find an affordable way to improve and increase bus service provision and patronage to meet the targets in its Sustainable Transport Policy document, issued in 2010.

5.3.4 With the assistance of consultants, new proposals were drawn up. In summary form, the process was:

- Pre-qualified bidders were invited to bid against a 'model network' to provide a consistent base price
- Two finalists were then selected and invited to propose their own network designs which met the requirements of the States but offered better services or enhanced efficiency
- The network proposed by the winner and agreed by the States became the reference network which the government commissioned.

5.3.5 The contract contained several important provisions, including:

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

[17] *The notes here are taken from "Practical Bus Franchising – The Jersey Model" published by the erstwhile HCT Group in 2016 with the assistance of the States of Jersey. Available at https://democracy.leeds.gov.uk/documents/s144378/App3%20HCT%20Group.pdf*

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5.3.6 The contract was let in 2013, and by 2016 was successful in delivering 32% extra passengers, enhanced customer satisfaction, cost savings and several network enhancements. The operation was let to HCT Group, who held the contract until 2022, when the business was sold to the Australian Kelsian Group, co-proprietors of London bus company RATP Dev Transit London.

5.3.7 The States of Jersey currently plans to let a new contract for the island's bus services commencing in 2025.

5.3.8 This minimum subsidy model could offer an appropriate template for some parts of the Welsh bus network in future, especially in areas where it was considered more appropriate to let network contracts as opposed to route contracts. This is therefore the subject of a more detailed examination in a separate report prepared by Tracsis to complement this one, entitled *Minimum Subsidy Franchising: Y Ffordd Gymreig.*

5.4 Municipal Ownership

5.4.1 At the time of the implementation of the 1985 Transport Act, there were 51 council-owned bus undertakings in Great Britain, all of which were converted into wholly owned "arm's length" companies under the requirements of the Act. Of these, only eight remain in council hands, two of which are in Wales. There are examples of outstandingly successful companies, especially in Edinburgh, Reading and Nottingham: pre-Covid, they maintained very high ridership levels and strong local reputations.

5.4.2 Of the other 43 council-owned companies, six went into administration or were obliged to cease trading and 37 were sold by their authorities to other bus companies or management buyout teams. There were three basic reasons for sale:

- Trading difficulties and/or competition
- Difficulty raising funds for investment
- A conclusion by the authority that scarce capital resources could be employed better elsewhere in the council's activities.

5.4.3 The remaining eight companies are listed in Table 1 below. This gives some demographic data of the companies' home locations (accepting that they may well operate into neighbouring authority areas) and the approximate bus fleet size. It is notable that the surviving companies all operate substantial fleets (the smallest being Ipswich on 80), and all have densely populated urban areas at their heart, with Newport and Warrington having the lowest density. Enterprise size can be seen as critical, in terms of being able to fund the overheads necessary to support a bus company and meet the obligations that come from being in the public sector. As will be discussed in section 8.5 below, population density plays a crucial part in determining bus demand in a given area, and as will be seen in Table 8, there are no other authorities in Wales with a population density of this magnitude.

5.4.4 It is important to note that local authority ownership does not exempt the companies from fulfilling their statutory and financial obligations, and this includes in many cases the payment of a dividend where possible in order to contribute to the owning councils' other budgetary commitments.

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Table 4: Surviving Municipal Bus Operations in Great Britain

	Population (2021)	Area (Km^2)	Density (persons per km^2)	Bus Fleet
Blackpool/Fylde	140,954	35	4,027	135
Cardiff	359,512	141	2,550	200
Edinburgh	526,470	263	2,002	755
Ipswich	139,614	39	3,580	80
Newport	159,658	191	836	91
Nottingham	319,566	75	4,261	310
Reading	173,170	40	4,329	160
Warrington	211,227	181	1,167	110

Routes to New Municipal Companies

5.4.5 Given the appropriate legislative power, there would be three possible routes to council ownership:

- Set up a new wholly owned company to compete with existing operators either by running commercial services or bidding for contracts
- Raise capital to acquire an existing local bus company
- Compulsory acquisition of all or part of an existing operation (still requiring capital funding to acquire the assets).

5.4.6 Each would require:

- Initial funding to acquire assets
- Working capital
- Funds for future investment
- A business case showing how the business would be viable
- An annual surplus to meet borrowing costs and repay debt (i.e. make a profit).

5.4.7 In the current fiscal climate, it would seem unlikely that authorities would have the resources to follow any of these courses, especially in a franchised environment where there would be no guarantee of a contract win.

5.4.8 The continued existence of existing municipal companies could not be guaranteed in an initial competitive tendering round for a franchise, and, in the same way, the future survival of new municipally owned companies could not be guaranteed in a future retendering round.

5.5 The Role and Importance of SMEs

5.5.1 The number of bus and coach operators in Wales has been shrinking in recent years, with the number of 'O' licences issued to operators falling from 813 in 2016/17 to 555 in

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2021/22[18], a fall of some 32%. All the companies surrendering their licence would count as Small or Medium Enterprises (SMEs). At the same time, the number of registered local bus services declined by 25%, from 1,577 to 1,194.

5.5.2 There are many reasons why SMEs cease to trade or merge, but there can be little doubt that some of this shrinkage in numbers will have been caused by the 52% reduction in tendered service mileage since 2010.

5.5.3 A reduction in the number of operators reduces consumer choice in the field of leisure and group travel, but also the competition for contracts for both tendered bus services and other work such as home to school transport.

5.5.4 In the current climate, there are grave risks that there will be further shrinkage in the number of operators, causing systemic risks to authorities' ability to place contracts with local operators. This would cause risks to the ability to provide home to school transport as well as supported service and other contracts.

5.5.5 In addition, the further loss of SMEs whilst moving to a new franchised system must be counted as a downside risk – possibly resulting in higher than forecast costs or an inability to let contracts.

5.5.6 There are a number of reasons why this might happen:

- Complex and time-consuming bidding procedures
- The cost in terms of time and money of bidding for contracts, especially if they were more onerous than the current contracts let by local authorities
- Costs of contract compliance and reporting regimes
- The nature and complexity of any penalty regimes for non-compliance
- The complexity and cost of moving to zero emission vehicles – especially where investment in depot infrastructure might be required and current premises might be unsuitable or insecure.

5.5.7 These risks could be mitigated by the design of the tendering process and the contracts themselves.

[18] *Source: Annual Reports of the Traffic Commissioners*

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6. The Current Proposal

6.1 Overview

6.1.1 It is clear from our consultations that CPT Cymru members are committed to providing successful bus networks in Wales to serve the public as well as possible, whatever the regulatory regime in place. Thus, if the Welsh Government legislates in the form proposed in the White Paper, the bus operators will do their very best to make the new system work as well as possible.

6.1.2 Operators recognise that the changing circumstances in the Welsh bus market mean that there is a need for the regulatory regime to change, up to and including support for different models of franchising in some parts of the industry. However, that is not to say that operators necessarily support the current proposals or consider them to be the best way forward.

6.1.3 There are clear concerns concerning the affordability of the plans given the current fiscal environment at Welsh and UK Government levels. In particular, it is noted that the provision of bus services in Wales under a franchised system would be constrained by the funding available, as noted in the Government's own White Paper (see italics in paragraph 5.2.1). With limited borrowing powers, Welsh Government's ability to invest in modernising the fleet and supporting infrastructure would be constrained. Similarly, the many calls on day-to-day spending across all public services present a clear and serious risk that the funds available will be subject to freezes or real-term cuts in the next five to ten years – further jeopardising bus service provision.

6.1.4 Over the decade prior to Covid, we have already seen that constraints on funding available resulted in a reduction of almost 52% in supported bus service provision (see section 1.2 above). Immediately prior to the pandemic, over 80% of bus mileage in Wales was provided commercially, and these services would also be in jeopardy if they became dependent on government funding.

6.1.5 These challenges have been most evident during recent months, as the industry has worked with Welsh Government to move away from the emergency funding provided during the pandemic.

6.2 A SWOT Analysis

6.2.1 The table below sets out our analysis of the *perceived* strengths, weaknesses, opportunities and threats (SWOT) associated with a move to a gross cost contracting regime.

6.2.2 It is not possible to quantify most of these, and some entries in all four categories are undoubtedly contentious. We believe, however, that it does offer a reasonably balanced view of the plans.

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Table 5: Franchising SWOT Analysis

Strengths	Weaknesses
• Greater local control over local bus services	• Changing the regulatory system cannot prevent increases in operating costs
• Authorities have greater control over spending	• A franchise system could not prevent increased congestion
• 'London style' operation – perceptions vary as to what this means – could include regulation, service levels, infrastructure provision and/or fare levels. The advantages may be less strong in view of patronage decline since 2014 and financial problems faced by TfL.	• Bus operator profits still needed and must be paid regardless of commercial performance of network
• Highway authorities may be more inclined to provide bus priorities (but see also threats)	• Could not prevent loss of viability through cost increases and/or patronage loss, additional subvention from government, increased fares and/or service cuts
• Authorities may be more inclined to invest in infrastructure (subject to resource availability)	• Cost of administration and contract compliance monitoring
• "Serve the public, not the shareholders"	• Contract structure reduces flexibility, innovation and market responsiveness
	• Breaks the link between operator and customer, so risking demotivation of frontline staff, who no longer rely on passengers to pay their wages. This was widely acknowledged to have been an issue between 1974 and 1986 – and is evidenced in London by past campaigns over a number of years by TfL and London operators to improve driver-passenger relationships.
	• A lengthy transition period, delaying implementation of improvements and risking instability during transition period, which could result in staff shortages, unreliability of service and additional costs
Opportunities	**Threats**

• Patronage growth could be achieved through a variety of measures, including:
  • Improved co-ordination and integration
  • Simple ticketing system
  • Revised and simpler fares
  • Greater network stability
  • Improved information
  • Single, unified brand
Benefits and growth would not necessarily be unique to franchising and could be achieved under other regimes
	• Government funding constraints leading to reductions in the network and failure to invest in infrastructure

	• Revenue needs to cover costs otherwise the public subsidy bill escalates and becomes unaffordable
	• Difficulties in funding new vehicles and zero emission infrastructure
	• Failure to implement priorities following local objections to detailed measures, despite greater willingness to provide them.
	• Lack of flexibility with extensive consultation periods and political considerations intervening, potentially making networks unresponsive to demographic and land use changes or changes in demand (up or down)
	• Risk aversion and lack of innovation
	• Risks of tendering process adversely affecting municipally owned operators and SMEs
	• Loss of local identity and route branding benefits if single unified brand introduced

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6.3 A Risk Register

6.3.1 Following on from this work, we have prepared a risk register, which expands on the threats and opportunities identified in Table 5 above, sets out the stage(s) at which they are likely to materialise and suggests possible means whereby they could be mitigated. This follows as Table 6 below.

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Table 6: Bus Franchising for Wales – a Risk Register

Phase	Risk	Detail	Risk Type	Consequences	Potential to Control	Potential Mitigation
Operational	**Cost Increases**	Full impact of cost increases falls on the public sector. This is either through contract inflation clauses or risk of early termination by operator if cost increases are not recovered	Ongoing & Cumulative	Deteriorating network financial performance and/or loss of contractors through termination or insolvency. Reduced pressure on operators to reduce costs by introducing efficiency measures	Limited - dependent on inflation, labour market, energy prices.	(a) Financial performance issues could be mitigated by (1) Increasing fares; (2) reducing service levels (3) increasing public subsidy. (b) Tight cost control and contract management needed to monitor operator financial performance and solvency (c) step-in provisions in contract (e.g. "operator of last resort") designed to manage insolvency
Operational	**Congestion**	Change to franchising does not prevent congestion leading it increased costs, failure to grow patronage, or worse, passenger loss	Ongoing & Cumulative	Slow but steady deterioration in network financial performance, as a result of passenger loss and cost increases - requiring additional public subsidy.	Policies to increase bus priority in congested areas and increase generalised cost of car use.	Financial performance issues could be mitigated by: (1) Increasing fares; (2) reducing service levels; (3) increasing public subsidy; (4) Policies (e.g. parking charges, road user charges, workplace parking level to deter car use in urban areas; (5) Extensive bus priorities
Operational	**Patronage Loss from external factors**	Changes to demand patterns (demographics, car ownership, shifts in journey purpose - e.g. WFH, online shopping)).	Ongoing	Reduced passenger revenue, leading to deteriorating network financial performance	Limited - dependent on external influences, e.g. socio-economic changes, driven by wider considerations	Financial performance issues could be mitigated by (1) Increasing fares; (2) reducing service levels (3) increasing public subsidy
Operational	**Competition**	Patronage loss through competition from other modes (e.g. tram-train, ride-sharing apps, rail improvements & active travel)	Ongoing		Limited - driven by other policy decisions or competition from other operators (e.g. taxis)	Provision of successful, high-quality, customer-oriented network that is able to respond robustly to competition

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Phase	Risk	Detail	Risk Type	Consequences	Potential to Control	Potential Mitigation
Operational	**Future Fares policy**	Initial reductions in fares and ongoing policies to suppress future increases likely to depress income levels	Ongoing	Reduced revenue per passenger, leading to deteriorating network financial performance	Fares policy entirely within the gift of the franchising authority	Fares policies related to cost per passenger would mitigate revenue losses
Operational (Planning)	**Network design**	Conflicts between policy priorities	Ongoing	Focus on 'the status quo' leading to networks unable to respond to shifts in demand and unresponsive to public policy goals, e.g. modal shift	Clear strategic approach to network planning using accessibility planning techniques against a defined set of criteria	Understand the conflicts that can arise when resources are limited, between the need to maintain and enhance successful services that can promote modal shift, versus the provision of socially necessary links that carry fewer passengers
Operational	**Staff motivation**	Loss of customer focus as link between passengers and driver income/employment broken.	Ongoing	Current competitive environment motivates staff to do their best or lose their jobs. This is lost under franchising	Inevitable consequence, as was seen in 1970s/1980s - the franchising authority becomes the customer, not the passenger	Strong Ts & Cs, staff retention and recruitment strategies, staff engagement mechanisms. Transparent quality incentive payment regime giving staff a direct stake in how they are perceived by the public
Operational	**Slow politicised decision making**	Changes to network requiring political decisions, public consultation & potential renegotiation of contracts.	Ongoing	Will take months to achieve changes which may need to be made quickly in the face of changes to traffic congestion or passenger demand (increases as well as decreases)	Awareness of the risks and preparedness to allow flexibility	(1) Ensure that provision is made for speedy decision-making where a need can be demonstrated; (2) Procedures to ensure that network planning decisions are taken on an arms' length basis and against a clearly defined framework/set of criteria to ensure transparency and efficiency.

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Phase	Risk	Detail	Risk Type	Consequences	Potential to Control	Potential Mitigation
Operational	**National/network-wide branding**	A network wide livery & brand will lose the proven benefits of local identities and route branding	Ongoing	Loss of local links and sentiment. Impairment of public's ability to relate to their local network	Understanding of the tight local nature of the bus product in which the service number/route brand has primacy	Ensure that provision is made for local branding to be maintained, even if within the context of an overall approach to corporate identity
Transition & Operational	**Capital investment requirements**	Provision of resources to deliver required levels of capital investment to maintain adequate, modern fleet and deliver WG transport and net zero objectives	Ongoing	Inadequate investment levels will (a) result in higher maintenance costs for retained older vehicles (b) reduce the public appeal of the network and (c) impair achievement of WG net zero and air quality targets	Ensure adequate public sector borrowing limits (WG v Treasury). Alternatively, use private sector funding via operators (but at higher cost of capital).	Ensure realistic and adequately resourced investment programme over the life of the franchise.
Transition and Operational	**Competitive bidding environment**	Importance of genuine competition between operators for contracts	Ongoing	Lack of competition would result in higher prices quoted to WG, driving up the cost of network provision	Design of competition rules, bidding procedures and nature of draft contract	Ensure that bidding costs are commensurate with the value of the contract. Avoid onerous bidding and contract provisions. Take special measures to ensure SME participation (see below)
Transition and Operational	**Loss of SMEs**	SMEs may be unable or unwilling to bid: (a) if bidding process or contract provisions are to complex or onerous; (b) if a requirement for transition to ZEBs seen as to complex or risky or (c) capital investment requirements are too great and/or risky	Ongoing	Loss of entire SMEs businesses, rendering them unavailable for other work e.g. schools services & hires and causing jobs losses in small communities. Lack of competition would drive contract prices higher.		Take special measures including in design of contract packages, bidding procedures and other terms and conditions to incentivise SME participation. Ensuring that any capex requirements falling on operators are proportionate and fundable.

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Phase	Risk	Detail	Risk Type	Consequences	Potential to Control	Potential Mitigation
Transition and Operational	**Loss of management expertise**	Upheaval from franchising leading to resignation/early retirement of experienced managers, especially those whose commercial expertise would no longer be required.	One-off	This may potentially reduce quality of service delivery and impair any future movement back to a commercial/net cost model	Limited.	The franchising authority to work with the industry to ensure expertise is maintained either directly or indirectly, through recruitment, training, consultancy, and wider engagement with the operators.
Transition and Operational	**Migration to ZEBs**	Cost and implementation risks associated with a move to zero emission buses, including technology choice (especially in rural areas), vehicle cost, depot conversion costs, deliverability and network connections (both timescale and costs)	Ongoing	Delays in implementation, increases in planned capital and revenue expenditure; willingness of operators (especially SMEs) to participate	Programme developed needs to be robust, flexible and well-funded, & realistic for the manufacturers to deliver.	Avoid 'over-selling' the programme to the public and do not give hostages to fortune in terms of timescales and costs
Transition	**Depot provision & location**	Existing depots may be under wrong ownership or in wrong location.	One-off	(a) Increased dead mileage & duty costs and/or (b) reduced competition for contracts because of a lack of available premises and/or (c) unnecessary costs for new depots	Public ownership of major depots. Requires significant public capital funds	Publicly-owned depots could be leased to operators for duration of the contract.
Transition	**Investment hiatus**	Current service providers reducing/freezing investment ahead of franchise introduction.	One-off	Creation of investment backlog, increasing short and medium term capex requirements	Negotiation with operators to offer reassurance	Either (a) Offer reassurance on acquisition and residual value compensation; or (b) purchase vehicles in advance and lease them to existing commercial operators
Transition	**Staff reaction to change**	Introduction of uncertainty over future employment causing staff to leave the industry. Recruitment freezes by incumbent operators.	One-off	Withdrawal of existing commercial services ahead of transfer, requiring additional public support in short-term. Operators unable to staff service levels.	Early engagement by franchising authority with staff representatives and operators	Reassurance to existing workforces that rights and conditions (including pensions) will be protected under TUPE.

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Phase	Risk	Detail	Risk Type	Consequences	Potential to Control	Potential Mitigation
Termination	**Termination risks**	Possibly irrevocable nature of move to franchise model and difficulty of 'unscrambling' should the move prove unsuccessful	One-off	Future unwillingness of operators to take any form of revenue risk (especially after the experience of the last three years), and the inevitable loss of commercial experience and talent could make it difficult to move back to any form of commercial model.	Could be reduced by careful design of franchising regime.	The use of a 'net cost' franchising system could avoid this, since operators would retain some form of commercial risk

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6.4 Delivery of Objectives

6.4.1 The table below compares the government's objectives as set out in the White Paper and already commented on in Table 2 above. In Table 7 below, we offer an assessment of whether and how each of the possible reformed regulatory regimes could deliver them. A ✓ shows what we believe to be satisfactory delivery, but a ✓✚ highlights situations where the circumstances mean that the objective is best delivered under this system. A cross ✖ would indicate a failure to deliver, but as will be seen, was not needed.

Table 7: Meeting the Government's Objectives

Government Statement	Enhanced Partnership	Gross Cost Franchise	Net Cost Franchise	Remarks
A bus system that:				
• is purposely designed to maximise the public good	✓	✓	✓	Maximising patronage is in everybody's interest
• efficiently uses public investment to strategically address public priorities for bus improvements	✓✚	✓	✓✚	Partnership and net cost models can also lever in private sector investment
• which forms part of an integrated transport network that provides an excellent travel option, wherever people need it, whenever people need it, throughout Wales.	✓	✓✚	✓✚	Affordability is key. Partnership with other modes and operators is required whichever model is adopted. Accepted that central direction may be easiest method of achievement.
Objectives				
• A comprehensive network of bus routes to serve the widest feasible range of destinations, both at busy times and less busy times in the evenings and Sundays.	✓✚	✓✚	✓✚	Again, affordability is key, as ability to work in partnership is deliverable whichever regulatory model is chosen.
• Coordinated timetables for bus-bus connections and bus connections with all other modes of public transport.	✓	✓✚	✓✚	Partnership is key to delivery this worthy objective. Central direction may be able to deliver this more effectively, but partnership and compromise will always be needed.
• Simple area-wide fares, valid across all bus routes and on all modes of public transport.	✓	✓✚	✓✚	If government is taking commercial risk, then fares policy is in their gift. Arrangements could form part of a partnership agreement though.
• Bus services that run quickly and on time, with congestion-busting dedicated road space and bus priority infrastructure enabling buses to offer a time-competitive alternative to private car use.	✓	✓	✓	Reliability and priority are not dependent on the regulatory regime in force. Other constraints include affordability and local acceptance.

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Government Statement	Enhanced Partnership	Gross Cost Franchise	Net Cost Franchise	Remarks
• Stable bus network from one year to the next, that people come to know and trust.	✓	✓	✓	There is a balance to be struck between stability and market responsiveness. Not dependent on regulation.
• Easy-to-find comprehensive information and a unified high visibility brand.	✓	✓+	✓+	Deliverable under all three, though may be easier under the two franchise systems.
• Affordable fares that represent good value in comparison to driving.	✓	✓+	✓	Again, affordability is the key in the face of rising operating costs. Agreement may be more difficult if operators retain any degree of financial risk, but by no means impossible.
• Passenger-friendly drivers, trained and supported to be front-line ambassadors providing a day-to-day public face for the bus service that helps attract users.	✓+	✓+	✓+	Driver quality is already a key objective and not dependent on the regulatory regime
• Good quality waiting facilities	✓	✓	✓	Already the responsibility of local authorities, not dependent on the regulatory regime. Again, affordability is main question.
• Good quality vehicles, with a rapid transition to zero emission vehicles (ZEBs)	✓	✓	✓	Can be delivered whatever regulatory regime is in force, subject to funding availability.

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7. The Franchising Decisions

7.1 Introduction

7.1.1 Even within the principle of franchising as outlined in the White Paper, many key decisions would need to be made about the form and nature of the contracts.

7.1.2 These cover governance, asset purchase, and vehicle provision. The following sections discuss some of these and examine possible alternative models /methodologies.

7.2 What sort of operating contract?

7.2.1 As discussed in Chapter 5, the White Paper envisages a gross cost model. Key features include:

- full commercial risk for the authorities
- full costs of operation plus a profit margin paid by authority to operator regardless of network commercial performance
- the model provides no operator incentive for revenue or patronage growth
- less flexibility since all variations to the base contract must be renegotiated
- Attribution of risks on revenue and cost variations over the life of the contract.

7.2.2 A possible alternative model might be what is termed a "minimum subsidy" contract. Features might include:

- Operators bid for a service level agreement on a 'reference network'
- Shared commercial risk between operator and authorities
- Operator receives reimbursement of costs only if they are not covered by revenue
- Operator incentivised to grow revenue and patronage
- Operator may be free to operate additional services within the reference area at their own risk
- Full open book accounting, with tendering authority entitled to a profit share beyond an agreed level.

7.3 What sort of franchise?

7.3.1 The White Paper envisaged a flexible approach to contract types, saying, "the scale at which contracts are let for services will be determined on a case-by-case basis from individual routes to entire local networks". The two types might be defined as:

- Route franchises: contracts let by individual routes or small groups interlinked of routes (as London). These are particularly well-suited to rural areas and for maximising opportunities for SMEs in other areas
- Network franchises: contracts let covering a network of routes in a defined geographical area which can cover specific corridors or local authority areas.

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7.4 Asset ownership

7.4.1 There are two basic models for asset ownership under a franchising system:

- Authority-owned land and buildings, let to the operator as part of a contract. This model is usually associated with a network franchise and can reduce operator capital employed and therefore the level of profit needed by operator. There is an upfront capital cost to the tendering authority – and the authority needs to meet its ongoing financial obligations on asset ownership
- Operator-owned assets for the running of the service(s), the cost of which is reimbursed by the authority as part of the contract. This reduces the upfront cost to the tendering authority but increases operator capital employed and therefore profit needed by operator to meet their financial obligations.

7.4.2 Both arrangements would be subject to negotiation on responsibilities, residual values, capture of unexpired value of long-term investments made part way through a contract, etc. In the initial letting of the contract and in subsequent renewals, the authority can assist or even participate in negotiations over the transfer of land and building assets between the incumbent commercial operator and authority (if funds are available) or, in the case of contract re-letting, from one operator to another.

7.5 Vehicle Provision

7.5.1 Authority acquires vehicles by purchase or lease, provides them to the operator for a fee that forms part of the contract

- Authority takes residual value risk
- Public sector can generally borrow on more advantageous terms than the private, but expenditure may be subject to the authority's wider Prudential Borrowing limits
- Reduces operator capital employed and therefore profit needed by operator.

7.5.2 Alternatively, the operator acquires vehicles by purchase or lease, provides them to the authority as part of the contract

- The attribution of residual value risks would have to be negotiated. Terms would be dependent on length of contract. Some form of purchase guarantee likely to be required for either the tendering authority or the successor operator to purchase the vehicles on contract expiry
- Increases operator capital employed and therefore profit needed by operator to meet financial obligations.

7.6 Governance: Who's in Charge?

7.6.1 The White Paper says that "Local Government, Transport for Wales and the Welsh Government will work together" in designing networks. However, it is unclear which would be the contracting authority. There are three possible options:

Welsh Government and its agency Transport for Wales (TfW)

7.6.2 This model would have advantages in:

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- unity of approach
- uniform standards across the county
- enhanced budgetary control.

7.6.3 On the other hand, it could be argued that this model would have several risks:

- Too much centralisation
- Disregard of local circumstances and social needs
- Disregard of local priorities in the local communities
- Lack of detailed knowledge of each area.

Individual Local Authorities

7.6.4 Local control would have advantages in:

- Detailed local knowledge
- Democratic accountability to local electorates for local priorities and social needs.

7.6.5 However, authorities – especially some of the smaller ones – would suffer from several disadvantages including:

- Lack of resources for network planning, administration and contract management
- Lack of experience in managing commercial risk
- Geographical coverage too small to enable effective regional and sub-regional planning
- Duplication of effort between authorities for the same outcomes.

Regional Transport Partnerships or Corporate Joint Committees (CJCs)

- The four Corporate Joint Committees cover four parts of Wales, North Wales, Mid Wales, West Wales and South East Wales. New duties came into force in June 2022 for the CJCs to produce Regional Transport Plans for the part of Wales which they cover
- It may well be, therefore, that this is the appropriate level for the tendering authorities. It would offer advantages of local accountability and local knowledge and set the provision of bus services within the context of the regional plans. These CJCs could also have the critical mass to develop expertise in network planning, contract and compliance management, revenue protection, etc
- There would, though, be questions of affordability and duplication of effort.

7.7 Costs of Administration and Contract Compliance

7.7.1 At this stage in the process, it is difficult to be precise as to the costs of administering a bus franchising scheme in Wales. However, one approach could be to take previous work done on the costs of franchising, undertaken by The TAS Partnership (TAS) for DfT and CPT during 2003, which was subsequently updated in 2015 in work commissioned by Stagecoach Group plc and published as *Lessons from London: The Costs of a Bus Tendering Regime in London.*

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7.7.2 The report suggested that a London-style regime would require a much higher level of staffing and resources within the 'authority' (LBSL on behalf of TfL) compared to local transport authorities in Great Britain outside London, mainly because of the far greater level of activity in planning, managing and promoting the bus network.

7.7.3 The report identified four main activities or groups of activities which would require to be undertaken that would be additional to what happened in the existing authorities or undertaken at a significantly greater level. These were:

- the planning and procurement of services
- management of the network, including contract management and liaison
- revenue protection
- marketing, research, consultation, communication, performance management and all the associated support services, including monitoring, survey and information staff and their costs.

7.7.4 Under the existing regime, some of these costs are already incurred by operators, who might achieve some savings in overhead costs as a result. However, others argue that the disciplines of planning a commercial network are very different from those of a local authority – and in any case that the staff currently employed by operators would need to be redeployed into tendering for contracts and contract compliance matters.

7.7.5 To evaluate the cost of these, TAS adopted the following approach:

- Divided the networks into a number of "contract areas", derived from the approach which has underlain the development of other franchise schemes to date. As already noted, it may be that the contracts in some areas would continue to be let on a route-by-route basis. However, all the functions outlined would still be required.
- Make assumptions concerning the levels of activity which will be required for each contract area.
- Cost these and add them to a total for each authority, using unit costs of £44,330[19] per employee plus £10,000 overheads per contract (covering office costs and computers). Revenue inspectors are assumed not to require a desk and therefore incur no premises costs – though their managers would.
- Where shift work would be required, we have allowed 20% extra staff to cover for sickness and holidays.

7.7.6 The resource requirements have been estimated as follows:

- Procurement: two staff members per contract area, plus up to 12 days of external legal advice per annum @ £1,000 per hour. Sickness and holiday cover provided at authority level.
- Network planning: two staff members per contract area, plus up to 15 days of external assistance/analysis per annum @ £800 per day.

[19] Based on average weekly earnings for public administration in June 2023 (ONS Labour Force Survey), plus 25% for NHI/Pension etc.

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- Revenue protection and audit: staff necessary to undertake checks on 2.5% of journeys with management of follow-up including penalty fares and prosecution of persistent offenders.
- Network management and control: two members of staff per contract area on three shifts covering hours of service, with sickness and holiday cover at authority level.
- Enhanced planning activity, plus marketing and promotion including internet and social media: 2.5 staff per contract area, with sickness and holiday cover at authority level. An allowance for outside advice and creative input, costed at 15 days @ £800 per day, plus an allowance for additional marketing on costs (print, web hosting, media buying).

7.7.7 The key assumption to make is the size and nature of the contract areas. Given the rural nature of much of the territory, an approach which continues to use population served as a criterion seems likely to be reasonable – accepting that in some cases, the geographic areas to be covered will be large. TAS believed it likely that each contract area would serve around 220,000 people.

7.7.8 In providing an estimate of the number for Wales, we have assumed a minimum of one contract per local authority area, increasing in the small number of authorities where the catchment population exceeds 220,000. This analysis suggested that there would be 25 contracts – 12 in South East Wales, two in Mid-Wales, five in South West Wales and six in North Wales.

7.7.9 Based on these assumptions, we would suggest that the total cost of administering and managing a bus franchise system in Wales would be approximately £9.6m a year. Not all these costs would be additional to existing running costs. Local authority staff already carry out some of the tasks identified here and would be available to plan and execute a franchise system instead. It is also possible that some existing employees at the bus operating companies could also transfer. We also note that Welsh local authorities reported spending of £5.5m on "co-ordination" in 2021/22[20] working on their supported networks would transfer, and some or all of this spending could be absorbed into the new system.

7.7.10 TAS was anxious in 2003 and again in 2015 to emphasise that their work should be read as an indicative comparison and not a definitive resolution of the differences between the two systems. We would reiterate that view today: in order to try to make any estimate of costs, a whole series of assumptions have had to be made, which are always open to challenge and reinterpretation.

[20] *Net Current Expenditure, Co-ordination from Roads and Transport revenue outturn expenditure by authority, published by Stats Wales.*

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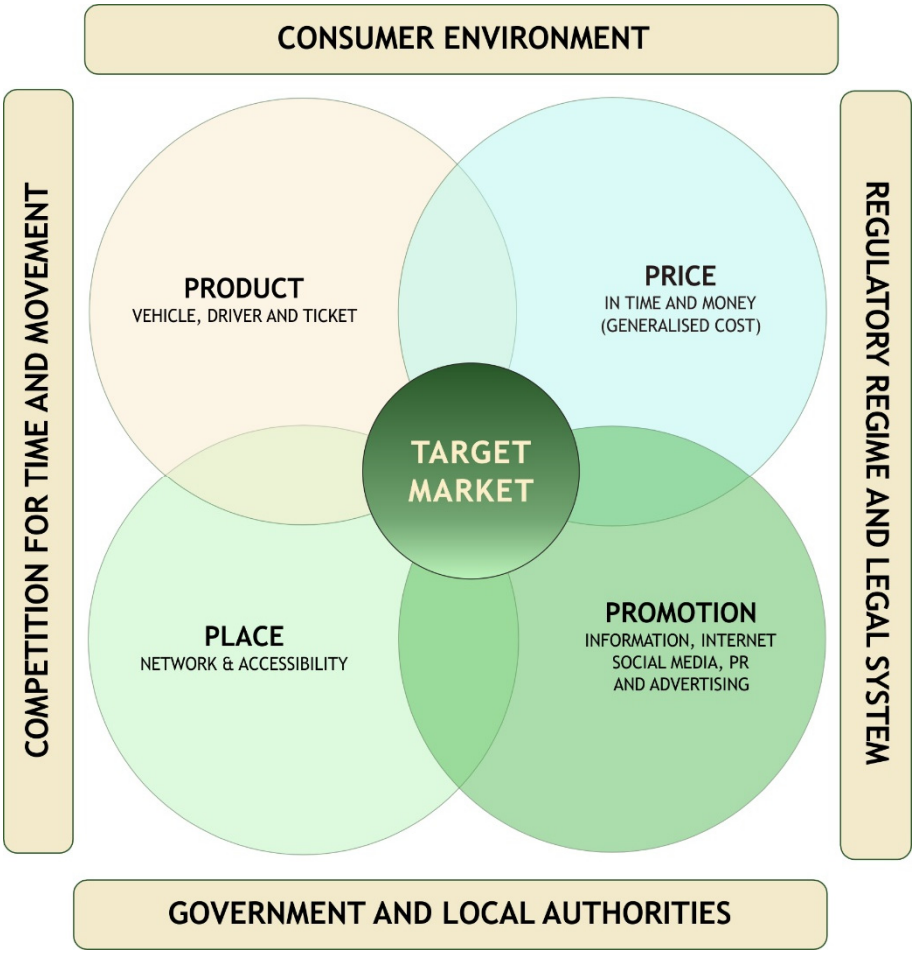
8. The Bus Market in Wales: An Overview

8.1 Approach and Methodology

8.1.1 As with any product or service, the bus industry lives within the laws of demand and supply. The environment can best be described in a marketing mix diagram which relates the bus product to the traditional "four Ps" of marketing analysis – product, price, place and promotion. This is shown at Figure 8-1 below.

Figure 8-1: The Marketing Mix for Buses



8.1.2 There are two key differences in this analysis between bus and many other products or services:

- Firstly, that the price encompasses more than the cost in money terms – it also includes the cost in time, otherwise known as generalised cost. An alternative way of looking at this is to say that whereas customers choose between other competing products on the basis of price and quality, in transport they choose on the basis of price, quality ***and time***.
- Secondly, the instantly perishable nature of the industry's product has an impact on costs and marketing. The product can be characterised as a seat available between point A and point B at a given time. If it is not occupied or sold immediately, it has gone and cannot be recovered: but the operator has still borne the cost of producing it.

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8.2 A Story of Long-Term Decline

8.2.1 In common with the rest of Great Britain outside London, the market for bus services in Wales has been in long-term decline for as long as separate statistics have been available. These date back to 1982 and are illustrated in the graph at Figure 8-2 below. It will be seen that there have been periodic upturns, notably in the immediate aftermath of deregulation, in the mid-1990s, and then again after the introduction of free concessionary travel in 2001.

8.2.2 During the years since devolution, bus demand reached a peak of 130 million passenger journeys in 2008/09, before the impact of the global recession set numbers on a downward path once more, sinking to 101 million in 2018/19, before the onset of the pandemic turned everything upside down.

Figure 8-2: Bus Demand in Wales since 1982

8.2.3 There is no recent published data about the disaggregation of bus demand statistics in Wales. However, we note that an analysis undertaken by The TAS Partnership for the years 2008 to 2013 showed that South East Wales accounted for over 55% of total demand with 11% in North Wales, 14.4% in South West Wales and 1.1% in Mid Wales[21].

8.3 The Components of Demand

8.3.1 Much work has been done over the years by academics, consultants and operators to gain an understanding of the principal drivers of demand for bus services.

8.3.2 In May 2020, *Passenger Transport Monitor* published its report *The Bus Demand Jigsaw 2020*, whilst other contributions came in the form of a report by Dr Scott Le Vine and Emeritus

[21] *Catch the Bus in Wales, The TAS Partnership for CPT Wales, July 2015.*

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Professor Peter White, *The Shape of Changing Bus Demand in England* for the Independent Transport Commission (January 2020) and a paper by Professors Peter White with Stuart Cole for the Chartered Institute of Logistics and Transport's Bus and Coach Policy Group, *Factors Affecting Local Bus Demand And Potential For Increase* (April 2021).

8.3.3 The documents share much common ground in identifying a range of factors, some external to the product and others which are internal. Operators and policymakers alone can influence some (but not all) of the internal factors but few if any of the external factors.

8.3.4 It is of course the inherent nature of all demand for transport that it is derived. People do not, as a rule, travel for the sake of it, but in order to do other things in their lives – including such activities as going to and from work or places of education to shopping, leisure activities and visiting friends and relatives.

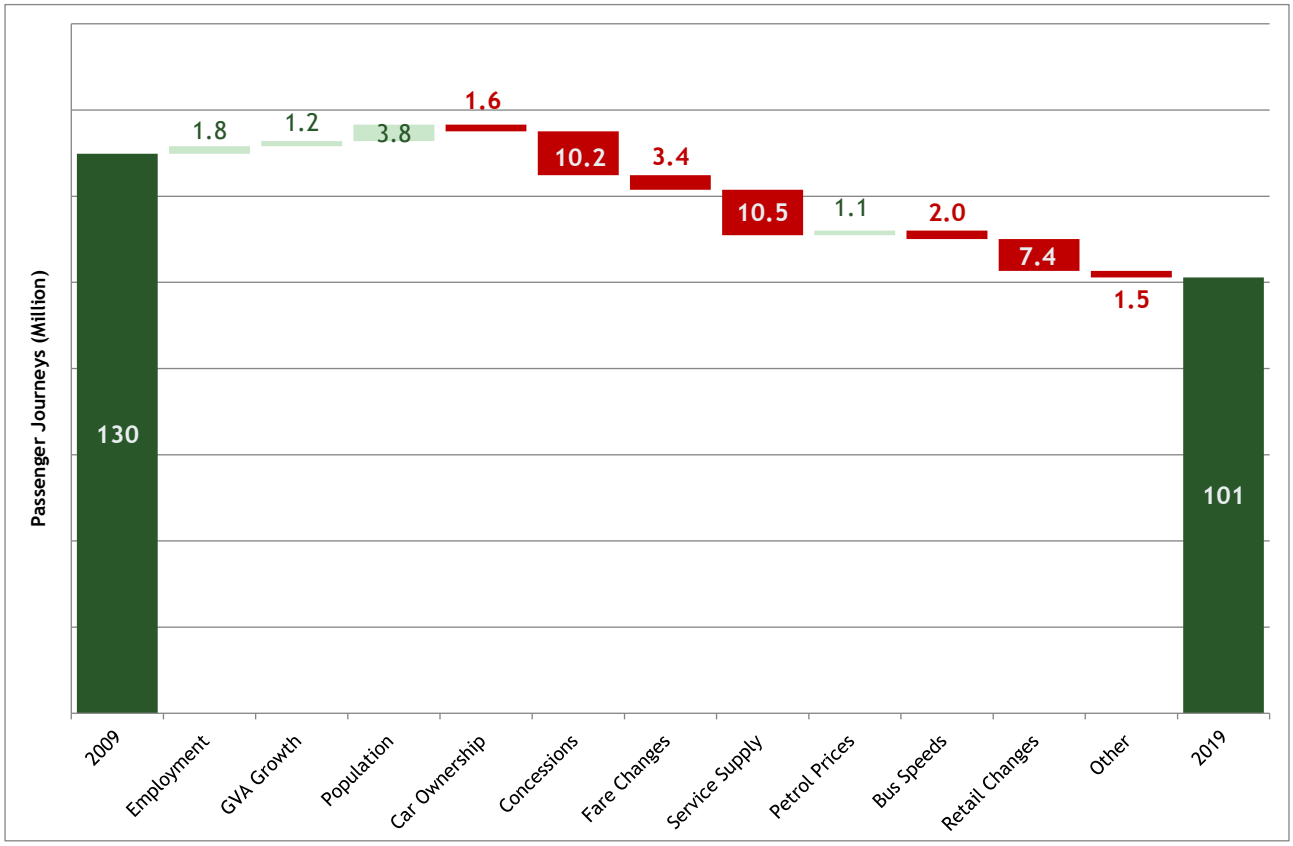
8.3.5 The inter-action of the various influences can be illustrated, as in Figure 8-3 below.

Figure 8-3: Factors Influencing Demand for Bus Services

8.4 Accounting for Change

8.4.1 In the 2020 report *The Bus Demand Jigsaw*, publishers *Passenger Transport Monitor* identified key factors in driving the change in bus demand between 2008/09 and 2018/19 and quantified them by reference to external published data sources. With the use of recognised demand elasticities, the report postulated the items which had contributed to the decline in demand seen over that period. These are illustrated in the graph at Figure 8-4 below, which "bridges" the gap in demand between the 130 million trips in 2008/09 and the 101 million in 2018/19.

Figure 8-4: Components of Demand Change, 2009-2019



Source: The Bus Demand Jigsaw 2020, published by Passenger Transport Intelligence Services

8.4.2 It will be seen that some movements – in employment, GDP, population and petrol prices – were held to have increased demand. However, these were offset by adverse movements. The three most important were:

- a fall in demand for concessionary travel
- reductions in service supply, mainly in the provision of supported service networks. As we've already seen, these saw a 51.8% reduction in kilometres run over the period, whilst commercial service supply increased by 5.6% in these years[22]
- falls in demand for shopping trips as transactions moved online.

8.4.3 Other adverse movements were caused by car ownership growth, real-term changes in fares, and a fall in bus speeds because of growing traffic congestion.

[22] *Annual Bus Statistics 2021/22, Department for Transport, Sheet BUS02_km*

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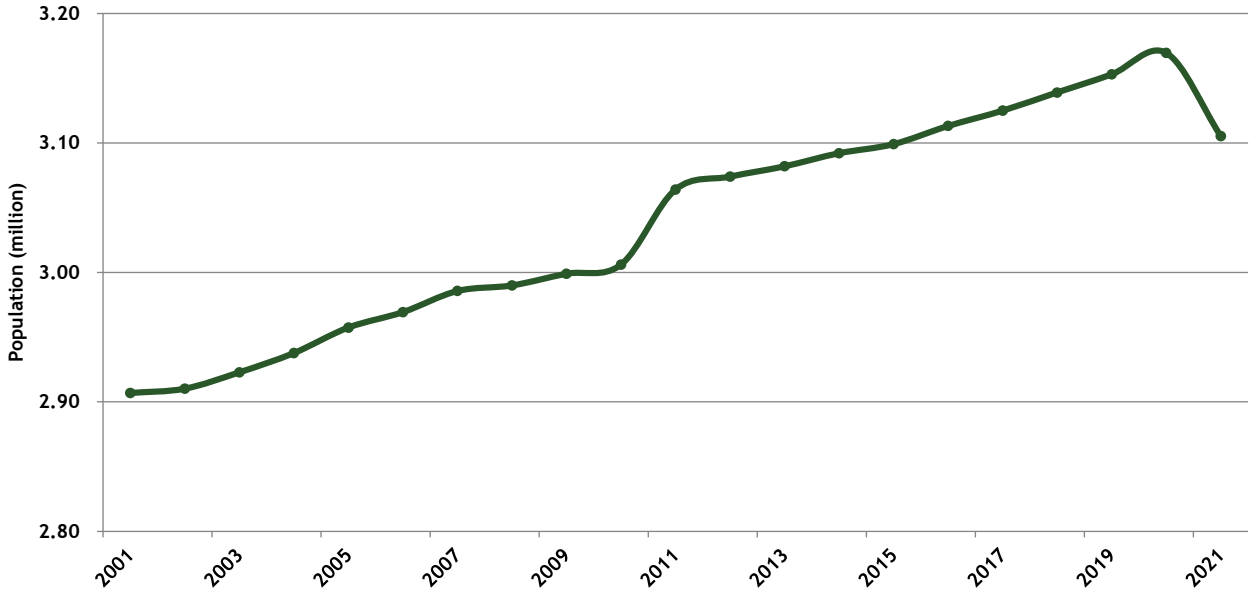
8.5 Demographics in Wales

Overall Population Trends

8.5.1 The overall population started to increase in the late 1980s, with continuous annual increases recorded between 1988 and 2020. Between 2001 and 2020, growth was nine per cent. The total peaked at 3.17 million in 2020, before falling back by two per cent in 2021 to 3.11 million. The trend since the turn of the century is illustrated in the graph at Figure 8-5 below.

Figure 8-5: Total Population in Wales, 2001-2021



8.5.2 The figures for each local authority can be found in Table 8 below, which also includes the 2001 figure and the growth since, alongside the population density. Sub-totals are also provided for each of the Corporate Joint Committee areas.

8.5.3 The population is concentrated towards the south east of the country, and this is where the bulk of the growth has occurred. The authorities there cover 13.6% of the area but account for over 48% of the population. This has grown by over 8% since 2001 with Newport, Cardiff, Bridgend and The Value of Glamorgan seeing double-digit growth of up to 16%. Meanwhile, areas such as Ceredigion and Blaenau Gwent have seen a net loss.

Population Density

8.5.4 Measured by reference to the 2021 Mid-Year Population Estimates supplied by the Office for National Statistics, population density in the United Kingdom stood at 276 persons per km^2. In Wales, the overall figure is 150. The most densely populated area is Cardiff, which had 2,550 persons per km^2. No other local authority has a density of more than 1,000. The most thinly populated is Powys with a density of just 26 persons per km^2.

8.5.5 The Welsh figures are in stark contrast with the most densely populated areas of the UK, which was the Borough of Tower Hamlets in London, at 15,614 persons per km^2 in 2021.

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Outside London, the most densely populated cities are Portsmouth (5,171), Southampton (4,945) and Manchester (4,741), all almost double the population density of Cardiff.

Table 8: Population Totals, Growth and Densities in Wales, by Local Authority

Area	Area Covered (km^2)	Population 2001 (000s)	Population 2021 (000s)	% growth since 2001	Population Density in 2021 (persons per km^2
WALES	**20,736**	**2,910.2**	**3,105.4**	**6.7%**	**150**
Isle of Anglesey	711	67.8	68.9	1.7%	97
Gwynedd	2,535	116.8	117.1	0.2%	46
Conwy	1,126	109.7	114.8	4.7%	102
Denbighshire	837	93.1	96.0	3.2%	115
Flintshire	437	148.6	155.1	4.3%	355
Wrexham	504	128.5	135.1	5.1%	268
TOTAL NORTH	**6,150**	**665**	**687**	**3.4%**	**112**
Powys	5,181	126.4	133.6	5.7%	26
Ceredigion	1,786	75.4	70.7	-6.3%	40
TOTAL MID	**6,967**	**202**	**204**	**1.2%**	**29**
Pembrokeshire	1,619	113.1	123.7	9.4%	76
Carmarthenshire	2,370	173.7	188.2	8.4%	79
Swansea	380	223.5	237.8	6.4%	626
Neath Port Talbot	441	134.4	141.9	5.6%	322
TOTAL SOUTH WEST	**4,810**	**645**	**692**	**7.3%**	**144**
Bridgend	251	128.7	145.8	13.2%	581
The Vale of Glamorgan	331	119.3	132.5	11.1%	400
Cardiff	141	310.1	359.5	15.9%	2,550
Rhondda Cynon Taf	424	231.9	237.5	2.4%	560
Merthyr Tydfil	111	56.2	58.9	4.7%	530
Caerphilly	277	169.5	176.0	3.8%	635
Blaenau Gwent	109	70.0	67.0	-4.3%	615
Torfaen	126	90.9	92.5	1.7%	734
Monmouthshire	849	85.0	93.2	9.7%	110
Newport	191	137.6	159.7	16.0%	836
TOTAL SOUTH EAST	**2,810**	**1,399**	**1,522**	**8.8%**	**542**

Source: 2FM Analysis of Mid-Year Population Estimates, Office for National Statistics.

The Importance of Population Density

8.5.6 This measure is important, since it will at least in part determine the market potential of a bus network of a given size. This is illustrated in Table 9 below, whereby we take a given area in square kilometres and a given level of bus usage (measured in trips per person per

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year), and then look at what effect different population densities would have on demand levels.

8.5.7 In the example, we have selected an area of 175 square kilometres (roughly the size of Newport). We have then taken an assumed trip rate of 40 bus trips per person per year. It is then possible to calculate the likely level of demand in areas with different population densities – the illustrative values chosen are representative of densities in the various authorities shown in Table 8 above.

Table 9: Bus Patronage at Different Population Densities

Population Density (persons per km^2)	Resulting Population Level for 175 Km^2	Annual Bus Passenger Journeys (000s) @ 40 trips per person per year
26	4,550	182,000
80	14,000	560,000
100	17,500	700,000
625	109,375	4,375,000
750	131,250	5,250,000
2,550	446,250	17,850,000
5,000	875,000	35,000,000
10,500	1,837,500	73,500,000

8.5.8 It follows from this that more densely populated areas can sustain a more intensive bus network, since the demand for trips generated will be much greater, even if the average number of journeys undertaken by each resident stays the same.

8.5.9 In the examples above, the area with the population density of 5,000, like some English cities, would generate twice as many bus trips at given trip rates than Cardiff. The Welsh capital would itself generate significantly more than an area such as Newport or Torfaen, which have population densities of around 700 to 750 per square kilometre.

8.5.10 It is notable that a population density of 10,500 – such as is found in the inner London boroughs - would generate four times as many trips as a city with a density like Cardiff. This is another illustration of the fact that London is very different from other urban areas in the UK, and that great care must be taken in thinking that lessons from London can be applied elsewhere.

8.6 Car Ownership

8.6.1 As already noted, one of the primary influences on bus demand is the growth in ownership and use of the private car.

8.6.2 We can see immediately from the graph at Figure 8-6 below that there is a strong correlation between bus use and car ownership across the UK, including Wales.

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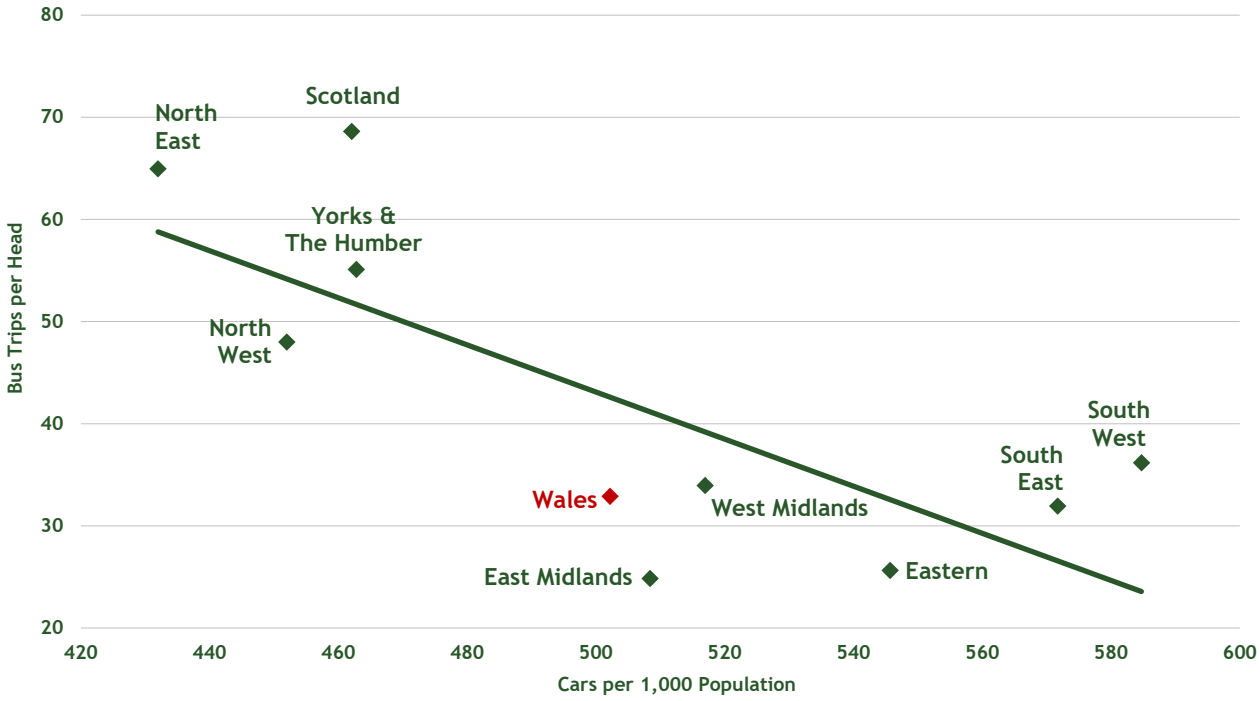
Figure 8-6: Car Ownership and Bus Use - GB Comparisons (2019)



Source: 2FM Analysis of Annual Bus Statistics and Annual Vehicle Licensing Statistics, Department for Transport.

8.6.3 Different levels of car ownership have a decisive impact on the volume of use for bus services: and the reason for this becomes clear when we consider data from the National Travel Survey, now alas restricted to England. The graph at Figure 8-7 below shows that bus use in households without a car is almost three times higher than in car-owning households.

8.6.4 As can be seen, the act of buying the first family car causes bus use by all members of that household - to fall sharply. On average, the number of trips per person per year falls by over 60%, from 84 trips to 32.

8.6.5 Census data shows that the number of households without a car in Wales fell by 3.5% between 2011 and 2021, going from 22.9% to 19.4%. The percentage varies across the local authorities, from Cardiff and Blaenau Gwent, where over 29% of households lack a car, down to Powys and Monmouthshire on around 15%. The full list is shown in Appendix B below, showing the figures from each census and the change in the percentage. The largest falls in the number of households without a car was in Blaenau Gwent (6%) and Newport (5.3%). The lowest shift was in Powys (1.9%).

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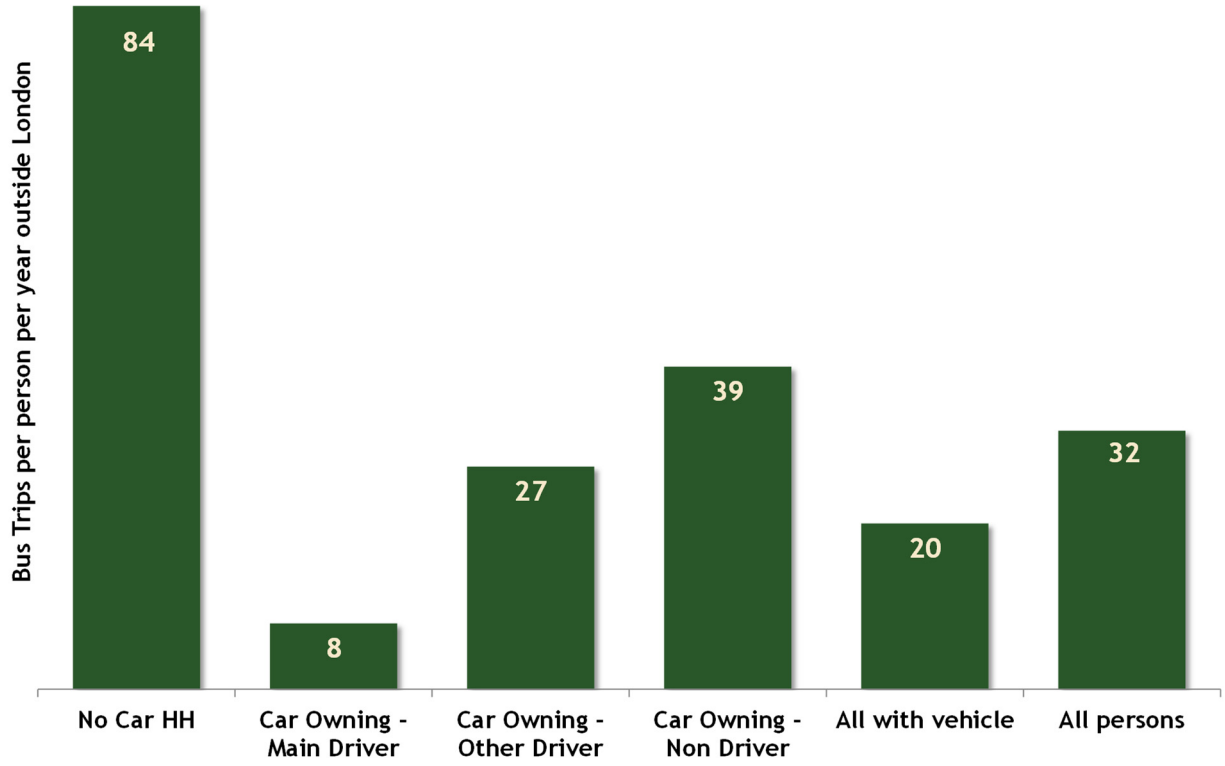
Figure 8-7: Bus Use in Households by Car Ownership (2019)



Source: National Travel Survey 2020, Department for Transport

8.6.6 It is interesting to reflect on the changes in the volume of car ownership since the mid-1980s. Figure 8-8 records the changes in the volume of cars owned in Wales at various points since 1986 and compares the number with England outside London and Scotland. As can be seen, the number of cars registered per 1,000 people has grown significantly in all three areas. In Wales, the growth has been 70.9%, from 299 per 1,000 to 511. This has been more rapid than England outside London, 52%. Scotland started from a lower base – 243 per 1,000. Though the number has since risen by 89% it remains below Wales on 460.

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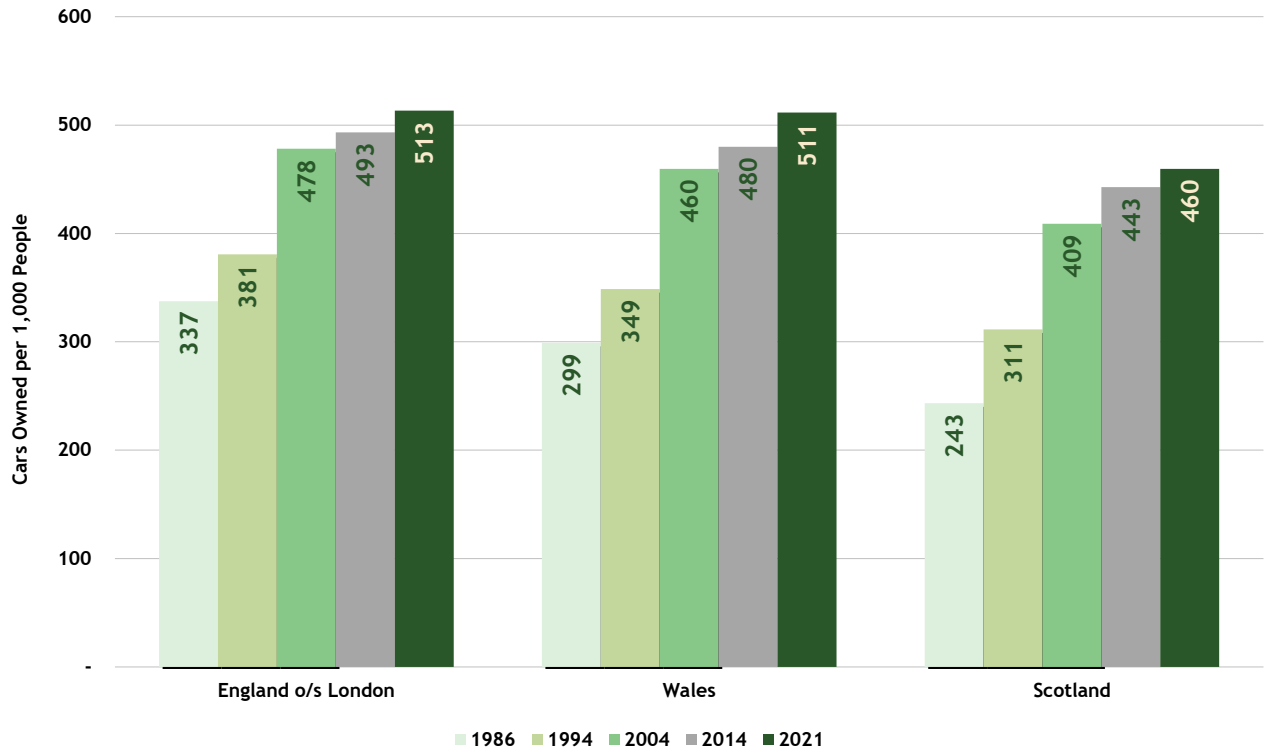
Figure 8-8: Car Ownership Changes by Nation since 1986



8.7 Journey Purpose: Why People Use Buses

8.7.1 There does not appear to have been any analysis of journey purpose by bus since the withdrawal of Wales from the Department for Transport's National Travel Survey after 2012. Some evidence has previously been published from the 2008-2012 surveys[23]. This is shown in Table 10 below, alongside the figures for England in 2012 and 2019.

Table 10: Bus Use by Journey Purpose - Variations and Shifts

Journey Purpose	Wales 2008-12	England 2012	England 2019
Commuting	**11.5%**	18.8%	23.0%
Business	**1.0%**	1.7%	2.6%
Education (including escort)	**18.2%**	19.4%	20.9%
Shopping	**31.8%**	25.7%	20.8%
Other escort and personal business	**15.6%**	13.9%	12.3%
Leisure	**22.0%**	20.4%	20.5%

Source: National Travel Surveys, Department for Transport. Welsh figures were an amalgamation of the surveys between 2008 and 2012 in order to ensure a statistically significant sample.

8.7.2 As can be seen, there was a sharp divergence in the pattern of bus use between England and Wales in 2012. Operators in Wales were much more reliant on shopping trips than in England (31.8% to 25.7%) and much less on commuting (11.5% to 18.8%). The third column in the table shows the same results from the 2019 survey and illustrates the

[23] *Catch the Bus in Wales, The TAS Partnership for CPT Wales, July 2015*

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significant shifts in the pattern of demand over those seven years, especially the slippage in shopping trips and the increased reliance on commuting trips.

8.7.3 It is not therefore possible to assume that current use will mirror that in England any more than it did in 2012, nor can we assume that current bus use in Wales resembles the 2008-2012 figures.

8.7.4 The lack of this data on journey purpose as a major gap in our knowledge of the bus market in Wales, and we would strongly recommend that research should be commissioned to rectify this.

8.8 Benchmarking Welsh Demand and Network Provision

8.8.1 The size of the bus market and the extent of service provision in Wales can be benchmarked with other parts of the country.

8.8.2 Two broad measures are used, one measuring usage and one network provision:

- Trip rate (passenger journeys per person per year) is a good comparator of relative success in patronage
- Network density (thousands of bus service kilometres per square kilometre of territory) offers a means of comparing the intensity of service provision in a given area.

8.8.3 Table 11 below looks at the Welsh bus market in 2018/19 using these two measures, and compares with three groups of English local transport authorities:

- The six areas of England with the highest trip rate
- Five local transport authority areas with similar trip rates to Wales
- Three local transport authorities with population densities similar to Wales.

8.8.4 As might be expected, the first group all have dense populations ranging from 3,500 to 5,700 people per square kilometre, thus generating large volumes of demand on dense bus networks. Their high trip rates enable and support high network densities.

8.8.5 The five shire authorities with a trip rate similar to Wales, all except Devon have significantly greater network densities than Wales, suggesting that much higher service levels are needed in those areas in order to generate a similar trip rate.

8.8.6 Lastly, the three authorities with similar population densities to Wales produce varying results: Dorset generates a much lower trip rate from a similar network density, whilst Cornwall's might higher network density produces a much lower trip rate than Wales.

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Table 11: Benchmarking the Welsh Bus Network in 2018/19

Area	Trip Rate	Network Density	Pop Density	Sq Km	Km Run (million)
Wales	**32.5**	**3.1**	**152**	**20,736**	**63.3**
High performers					
London	246.7	302.8	5,701	1,572	476.0
Brighton	171.8	245.8	3,505	83	20.4
Nottingham	145.0	241.3	4,439	75	18.1
Reading	137.6	162.5	4,045	40	6.5
Tyne & Wear	98.5	124.4	2,114	540	67.2
Bristol	92.3	159.1	4,213	110	17.5
Similar Trip Rate					
Lancashire	33.9	12.2	420	2,903	35.5
West Sussex	30.8	11.4	434	1,990	22.6
Norfolk	30.7	5.9	169	5,380	31.6
Devon	30.0	3.7	122	6,564	24.0
Nottinghamshire	33.7	11.8	397	2,085	24.6
Similar Population Density					
Wiltshire	30.0	3.4	154	3,255	11.1
Dorset	19.3	3.0	149	2,542	7.5
Cornwall	21.3	4.7	161	3,546	16.5

8.9 Comparisons with London

8.9.1 The White Paper contains a specific section on London, highlighting the growth in patronage between 1986 and 2014, and implying that this success can be attributed to the regulatory system, i.e. gross cost tenders similar to the system now proposed for Wales.

8.9.2 However, in looking for an explanation of the London experience, there is a need to consider many other factors in capital's bus market. Patronage increases started in 1994/95 and continued every year until 2014, since when numbers have fallen back, in some years at a faster rate than in the rest of the country.

8.9.3 During those years, a large number of changes were introduced, including:

- Traffic management schemes such as Red Routes and London Bus Priority Network
- The Congestion Charge
- Oyster smartcard ticketing
- Simplified fares and cashless buses

8.9.4 At the same time, other underlying factors were of vital importance:

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- The population of Greater London increased by over two million people between 1995/96 and 2020 to reach a total of nine million, growth of 29%
- The number of people employed in London grew by 57% to reach a total of 4.8 million
- Car ownership in the capital fell – cars owned per 1,000 population fell from 330 in 1994 to 294 in 2020, a reduction of 10.8%
- The London economy continued to prosper and grew substantially, despite a pause during the recession in 2008/09. ONS figures[24] show that GDP per head at current market prices grew by 104% from £27,492 in 1998 to £55,594 in 2020. By comparison, the same figures for Wales saw growth of 86% from £12,810 to £23,682.

8.9.5 Throughout this period, the London network continued to receive large amounts of public support, which did not fall below £500 million a year.

8.9.6 Modelling work of the type discussed in paragraph 8.4.1 above has consistently shown that it was these factors that drove bus patronage growth in London – which in any case came to a halt almost a decade ago as bus speeds slowed in the face of traffic congestion and as bus priority measures were withdrawn to accommodate cycle lanes.

8.9.7 Great care should therefore be taken in attributing the growth achieved in London to its regulatory system.

8.10 Conclusions

8.10.1 This chapter set out to demonstrate that bus demand is driven by a wide variety of factors, many of which are beyond the control of either operators or policymakers, showing how these can be modelled to suggest their effect on the total picture.

8.10.2 We have examined some of these in the context of the specific circumstances prevailing in Wales, on such matters as population density, car ownership and journey purpose.

8.10.3 We believe that insufficient is known about the bus market in Wales, since crucial data is not available on such items as bus use by age, gender and socio-economic classification, recent trends in journey purpose and demand patterns in different regions and local authority areas. All this information is available to policymakers and operators in England and is crucial to effective future planning.

[24] *Regional gross domestic product (GDP): all International Territorial Level (ITL) regions, ONS May 2022.*

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9. Covid-19 and its Aftermath

9.1 Introduction

9.1.1 The Covid-19 pandemic in the spring of 2020 led to a sudden and dramatic collapse in demand for bus services in Wales. The outcome in terms of passenger journeys is shown in Table 12 below.

9.1.2 As can be seen, demand was down from 101 million in 2018/19 to 91 million in 2019/20 as the pandemic began to take effect in February and March 2020. Lockdowns meant that demand fell to just 26 million in 2020/21. There was a recovery to 52 million in 2021/22, but this remained 48.3% below pre-Covid demand. Further recovery took place in the first quarter of 2022/23 (see para 9.2.2 below) and there is anecdotal evidence of this continuing, though no published statistics are available at the time of writing.

9.1.3 The loss of over 50% amongst concessionary passengers was particularly damaging given the reliance of the Welsh bus market on this market segment. In 2018/19, before the pandemic, passholders accounted for 45% of all journeys in Wales, as compared with the English Shire Counties (31%) or Scotland (38%). In London, the figure was even lower, at 16%.

Table 12: Bus Passenger Journeys in Wales during Covid-19

Year to 31 March	Passenger Journeys (million)			% of journeys by Elderly & Disabled	% change from 2019		
	Elderly & Disabled Passholders	Paying Passengers	Total		Elderly & Disabled Passholders	Paying Passengers	Total
2019	45	56	101	44.9%	-	-	-
2020	42	49	91	46.7%	-6.4%	-12.8%	-9.9%
2021	11	15	26	41.3%	-76.3%	-72.6%	-74.3%
2022	22	31	52	41.2%	-52.6%	-44.7%	-48.3%

Source: Annual Bus Statistics, Department for Transport

9.2 Comparisons with other parts of the UK

9.2.1 Bus patronage in Wales fell further and has recovered less than in other parts of Great Britain, as illustrated in Figure 9-1 below.

9.2.2 More recent data is available for the first (April-June) quarter of 2022/23 before the DfT ceased publication of quarterly statistics. There was more recovery in Wales, though passenger numbers remained over 34% below the same quarter in 2019 and, as can be seen from Figure 9-2 below, the extent of the recovery was still significantly behind the rest of Great Britain.

9.2.3 One factor influencing the differentials may have been differences in the nature and timelines of Covid restrictions. Domestic restrictions were abolished in England in February 2022, but some measures remained in place in Wales until May.

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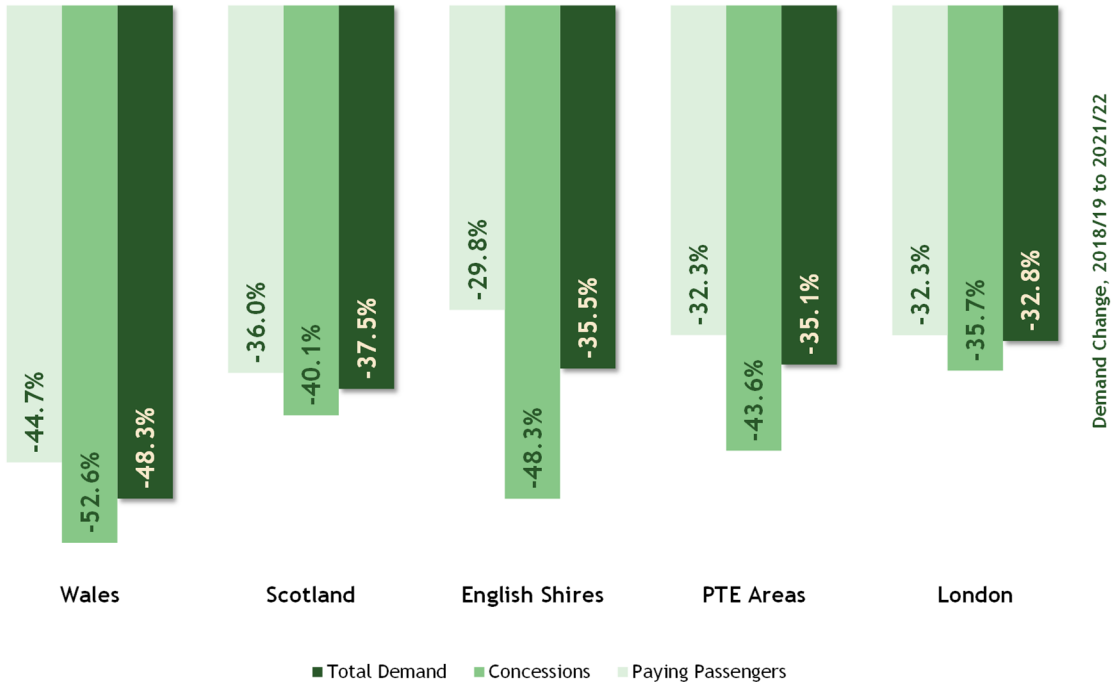
Figure 9-1: The Effects of Covid on Bus Demand by Market Sector, Annual

% Change in Passenger Numbers, 2018/19 to 2021/22



Source: 2FM Analysis of Annual Bus Statistics, Department for Transport

Figure 9-2: The Effects of Covid on Bus Demand by Market Sector, Quarterly

% change in passenger numbers, April-June 2019 to April-June 2022

Source: 2FM Analysis of Quarterly Bus Statistics, Department for Transport

9.3 Post-Covid Lifestyle Changes

9.3.1 The onset of the pandemic caused profound social and economic changes, some of which merely accelerated trends that were already emerging. As time has gone by, what looked

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like short-term changes to cope with lockdowns and social distancing are looking increasingly like permanent features of our lives.

9.3.2 Three of these affect demand for bus services, being:

- Working from home and hybrid working
- The decline in High Street retail activity
- The shift of other services online, including education and personal business.

9.3.3 As already noted, we lack the journey purpose data that is available in England, so that it is very difficult to assess the effect of these changes on the market. However, we do have external data on the nature and extent of the changes, which can give some indication. These are discussed in the sections that follow.

9.4 Journeys to Work

9.4.1 The number of bus passenger journeys taken for commuting purposes is a function of three elements:

- The size of the workforce
- The proportion of that workforce that chooses to travel by bus
- The frequency with which they travel.

Workforce Size

9.4.2 The first of these is favourable, showing a rise in the numbers employed from 1.38m in the autumn of 2019 to 1.40m in the autumn of 2022 – an increase of 1.5%[25].

Regular Bus Commuters

9.4.3 The ONS Labour Force Survey provides data on the proportion of the workforce in each region who were using bus to travel to and from work in the autumn of each year[26]. Applying the percentage to the workforce gives a figure for the number of regular bus commuters.

9.4.4 In Wales, the ONS figures show that the proportion of the workforce using bus to commuter to work fell from 4.9% in 2019 to 4.1% in 2021. Translating those proportions into an actual number of people, given the relative sizes of the total workforce in the two years, means that the number of bus commuters fell from 67,690 in 2019 to 57,400 in 2021 – a drop of 15%. However, there is likely to have been a recovery during 2022 following the lifting of remaining Covid-related restrictions.

Home and Hybrid Working

9.4.5 In the autumn of 2019, immediately before Covid, ONS statistics[27] showed that, in Wales, 4% of the workforce was working mainly from home, with another 20% doing so occasionally. In the autumn of 2022, similar data showed that the proportion working

[25] *Labour market in the regions of the UK: March 2023, ONS*

[26] *See Transport Statistics Great Britain 2020, Sheet TSGB0108.*

[27] *Homeworking in the UK: hours, opportunities, and rewards: Work from home status data (2011-2020), ONS, April 2021*

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mainly from home had risen to 19%, with a further 23% doing so for at least one day a week. Thus, the proportion of the workforce who always travelled to work dropped from 76% to 58%. This means that the number of regular commuters has dropped by 23% since 2019, though the number of people travelling on one or more days a week has increased by 17%.

Overall

9.4.6 Future volumes of commuter trips will depend on how these work patterns develop in future – which will be influenced by individuals' ability and desire to work from home and their employers' willingness to permit them to do so. Key influences are likely to the nature of the work, and, to some extent, the seniority of the staff involved.

9.4.7 If the fall in the number of people commuting by bus and the fall in the number of days on which they are travelling is combined, our modelling suggests that the total number of passenger journeys undertaken by commuters in 2022 was approximately 27% down on 2019. This would reduce total patronage in Wales by approximately 6%. A table showing the derivation of these estimates can be seen at Appendix A to this report.

9.5 Shopping Trips

9.5.1 The use of the bus for shopping has declined steadily since the turn of the century. This is partly driven by modal shift as car ownership has increased and bus journeys have got slower and less attractive. However, it is primarily driven by profound changes in the retail industry following the development of the internet and especially the introduction of the smartphone after 2007.

9.5.2 This is evidenced both by declines in footfall in High Streets and other retail environments, and by the rapid growth of online retail sales (see the graph at Figure 9-3 below). For the decade before Covid, footfall declined by an average of 1.4% a year. The pandemic caused huge disruption, of course, and recovery was slow. Springboard data in the spring of 2021 showed a 49% drop compared with 2019 even after lockdowns had been lifted, and it remained over 20% below 2019 levels for the early part of 2022. In November 2022, IPSOS reported that total retail footfall was still 16.3% below 2019 levels in South West England and Wales.

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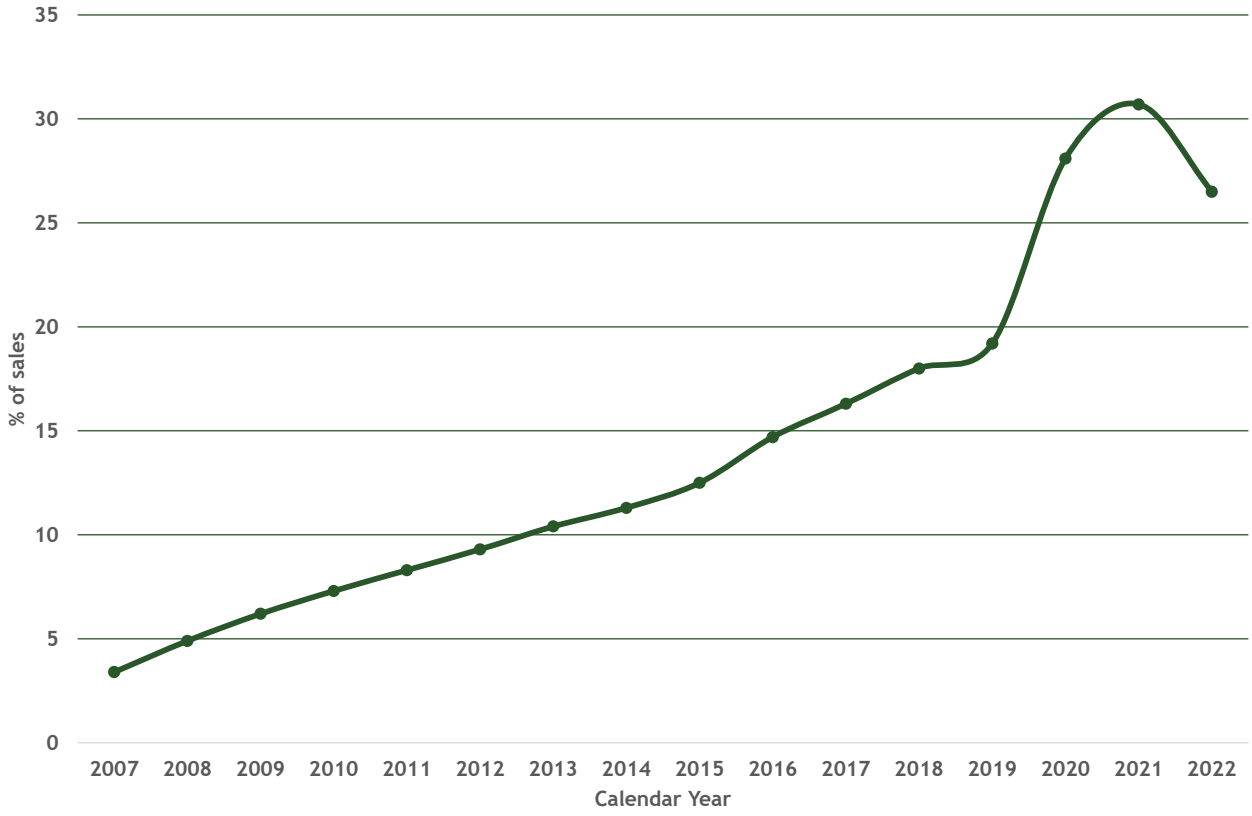
Figure 9-3: Internet Sales as a Proportion of Total Sales, 2007-2022



Source: Office for National Statistics

9.5.3 As noted above, NTS data showed that almost 31.8% of bus trips were for shopping in the 2008-2012 surveys, compared with 25.8% in England outside London. By 2021, the proportion in England had dropped to 20.8%. A similar proportional fall in Wales would take the current figure down to 25.6%.

9.5.4 Applying those percentages to total patronage would suggest that in 2012, shopping generated 36.8m bus trips per annum in Wales. In 2021/22, the same exercise would suggest 13.4m trips, a loss of 63.6%.

9.6 Other Journey Purposes

9.6.1 It is likely that societal changes could affect demand for travel for other journey purposes, in particular education and personal business.

9.6.2 In higher education, the use of online teaching introduced during the pandemic has continued after the end of social distancing restrictions. One report suggested that up to one-third of all teaching had remained online in some institutions. This would reduce the need for students to travel so frequently, thus depressing demand for education journeys.

9.6.3 Similarly, the move online is tending to depress demand for personal business journeys – moving to online transactions for banking and other financial services has resulted in many branch closures. At the same time, the widespread introduction of telephone and online consultations in the NHS also impacts on the need to travel.

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9.7 Conclusions

9.7.1 As we have demonstrated, the Covid-19 pandemic has accelerated trends that were already present in our society and were being driven by the internet and the smartphone. These – especially the move to home and hybrid working and growth of online transactions in retail sales, financial services and health consultations – have served to reduce public transport demand, probably permanently.

9.7.2 These changes have presented particular difficulties in Wales, largely because low population densities already made the market difficult to serve. Meanwhile, other influences – such as car ownership, traffic congestion and more recently staff shortages – continue also to impact adversely on demand levels.

9.7.3 It is important to understand that most if not all the factors discussed in this chapter would not be changed by the introduction of franchising or any other form of regulatory change.

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10. Bus Industry Finances

10.1 The Need for Profit

10.1.1 Any business (whether in the public or private sector) needs to earn more money in revenue than it spends in costs, for several reasons:

- **Investment**: to provide funds for the replacement and renewal of the equipment needed to carry on and expand the business
- **Debt**: to service and repay debt
- **Reserves**: to provide for reserves to enable the company to survive in the bad times
- **Shareholders:** to reward the shareholders of the business for their investment and risk

10.1.2 Each of these is examined in a bus industry context in the sections which follow these factors in relation to the current and likely future position in the bus industry.

10.2 Investment

10.2.1 There has been, and remains, a clear need to invest in the re-equipment of the industry. The Welsh companies in the BIM database invested over £114m in their businesses over the ten years to 2019/20, with expenditure over that time only once falling below £5m a year - during the worst of the financial crisis. The pre-tax profit earned by the operators from their Welsh operations in the same period totals £87.9m. Thus the amount reinvested comfortably exceeds the money taken out in profits.

10.2.2 DfT figures on the Welsh local bus fleet at March 2022[28] show 1,398 vehicles in use by local bus operators, with an average age of 10.04 years. This compared with 7.38 years in 2014/15. The figure compared with 10.68 in the English Shires, 10.26 in the Metropolitan Areas and 8.58 in Scotland. The average age has risen in all areas since the onset of the pandemic. Significant investment will be required to catch up with developing replacement backlog.

10.2.3 There will also be a need for investment in zero emission buses, both to meet air quality and net zero targets, but also as the production of diesel buses ends. This will require the introduction of electric vehicles, driven either by batteries or hydrogen-powered fuel cells. The capital cost of these vehicles is significantly higher than Euro VI diesel, and there is also the need for significant spending on associated depot infrastructure. Current uncertainties make these investment decisions significantly more difficult.

10.3 Debt

10.3.1 The payment of interest on borrowings tends to have a direct relationship to investment levels. Few, if any, companies have access to sufficient cash to buy the equipment themselves, so they must borrow - either in the form of loans or leasing or hire purchase deals.

[28] The format of the age statistics was changed in the DfT's 2021/22 Annual Bus Statistics (see sheets BUS06(b) and BUS06f). The average age is calculated from analysis of the figures on these two sheets.

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10.3.2 These debts attract interest charges - and lenders will take a critical look at the level of profits available to cover these charges before agreeing to make the loan. This is the equivalent of a bank or a building society looking at an individual's income levels before granting them a mortgage.

10.3.3 The cost of borrowing for individual businesses will typically comprise the following elements:

- The current inflation-free rate of interest for risk-free loans
- The expected rate of inflation
- The risk of defaulting on a loan (which will typically be fixed in the range 0-5 per cent, depending on the risk assessment)
- The risk profile of a particular company, venture or project: this will be priced between 0% and 50% or, in some cases, even higher.

10.3.4 It will be appreciated that the shift away from a long period of low interest rates and low inflation is serving to drive the cost of capital much higher and that this will need to be taken into account in future financial planning by operators. At the same time, the damage inflicted by the Covid pandemic has affected perceptions of risk in the bus industry and indeed throughout the wider economy.

10.3.5 In addition, the loans must be repaid (typically, in the case of a new bus, over five years), and the cash to make the repayments must be generated from the difference between the company's income and expenditure.

10.4 Transfers to Reserves

10.4.1 It is the fate of all transport operators to see patronage and revenue fluctuate in line with the fluctuations of the wider economy.

10.4.2 Demand for transport is, after all, derived from the public's wish to do other things, such as go to work, school or college, go shopping or just have a good time. As has been evident since 2020, if the public is unwilling or unable to do these as often, they will travel less. Inevitably, demand for the services and the revenue they earn will fall.

10.4.3 Therefore, like most sensible people in their home lives, any prudent business will make provision in 'good years' for 'lean' ones which might lie ahead.

10.5 Shareholders

10.5.1 Lastly, the shareholders of the business need to be rewarded – whether they be institutions such as employee share ownership schemes, pension funds, unit trusts and investment trusts who are investing in shares on behalf of millions of ordinary people throughout the country or, as in the case of municipal operations, the local authority.

10.5.2 At its most basic, the level of this reward needs to be higher than shareholders could earn by leaving their money in the bank or building society – both to persuade people to invest in the business, and to reflect the additional risks attached to investing in a business as opposed to holding the money in a savings account.

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10.5.3 In practice, other factors will be involved, including the rewards that shareholders can earn from other businesses in the industry and indeed by investing in other industries or businesses.

10.6 The Cost of Capital

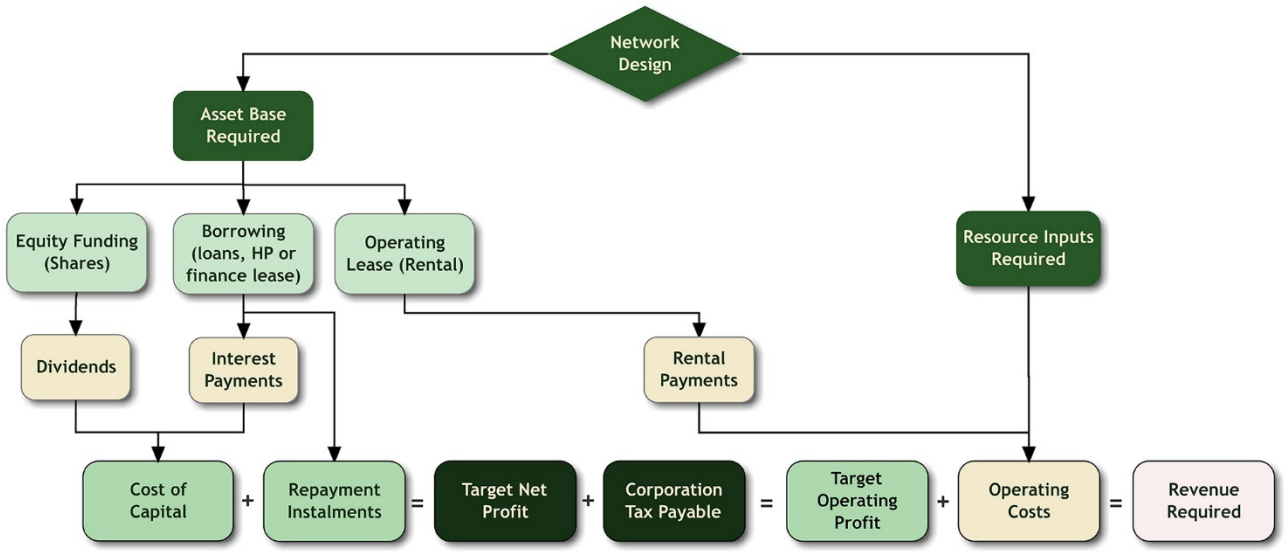
10.6.1 The target return is based on the industry's Weighted Average Cost of Capital (WACC), determined by the mix between shareholder funds and dividends, and the interest payable on the debt and shareholder expectations for dividends. These were the factors used by the Competition Commission in determining its view of bus industry profits during its 2010/11 inquiry.

10.6.2 The diagram at Figure 10-1 below shows how the combination of meeting the WACC and debt repayment requirements can drive a bus company's finances.

10.6.3 It is important to note that this analysis and approach holds good ***whatever the regulatory regime in force***. Thus, the decisions on service levels and network design that determine the *Asset Base Required* can be made by a commercial operator or by a tendering authority such as Transport for London. The *Revenue Required* can come in the form of individual fares paid by passengers, concessionary fares reimbursement and other grants, or as "cost plus" payments by tendering authorities, as in London.

10.6.4 It is misleading to suggest, as some have done in the past, that bus services would be cheaper to operate under a quality contract or 'franchised' regime because the operator would not need to make as much profit.

Figure 10-1: Driving Profit Targets in the Bus Industry



10.6.5 The impact of all these factors on targets for operating margins has been monitored for over a decade by the author of this report as part of the regular *Bus Industry Performance* reports published by *Passenger Transport Monitor*[29]. With recent increases in inflation, interest rates and corporation tax, we estimate that the current target for companies with owned vehicle fleets is between 10.2% and 11.1%.

[29] *A full explanation of the model, with examples, can be found in Bus Industry Performance 2020, published in May 2020.*

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10.7 Transfer of Risk

10.7.1 As noted in paragraph 10.6.3 above, a change to a franchise system does not fundamentally alter the finance model discussed in this chapter. However, the switch would mean the transfer of risk from the operator to the tendering authority.

10.7.2 In other words, any shortfall resulting from a failure to reach revenue targets or to constrain costs would fall on the public purse, and ultimately the taxpayer. This has been seen with the Welsh rail network, where a combination of cost increases and revenue shortfall saw the need for revenue support virtually quadruple between 2016 and 2022. Under a gross cost system, the operator's profit forms part of contract, and must be paid regardless of the commercial performance of the routes or networks being operated.

10.7.3 Management of the risk will become a key element in the future functions of the tendering authorities: the key will be in revenue growth – whether through patronage growth or adjusting fares – and cost control. These are skills that will need to be imported or learned.

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11. Bus Industry Costs

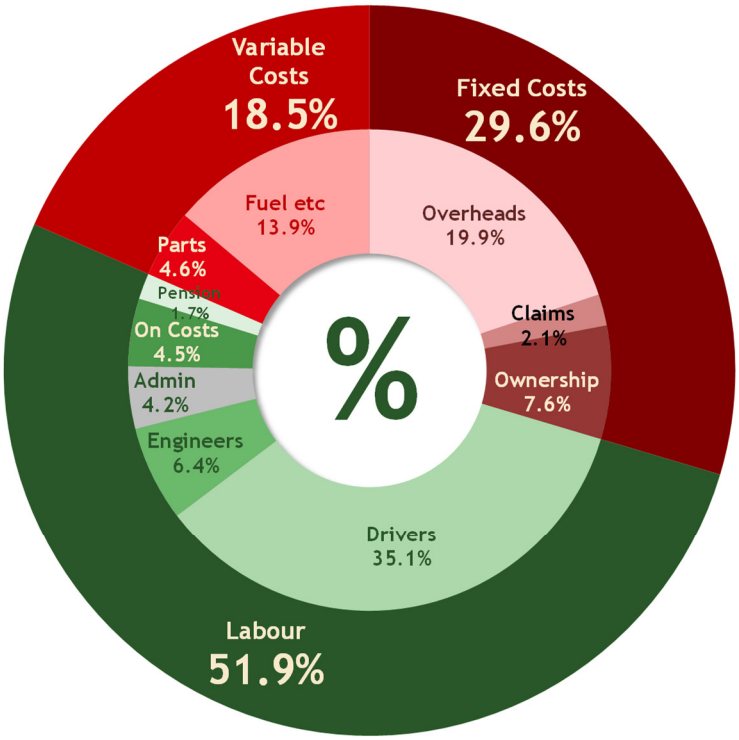
11.1 Structure

11.1.1 The chart at Figure 11-1 below provides an overview of a typical bus company's costs in June 2022. This was based on an analysis of CPT Cost Monitor database, a twice-yearly survey of bus operating companies – the data represents a sample of over 48% of the total bus fleet in Great Britain.

11.1.2 As can be seen, the principal element of cost is labour, which accounted for almost 52% of total costs. Of this, wages and salaries accounted for 45.7%, with the balance being in social security and pension costs. Drivers costs accounted for 44.9% of overall costs.

11.1.3 The remaining elements include fuel (13.9%), overheads (including premises costs) at 19.9%, insurance and claims (2.1%) and maintenance materials 4.6%. Charges for the depreciation of fixed assets, together with other ownership costs such as property rental and operating leases, account for a further 7.6%.

Figure 11-1: The Structure of Bus Industry Costs in 2023, GB Outside London



Source: Bus Industry Costs in 2023, 2FM Limited for the Confederation of Passenger Transport.

11.1.4 The predominance of labour costs in the total makes the industry vulnerable to sharp increases in wage levels. The historical tendency for wages to rise at a faster rate than prices also explains why the industry's overall cost levels have tended to rise by more than the general rate of inflation.

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11.1.5 At the same time, the volatility in the level of fuel costs that operators have experienced since the turn of the century has also been detrimental to the industry's stability and overall cost levels.

11.2 Productivity and Efficiency

11.2.1 The efficiency of bus services is affected crucially by the speed at which the vehicle can proceed and the predictability or otherwise of any delays which occur.

11.2.2 Increases in traffic volumes increase traffic congestion. This has two effects, both of which are detrimental to the industry and its passengers:

- a demand side effect
- a supply side effect.

Demand Side Effect

11.2.3 Congestion leads to slower bus journeys and poorer reliability, so making bus journeys less attractive. This results in the loss of more passengers to other modes – walking, cycle, car or even staying at home. If more customers switch to the car, this will result in higher traffic volumes, more congestion, and further delays to buses – creating a vicious circle of decline.

Supply Side Effect

11.2.4 Congestion and unreliability increase the costs of running buses. Slower journeys mean more vehicles and drivers to provide the same level of service to customers; meanwhile unpredictable delays mean that journey times must be extended even further to achieve the levels of reliability required by the industry regulators, the Traffic Commissioners.

11.2.5 Modelling work undertaken by the author over the years has shown that the costs of operating buses vary up or down by 0.8% for each 1% change in speed. But time and speed are key drivers of bus industry costs.

The Importance of Time

11.2.6 The number of hours for which operators need to run their buses is a function of speed. This will determine:

- how long the bus will take to run from one terminus to another
- how many revenue-earning trips can be run by each bus in a day
- how many vehicles and drivers will be required to provide the service.

11.2.7 The required fleet size will also influence the size of the depot, the number of engineering staff and the number of management and administrative staff required. The impact that speed has on the overall level of costs in the industry is illustrated by the chart at Figure 11-2 below. Average speed will depend on a combination of factors, including:

- the types of road on which it runs (including local topography)
- how congested the roads are
- what parking restrictions there are and how these are enforced

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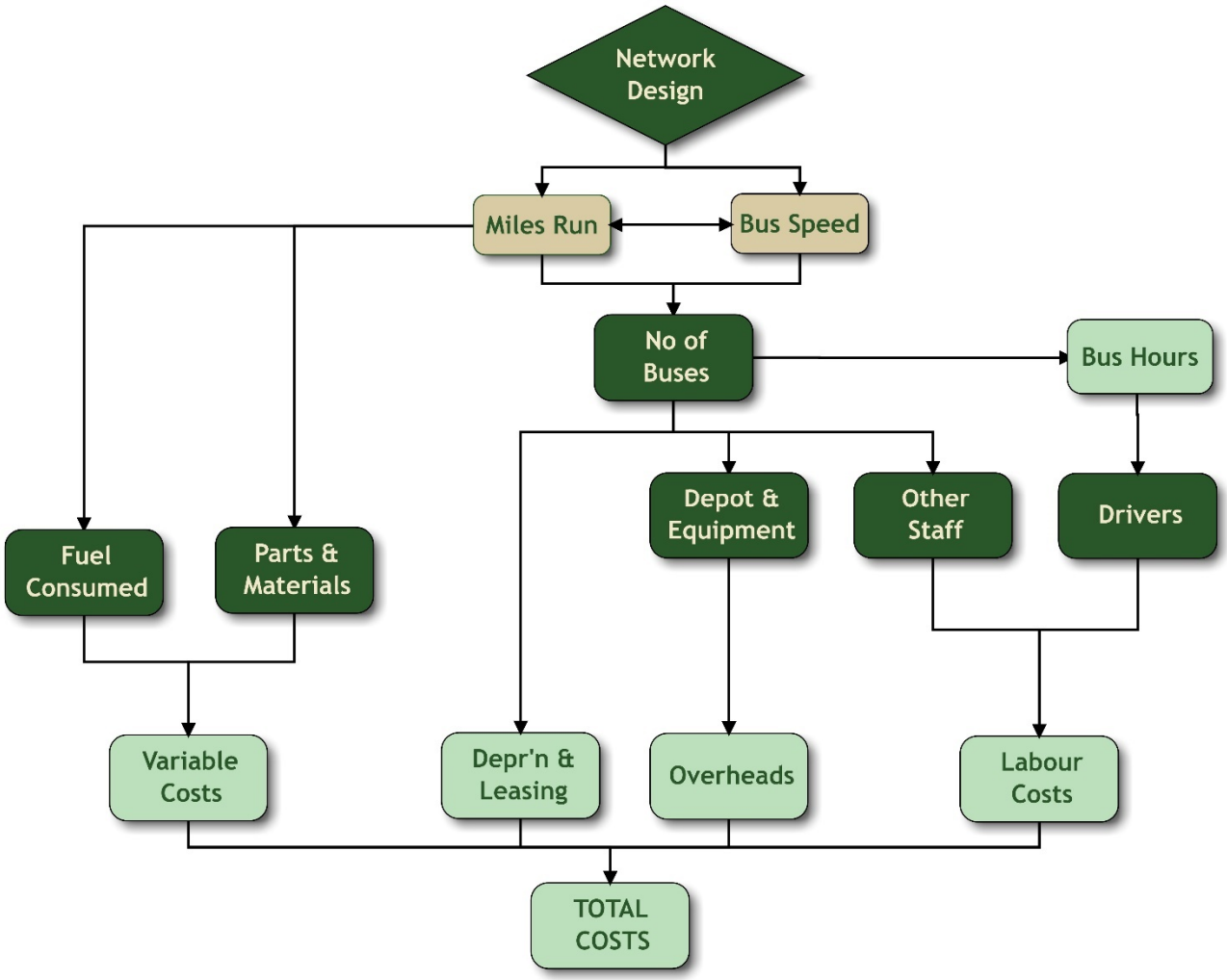
- the number of stops
- how long the bus must wait at each stop.

Figure 11-2: The Primacy of Speed in Determining Bus Industry Costs



11.3 Speed Changes

11.3.1 There is evidence of slowing bus speeds in response to congestion in many parts of Great Britain. However, the bulk of the evidence is anecdotal, and figures have not been collected on a systematic basis. The new CPT Cost Monitor launched this year is aiming to put this right for the future.

11.3.2 The February 2022 survey showed an average speed of 12.9 mph (20.8 kph) in Wales, slightly faster than the figure for the shire areas of England outside London (12.6 mph, 20.2 kph). The June 2022 survey showed a fall in an average speed of 12.6 mph (20.2 kph) in Wales, still slightly faster than the figure for the shire areas of England outside London (12.0 mph, 19.4 kph). The speed had fallen between February and June by 3%. The decision to reduce the speed limit on urban roads from 30 mph to 20 mph in September 2023 is likely to have a further impact on average speeds.

11.3.3 Two 'high level' measures of productivity are available:

- the kilometres run per employee

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- the number of staff employed per PSV owned.

11.3.4 In Wales, these measures tend to show a fall in productivity in Wales over the period between 2005/06 and 2018/19 – by over 20% in the case of kilometres run per driver, and 37% in the number of drivers per PSV owned. The details are shown in Table 13 below – including the most recent two Covid-affected years.

11.3.5 There are several possible causes for the shift, including:

- Slower journey speeds
- Less efficient schedules because of 'hollowing out' of duties by service cuts – especially a factor after the onset of Covid-19
- Regulatory changes (e.g. Driver CPCs) reducing productive time.

11.3.6 The fall in driver productivity is also illustrated in the graph at Figure 11-3 below. Both these measures will have had a detrimental effect on operating cost levels.

Table 13: Measures of Local Bus Productivity in Wales since 2006

Year to 31 March	Km run per staff member		Staff per PSV owned	
	Drivers	All Staff	Drivers	All Staff
2006	35.56	26.80	1.88	2.50
2007	31.96	24.10	2.04	2.70
2008	31.54	24.03	2.14	2.81
2009	31.41	23.80	2.13	2.81
2010	31.02	23.95	2.11	2.73
2011	32.18	25.23	1.98	2.52
2012	30.87	24.10	2.05	2.62
2013	29.78	22.72	2.16	2.84
2014	30.62	23.15	2.11	2.80
2015	28.67	21.80	2.28	3.00
2016	27.88	21.43	2.28	2.97
2017	27.91	21.49	2.41	3.13
2018	27.20	21.43	2.61	3.32
2019	27.99	22.12	2.59	3.28
2020	*26.71*	*21.13*	*2.63*	*3.33*
2021	*19.70*	*15.43*	*2.44*	*3.12*
Pre-Covid % change	-21.3%	-17.5%	37.5%	31.2%

Source: 2FM analysis of Wales Transport Statistics

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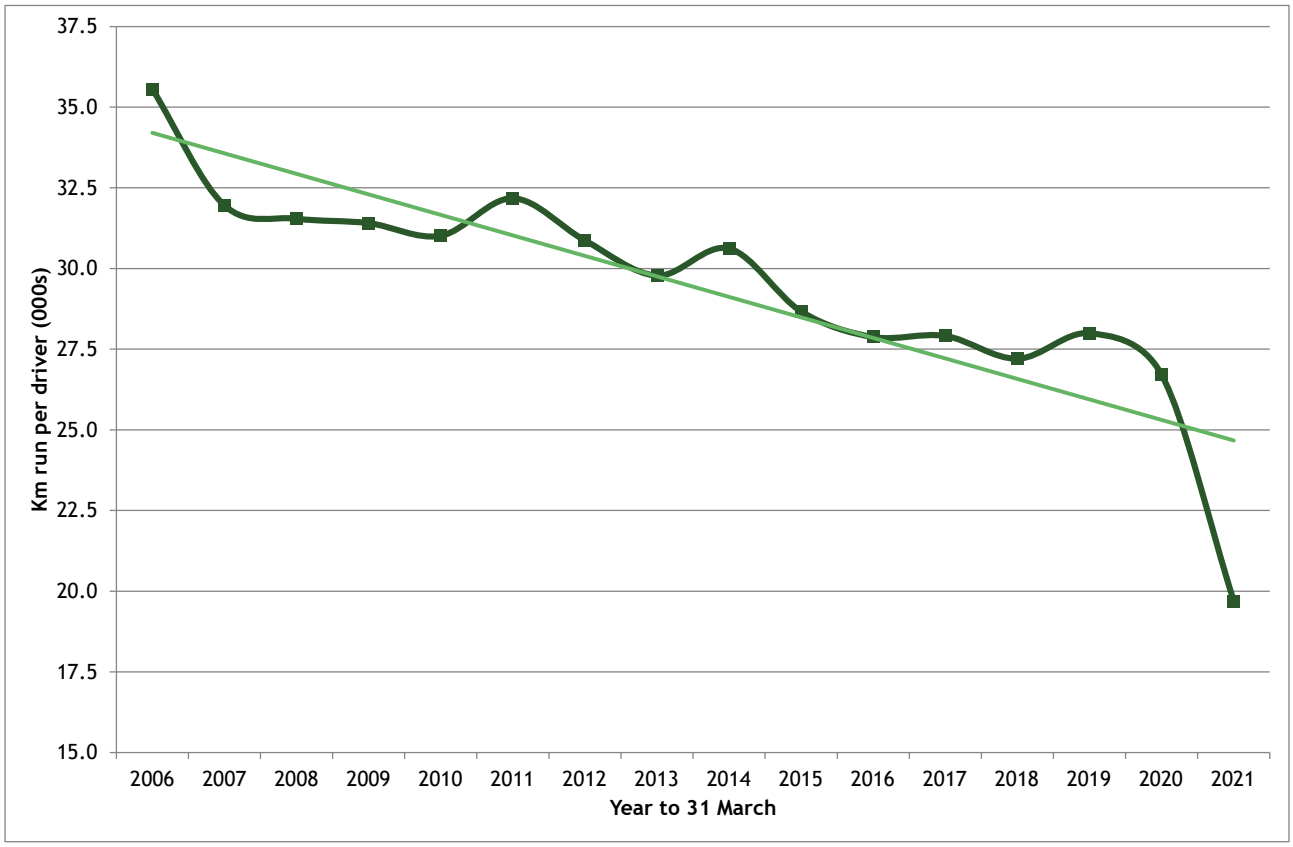
Figure 11-3: Kilometres run per Driver since 2005



11.4 Changes in Unit Costs

11.4.1 Table 14 below shows the movement in operating costs for the Welsh bus network since the year 2009/10, as reported by the DfT in its annual bus statistics. As can be seen, in the decade before Covid, the unit cost of bus operation rose in real terms by 14.2%, from £1.466 per km in 2009/10 to £1.675 in 2018/19[30]. There were significant fluctuations during the period, primarily driven by volatile fuel prices. At the same time, service reductions during the decade meant that operator overheads had to be spread over fewer kilometres. This also affected unit costs during and since the pandemic, service reductions have driven unit costs much higher, reaching £1.827 in 2020/21 but falling back to £1.706 in 2021/22.

11.4.2 At the same, the operating cost per passenger journey rose at a slightly slower rate, from £1.55 to £1.76 or 13.3%. Again, the pandemic effect drove these higher, reaching £4.56 in 2020/21 but falling to £2.70 in 2021/22.

[30] *Source: Annual Bus Statistics, DfT Sheet 04eii. Figures in June 2022 prices, adjusted by the GDP Deflator.*

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Table 14: Bus Operating Costs in Wales since 2010 at June 2022 prices

Year to 31 March	Total Costs (£m)	Km Run (million)	Cost per Km Run (£)	Cost Index (2005=100)	Cost per Passenger Journey (£)
2010	182	124	1.466	121.8	1.553
2011	180	124	1.452	120.6	1.552
2012	193	117	1.656	137.6	1.670
2013	202	116	1.743	144.8	1.855
2014	199	112	1.770	147.0	1.856
2015	190	106	1.792	148.8	1.882
2016	195	107	1.815	150.7	1.904
2017	174	98	1.772	147.2	1.754
2018	169	105	1.621	134.7	1.714
2019	178	106	1.675	139.1	1.760
2020	157	101	1.565	130.0	1.730
2021	118	65	1.827	151.8	4.563
2022	141	83	1.706	141.7	2.704
% changes					
Decade to 2019	-2.1%	-14.3%	14.2%	14.2%	13.3%
Last Five Years	-16.6%	-20.8%	5.2%	5.2%	57.7%
Since 2019	-20.5%	-21.9%	1.8%	1.8%	53.6%

11.4.3 As well as the questions of speed and time, changes in unit costs are mainly driven by labour costs, fuel costs and changes in other input prices such as fuel, lubricants, tyres, spare parts and overhead costs.

11.4.4 A series of changes in recent years has acted to drive costs higher, including:

- labour shortages following falls in EU immigration after Brexit and Covid
- Energy price inflation following the Russian invasion of Ukraine in February 2022
- Higher inflation in the economy generally.

11.5 The CPT Survey

11.5.1 In 2023, CPT has relaunched its own survey of operator costs in a more detailed form. The CPT Cost Monitor survey collected data covering 52% of the Welsh local bus fleet for snapshot figures in February and June 2022 and February 2023.

11.5.2 The returns enable us to provide a picture of operating costs in the different regional and sector markets. The percentage increases in Wales for each main cost category are shown in Table 15 below and compared with the figures for the whole of Great Britain outside London.

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Table 15: Unit Bus Operating Costs: Changes in Principal Cost Headings (%)

February 2022 to February 2023

Cost Heading	Wales	GB o/s London
Vehicle Operating Costs	29.5%	8.1%
Depreciation and Leasing	16.0%	14.8%
Labour	14.7%	12.1%
Engineering	-18.8%	-16.8%
Semi-Variable Costs	210.4%	42.2%
Claims & Insurance	5.5%	1.4%
Overheads	33.8%	75.0%
Overall	16.5%	17.0%

Source: Bus Industry Costs in 2023, CPT Cost Monitor.

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Appendix A: Estimation of Work Trips by Bus

Description of Process

The data is driven from documents and figures concerning the nature and extent of homeworking, combined with Labour Force Survey figures for Wales on total employment, whether part-time or full-time. The figures can be found overleaf.

Rows 1-3 show the total workforce, the numbers employed full time and part-time for each year, derived from ONS Labour Force Survey regional tables.

Rows 4-6 show the estimated proportion of the workforce in Wales working from home either virtually full-time (mainly) or on a hybrid basis (sometimes). Rows 7-9 and 10-12 calculate the actual number of employees calculated by reference to those proportions.

Rows 13-16 show the calculation of the likely total volume of trips to and from work. Each employee is assumed to make two single journeys a day for 48 weeks.

- Full time employees in the office all the time are assumed to travel five days a week.
- Full time employees working on a hybrid basis and part time employees in the office are each assumed to travel on 2.25 days a week.
- Part time employees working on a hybrid basis are assumed to travel 1.5 days a week.

Row 17 shows the percentage of employees using the bus to travel to work, taken from the ONS Labour Force Surveys. This question is asked each autumn – so for 2017/18 the figure is derived from the 2017 survey and so on. In row 18, the percentage from row 17 is applied to the total number of journeys in row 16 to provide an estimate of the number of bus journeys taken each year to and from work. This is then compared with the total number of passenger journeys recorded for each year in the DfT's Annual Bus Statistics (row 19), to show what proportion of the total is represented by journeys for work (row 20).

Finally, the post-Covid figures are compared with the pre-Covid year to show the changes in work trips and the proportion lost compared with the 2018/19 figures for both total trips (row 22) and work trips (row 23).

It will be seen that the estimated loss in 2021/22 compared with 2018/19 was 27.3%, or 5.9% of total patronage.

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	Year to 31 March	2018	2019	2020	2021	2022
1	Workforce (000s)	1,381	1,377	1,385	1,398	1,398
2	Full Time Employees	988	987	991	1,003	1,003
3	Part Time Employees	385	383	387	388	387
	Working from Home (WFH)					
4	WFH - mainly	3.9%	4.1%	6.9%	30.4%	19.0%
5	WFH - sometimes	18.9%	19.9%	24.8%	11.5%	23.0%
6	WFH - Never	77.1%	76.0%	68.2%	58.1%	58.0%
	Full Time Employees (000s)					
7	In office	762	750	676	583	582
8	WFH - sometimes	187	196	246	115	231
9	WFH - full time	39	40	68	305	191
	Part Time Employees (000s)					
10	Part time in office	297	291	264	225	224
11	WFH - sometimes	73	76	96	45	89
12	WFH – full time	15	16	27	118	74
	Annual Journeys to work (millions) – all modes					
13	5 days a week	365,660	360,043	324,625	279,765	279,329
14	2.5 days a week	104,534	105,180	110,177	73,590	98,333
15	1.5 days a week	6,999	7,300	9,222	4,282	8,546
16	Total	477,193	472,523	444,024	357,636	386,208
	Estimation of Annual journeys to Work by Bus					
17	% share by bus	4.3%	4.6%	4.9%	2.3%	4.1%
18	Work trips by bus (m)	20.29	21.80	21.70	8.33	15.85
19	Total Bus Trips (m)	98.86	100.93	90.95	25.92	52.25
20	% for work trips	21%	22%	24%	32%	30%
21	Work trips lost (m)	-	-	0.10	13.47	5.94
22	% of total trips	-	-	0.1%	13.3%	5.9%
23	% of work trips	-	-	0.5%	61.8%	27.3%

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Appendix B: No Car Households in Wales

Movement between 2011 and 2021

The table shows the percentage of households with no access to a car in each of the two census surveys ten years apart.

No Car households in Wales, 2011 and 2021

Area	2011 Census	2021 Census	Change
Wales	22.9%	19.4%	-3.5%
Isle of Anglesey	18.0%	15.0%	-3.0%
Gwynedd	21.4%	17.7%	-3.7%
Conwy	21.7%	18.5%	-3.2%
Denbighshire	21.0%	18.8%	-2.2%
Flintshire	17.0%	14.6%	-2.4%
Wrexham	22.2%	19.1%	-3.1%
Ceredigion	18.4%	15.7%	-2.7%
Pembrokeshire	17.9%	15.2%	-2.7%
Carmarthenshire	18.8%	15.4%	-3.4%
Swansea	25.8%	22.6%	-3.2%
Neath Port Talbot	25.5%	20.9%	-4.6%
Bridgend	21.9%	18.2%	-3.7%
Vale of Glamorgan	19.4%	16.6%	-2.8%
Cardiff	29.0%	26.0%	-3.0%
Rhondda Cynon Taf	27.1%	22.2%	-4.9%
Caerphilly	24.4%	20.3%	-4.1%
Blaenau Gwent	29.0%	23.0%	-6.0%
Torfaen	23.6%	19.6%	-4.0%
Monmouthshire	15.2%	12.9%	-2.3%
Newport	27.9%	22.6%	-5.3%
Powys	15.0%	13.1%	-1.9%
Merthyr Tydfil	29.7%	25.0%	-4.7%

Source: 2021 and 2011 Census, ONS

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Minimum Subsidy Franchising: Y Ffordd Gymreig

Tracsis plc for CPT Cymru
October 2023

FINAL REPORT

Contents

1. Executive Summary

1.1 Overview

1.1.1 The Welsh Government has been clear that franchising is the preferred approach to deliver *One Network, One Timetable, One Ticket*.

1.1.2 There are a number of ways in which the Welsh Government can achieve the objectives set out in their White Paper, and more than one way of franchising. The assumption in the White Paper is 'gross cost' franchising, based on the London or Manchester model. In that model the Welsh Government would take all the revenue, and simply task operators with running a specified service.

- However, under gross cost franchising, operators get paid the same whether a bus is full or empty, with all the need to grow revenue sitting with the authority.
- Operators have no ability to influence route design – they get paid however attractive or efficient the route is for passengers, so have no incentive to improve it.
- So on both the revenue side, and most aspects of the cost side, there is no incentive for operators to be commercially nimble and innovative, as they receive no benefit from doing so.
- This manifests in a higher subsidy bill for Transport for London (TfL) and Transport for Greater Manchester (TfGM), who are paying for a service which their operators are not fully optimising for them.
- In London this has always been the case. But in Wales, this would mean discarding decades of experience from dozens of operators.

1.1.3 However, there is an alternative – a variant of the Jersey model of 'net cost' or 'minimum subsidy' franchising which has the potential to deliver on all of the government's aspirations. In this paper, we build out how a 'Welsh model' ("Y Ffordd Gymreig") could work.

1.2 An Alternative Model

1.2.1 The first key aspect of this model is that operators will submit a baseline bid, plus also alternative bids drawing upon their entrepreneurial expertise.

- In the proposed Y Ffordd Gymreig, the government will still set the desired network, fares, branding, vehicle specification etc, just as in London or Manchester.
- Operators will bid against this baseline specification.
- However, building upon this, operators will then be invited to submit 'alternative' bids, which reduce the subsidy required from Transport for Wales (TfW) by growing revenue or cutting costs.

- The authority will the contract the best bid – awarded on a mix of quality and cost –with the potential that an operator, or operators, present a network which delivers better results than the baseline presented by the franchising authority.

1.2.2 **At worst, the authority contracts its baseline. At best, it saves money and grows revenue and patronage, while reducing carbon emissions. These benefits come from leveraging the collective expertise and commercial acumen of operators, for the public good.**

1.2.3 The second key aspect of Y Ffordd Gymreig is flexibility for operators to propose and make changes as the contract progresses; with both operator and authority sharing in any benefits.

- As the franchise progresses, operators can approach the authority with a proposal to vary the network. Perhaps this reflects a new school campus or changing factory hours. The point is to leverage hyper-local knowledge from the operator, who has day-to-day contact with the drivers and passengers and communities served, with the aim of growing patronage and reducing costs (both of which reduce the taxpayer subsidy required or allow the taxpayer to do more with the same money). This will also foster collaboration with local authorities who also have deep local knowledge and insights.

- At the same time, operators can invest their own money in revenue generation. This may include local marketing and PR, additional ticket inspectors, new routes, sales partnerships with local employers for worker or student travel etc.

- Crucially, any benefit of these cost or revenue improvements is shared by the operator and authority. This provides a clear incentive for operators to do what they do best – operate entrepreneurially – while ensuring that the principles of a publicly-specified integrated service are maintained.

1.2.4 **This model could result in a "win-win" situation for Welsh Government, and the franchising authority. At worst, they get the service they specified for the cost they expected. But far more likely, they get a better service, carrying more passengers, for less taxpayer money.**

1.2.5 And operators win too. Incumbent SMEs and municipals in particular have in-depth knowledge of their markets, geographies and customers which a centralised commissioning organisation is unlikely to be able to match. This deep well of entrepreneurial skill and energy is an asset for Wales, but risks being lost under a gross cost franchising model. By aligning incentives for operators and authority, these operators will continue to prosper into the future, and help deliver the Government's ambitious vision.

1.2.6 Welsh Government has stated its own aspirations for local SMEs to play a key role in delivering their franchising proposals. However, the experience in places such as Manchester has shown that SMEs are less likely to prosper, and the nature of gross cost franchising means true partnership working is more challenging.

1.3 How It Could Work

1.3.1 This paper explores various other aspects of how Y Ffordd Gymreig could work.

- Franchise packages would vary from large town or city networks (e.g. Cardiff, Wrexham) to single routes or groups of routes in rural areas. These packages would be smaller than Manchester-style franchises, and thus better reflect local conditions, and attract the entrepreneurial skill of incumbent and challenger SMEs.

- Bid assessment would be financially based, rather than relying on hundreds of pages of narrative to justify 'quality' marks. Instead, the quality would be assured by robust delivery criteria in the bid specification, a penalty and incentive regime, and, crucially, turning quality options into priced alternative bids. In essence, quality is not being able to write extensive, and generalised statements; but would be costed into the bids and guaranteed by SLAs and a penalty and incentives regime.

- While municipals and SMEs legally cannot be given protections, they will do well in this model, given their local expertise. It would benefit TfW to reflect the benefit of incumbency as a risk rating for each financial bid. An operator with deep local knowledge plus an existing depot, fleet and driver pool would be less risky than a well-qualified new entrant who has never operated in an area before.

- In larger franchise packages, buses and depots would be acquired by TfW ahead of franchising, and then sold/leased to the winning bidder – a kind of "TUPE" for buses. In smaller franchises, operators could choose to supply their own vehicles and depots, removing the need for a vast and complex acquisition exercise, and allowing innovation to keep costs low.

- At the bidding stage, operators would provide a cost to run the service using diesel vehicles, as well as a price for electric or hydrogen operation. This would provide a very clear list of the financial cost of electrification, which TfW could then align with expected benefits (e.g. CO2 removed, pollution saved), to generate a stack-ranked list to work through as funding allowed.

- Implementation can be quicker than a gross cost approach, with around 5% of the network coming up for renewal each year at present anyway. Unlike the English city regions, which will be waiting years to proceed, Wales does not need to wait years for the first benefits to be achieved.

- The biggest downside to this Y Ffordd Gymreig is administrative complexity for TfW – with more bidders, more franchises, and more operators than in London or Manchester. However, there are also administrative savings – and a benefit to having numerous bidders competing with each other to deliver ever-better bus patronage for Wales, at an ever-lower cost. So while it might require some more up-front time, that will be time well-spent to deliver bigger benefits, more quickly, in a way which is genuinely made in Wales.

1.3.2 We think that Y Ffordd Gymreig provides the best of both worlds. It is absolutely franchising, with the state in full control of the service specification, fares, timetable, and branding.

1.3.3 This is not watering down, or resistance to change, or slow walking. But rather than the state being the only source of skill and talent and ideas in the sector, it also unlocks the energies and capabilities of the dozens of entrepreneurial operators already running buses across Wales today. It harnesses their efforts to build on the government's vision. Fully franchised, fully state-specified, and delivered quicker and better than budget, through private sector support and help.

1.3.4 The proposals outlined here are just the start of a discussion. The end result will be Y Ffordd Gymreig for buses which truly reflects and delivers for the people of Wales.

2. Recap of Options

2.1 Franchising vs Partnership

2.1.1 In the White Paper, *One Network, One Timetable, One Ticket*, the Welsh Government has identified two broad ways forward.

1. The commercial market, upgraded to something akin to England's 'Enhanced Partnerships'.

2. Franchising, which is assumed to be 'gross cost' based on the London and Manchester model. This would entail the Welsh Government taking all revenue and paying operators (via a competitive tender) to deliver the specified service.

2.1.2 Gross cost franchising is simple: decisions on fares, network design, routes and branding would sit with the relevant authority (referred to throughout as 'TfW' for simplicity).

- However, in London and Manchester, operators get paid the same regardless of patronage, as all revenue risk sits with the authority.

- Operators are also unable to influence route design and have no incentive to improve it. Both on the revenue side, and most aspects of the cost side, there is no incentive for operators to be commercially nimble and innovative.

- This manifests itself in a higher subsidy bill for TfL and TfGM, who are paying for a service which their operators are not fully optimising for them.

2.1.3 In London, this gross cost approach has prevailed for over a generation, with six major operators and one homogenous urban environment. Wales is coming from a very different starting position, with dozens of operators running buses in all types of operating contexts.

2.1.4 Centralising network design and service specification would risk losing this local knowledge and market-responsiveness, as well as losing many of those operators. The result would be higher operating costs and lower patronage, both resulting in a more expensive subsidy bill for TfW, and higher carbon emissions.

2.2 The Better Way to Deliver Franchising: Minimum Subsidy

2.2.1 There is a version of franchising which would avoid these risks, while delivering all of the benefits of One Network, One Timetable, One Ticket. This is 'net cost' or 'minimum subsidy' franchising, sometimes known as the 'Jersey model'.

2.2.2 In the next section we describe how this concept works in Jersey, and then go on to explain in detail how a variant known as the 'Welsh model' ("Y Ffordd Gymreig") could work.

2.2.3 This document is intended as the starting point for a discussion – it is not fully set in stone and outlines some thoughts for refinement and debate with the operator community and Welsh Government.

3. Lessons from Jersey

3.1.1 Jersey regulated its bus network for the first time in 2002, developing a gross cost contract for a ten year period, and awarding it to what is now Transdev. The contract was held to have been successful in delivering a robust, reliable network and a new fleet.

3.1.2 However, the gross cost model proved to have two disadvantages:

- There was limited incentive to reduce costs through innovation – or to even have a close interest in cost control. The same is true in London and Manchester. While operators are clearly incentivised to reduce the cost of delivering a unit of output (e.g. by improving fuel efficiency or optimising spare parts spend); the big influence on costs is the number of units of output required (i.e. the network specified). This is not within their control.

- There was no ability or incentive for the operator to deploy entrepreneurial skills and experience in network design, scheduling, ticketing, marketing etc. Even if these levers had been available to the operator (and most are not in a gross cost tender), there is no incentive to use them, since all incremental revenue went to the contracting authority and not the operator. The cost of a marketing campaign, for example, would be borne by the operator, with any revenue growth only visible to the authority.

3.1.3 The result of this set-up is stagnation – operators become order-takers, rather than innovative entrepreneurial partners helping to achieve the authority's patronage and environmental goals at the lowest-possible cost.

3.1.4 Since Jersey's government needed to find an affordable way to improve and increase bus service provision and patronage, new proposals were drawn up. In summary, the process was:

- Pre-qualified bidders were invited to bid against a 'model network' to provide a consistent base price.

- Two finalists were then selected and invited to propose their own network designs which met the requirements of the authority but offered better services or enhanced efficiency.

- The network proposed by the winner and agreed by the authority became the reference network which the government commissioned.

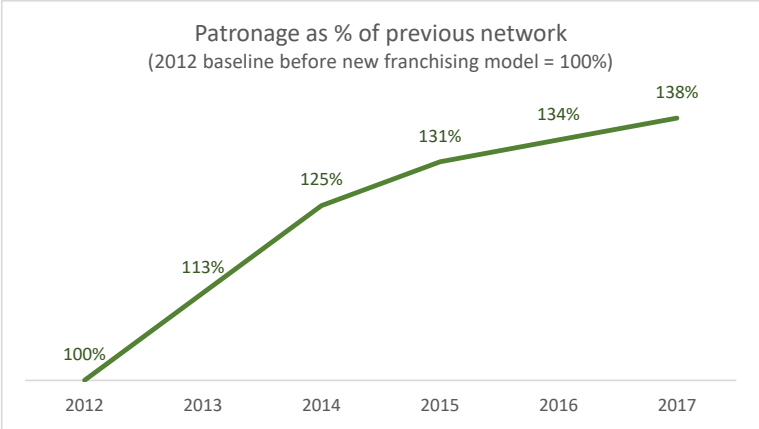
3.1.5 The contract contained several important provisions, including:

- Shared risks, with a minimum subsidy contract. The authority are obliged to subsidise the operator if the fare revenue falls below the costs of operation, but the operator shares any revenue upside above a certain level.

- An initial seven-year period, with the possibility of extensions depending on performance at trigger points during the contract (designed to avoid mid or late contract complacency).

- Specification of smart ticketing and trackable vehicles, plus open book accounting allowing authority access to patronage data and full cost data.
- Consultation on network changes and enhancements with both government and passengers.
- A fail-safe mechanism, allowing the authority to step in, in the event of service or organisational failure.

3.1.6 The contract was let in 2013, and by 2017 was successful in delivering:



- 38% extra passengers (with rapid initial growth and continued growth thereafter)
- enhanced customer satisfaction
- cost savings from more efficient network design
- several service enhancements.

3.1.7 The contract was won by HCT Group, who held the contract until 2022, when the business was sold to the Australian Kelsian Group, co-owners of RATP in London.

3.1.8 Jersey currently plans to let a new contract for the island's bus services commencing in 2025.

3.1.9 There is much to be learned from Jersey. One aspect which HCT note, is around the tendering process. "The challenge with relying on a model network is that whilst it gives a comparable pricing structure, it locks out the most important success factor of all – operator innovation in scheduling and network design". The most innovative operator could be one who does not make the final shortlist of two – this is something which our proposed Y Ffordd Gymreig rectifies. This is particularly relevant for smaller contracts and for SMEs.

4. Towards Y Ffordd Gymreig Minimum Subsidy Tendering

4.1 Simplified Example of Gross Cost Franchise

4.1.1 The table right models a simplified small bus network. The numbers are deliberately round and approximate for ease of illustration.

Illustrative annual figures	Gross cost model
Fare-paying revenue	£500k
Concessionary revenue	£300k
Total revenue	£800k
Variable (network) costs	(£550k)
Cost of capital / leasing	(£50k)
Other costs	(£350k)
Total costs	(£950k)
Subsidy (premium) from TfW	£200k
Profit for operators	£50k
Profit margin	*5.0%*

- Revenue is £800k, including fare paying plus concessionary passengers.
- Costs are £950k, which includes £50k of the 'cost of capital' (sometimes appearing in the P&L as margin, or within lease costs as shown here).
- In addition, operators will need to make a modest profit to cover the risk of investing their funds and energies into a business which has good years as well as bad; and to offset the opportunity cost of spending those funds and energy somewhere else (or just leaving the money in the bank to earn more than 5% interest). The size of the margin will depend on the amount of capital employed by the operator and the cost of that capital. For example, average margins in London bus have been between 3% and 6% over the period from 2016 to 2022.
- This leaves a gap of £200k, requiring subsidy. (At present this may come from supported routes, or post-covid recovery funding).
- Therefore, the subsidy required from the authority to run this network is £200k a year.

4.1.2 The risks and opportunities within this model all accrue to operators:

- If the costs turn out to be worse than when the tender was submitted, this is the operator's problem, and their profit goes down (to 0.3% in this example).
- If costs are better, the operator benefits and their profit goes up (to 9.8% here).
- But either way, the authority neither suffers nor benefits from this – they always pay £200k irrespective.
- Obviously if revenue falls short, the £200k subsidy could be higher, as shown in the right two columns – the authority is exposed to revenue risk but has limited levers to achieve upside.

Illustrative annual figures	Gross cost model bid assumptions	If costs worse than bid	If costs better than bid	*If costs and revenue worse than bid*	*If costs and revenue better than bid*
Fare-paying revenue	£500k	£500k	£500k	*£450k*	*£450k*
Concessionary revenue	£300k	£300k	£300k	*£270k*	*£270k*
Total revenue	£800k	£800k	£800k	*£720k*	*£720k*
Variable (network) costs	(£550k)	(£578k)	(£523k)	*(£578k)*	*(£523k)*
Cost of capital / leasing	(£50k)	(£53k)	(£48k)	*(£53k)*	*(£48k)*
Other costs	(£350k)	(£368k)	(£333k)	*(£368k)*	*(£333k)*
Total costs	(£950k)	(£998k)	(£903k)	*(£998k)*	*(£903k)*
Subsidy (premium) from TfW	£200k	£200k	£200k	*£280k*	*£280k*
Profit for operators	£50k	£3k	£98k	*£3k*	*£98k*
Profit margin	*5.0%*	*0.3%*	*9.8%*	*0.3%*	*9.8%*

4.1.3 As discussed, there is no ability for operators to control the major cost – network design – nor to grow revenue. The only way the authority's £200k a year subsidy bill will improve is if revenue is better than predicted. But nobody other than the authority will be helping this happen.

4.1.4 A minimum subsidy Y Ffordd Gymreig approach would address this, as shown below.

4.2 Simplified Example of Y Ffordd Gymreig Minimum Subsidy Franchise

4.2.1 The table below compares the gross cost and a proposed Welsh alternative model.

4.2.2 Revenue should be higher in Y Ffordd Gymreig, as operators have levers and incentives to innovate:

- In the gross cost model, revenue will not change through operator action. It will always be £800k, as operators have no levers and no incentives to improve it.
- However, in Y Ffordd Gymreig, there is scope for operator-led local marketing, advertising, revenue protection, network improvements etc. which could grow this figure by attracting new passengers. For illustrative purposes we have modelled 2% and 5% improvement here, both of which are plausible.

4.2.3 Costs should be lower in Y Ffordd Gymreig:

- In the gross cost model, network costs are broadly fixed, with limited scope to save money given the very prescriptive network. We model some operator improvement in 'other costs' from efficiency measures, for example in engineering innovations.

- However, in Y Ffordd Gymreig, there is scope for innovation which benefits the whole cost base, through more influence on network design and vehicle procurement. Again, we have modelled a plausible 2% and 5%.

4.2.4 Therefore, with both costs and revenue better in Y Ffordd Gymreig, there is a significant additional value added by the innovation offered through operators, which is shared with the authority:

- Overall, in the gross cost model, the value added is £7k in the mid case and £18k in the higher case. All of this benefit flows to operators. None goes to the authority, who continue to pay £200k subsidy irrespective.

- In Y Ffordd Gymreig, the value added is £35k in the mid case (primarily from network improvements); and £88k in the higher case. Half of this goes to the authority and half to the operator. In this case, TfW reduce their overall subsidy to £183k (mid) or £156k (higher).

4.2.5 This means that in Wales, the subsidy is lower, and patronage is higher:

- In the gross cost model, the authority pays £200k, and patronage is unchanged.

- In Y Ffordd Gymreig, innovation will drive patronage higher, make carbon emissions lower, and ensure that the authority spends less money. Operators will help Welsh public transport prosper through their own entrepreneurial abilities.

Illustrative annual figures	Gross cost model			Y Ffordd Gymreig			
	Worst case: no operator innovation	Mid case: 2% innovation benefit	Upside case: 5% innovation benefit	Worst case: no operator innovation	Mid case: 2% innovation benefit	Upside case: 5% innovation benefit	
Fare-paying revenue	£500k	£500k	£500k	£500k	£510k	£525k	In gross cost model, operators have no lever to improve this. In Y Ffordd Gymreig, they can boost patronage through local marketing, network design etc.
Concessionary revenue	£300k	£300k	£300k	£300k	£306k	£315k	
Total revenue	£800k	£800k	£800k	£800k	£816k	£840k	
Variable (network) costs	(£550k)	(£550k)	(£550k)	(£550k)	(£539k)	(£523k)	In gross cost model, there is limited scope to change costs, other than limited efficiency at the margins. In Y Ffordd Gymreig network design and asset solutions can generate significant savings.
Cost of capital / leasing	(£50k)	(£50k)	(£50k)	(£50k)	(£49k)	(£48k)	
Other costs	(£350k)	(£343k)	(£333k)	(£350k)	(£343k)	(£333k)	
Total costs	(£950k)	(£943k)	(£933k)	(£950k)	(£931k)	(£903k)	
Subsidy (premium) from TfW	£200k	£200k	£200k	£200k	£183k	£156k	In gross cost, subsidy always £200k. In Wales, subsidy falls with innovation.
Profit for operators	£50k	£57k	£68k	£50k	£68k	£94k	In gross cost, limited benefit to innovation. In Wales, incentive to improve - and share upside with TfW.
Profit margin	*5.0%*	*5.7%*	*6.8%*	*5.0%*	*6.8%*	*9.4%*	
Innovation value add	-	£7k	£18k	-	£35k	£88k	All value-add goes to operators in gross cost. In Wales, it is shared 50/50 with TfW.
TfW's benefit from value add	-	-	-	-	£18k	£44k	

4.3 Key Benefits

4.3.1 Conceptually, net cost franchising – Y Ffordd Gymreig – has several key advantages over gross cost franchising:

- It enables and incentivises operators to be entrepreneurial and unlock additional value.

- This additional value would save the tendering authority money.

- This can grow patronage and thus drive modal shift.
- This modal shift reduces carbon emissions.

4.3.2 And it has several implementation benefits:

- It can be introduced more quickly, with an incremental delivery approach.
- It helps ensure the survival and prosperity of local SMEs, ensuring a robust and thriving market which will also help support home-to-school and contract work.

4.3.3 There are few downsides to Y Ffordd Gymreig versus the gross cost model. The authority has less absolute control, because it allows operators more freedom to innovate. But that innovation is within boundaries, and the authority can ignore the operators if it chooses. At minimum, the authority gets the benefits of a gross cost franchise. At best, it gets those benefits plus enhancements from operators' innovations, benefiting both authority and operator.

4.3.4 The next sections of this paper outline the approach in more detail and identify risks and opportunities, and how it better addresses the Welsh Government's aspirations.

5. The Financial Model

5.1 General Approach

5.1.1 In simple terms the process is as outlined below.

5.1.2 TfW provides baseline service assumptions to any interested bidders, including:

- Route information and timetable (section 7.1 later discusses how the franchise packages may range from a whole city to a single route, depending on the geography). This information will generate operating hours and mileage.
- Assumed patronage with detail on how this is split by time of day, route etc.
- Required vehicle specification, such as emissions standards and on-board technology.
- Minimum service delivery KPIs (e.g. punctuality, cleanliness).

5.1.3 Operators provide a cost to deliver this baseline service over the franchise term. In some contexts, this would be known as the 'compliant' bid.

5.1.4 At the same time, operators also submit an 'alternative' bid or bids, using their experience to tweak the baseline network and specification, and revenue. (Unlike Jersey where only the final two bidders get to this stage, every bidder is encouraged to submit alternative options to maximise benefits for TfW).

5.1.5 Operators also submit additional information to explain these alternatives, which forms the quality part of the bid (section 258.3 discusses this in detail).

5.1.6 TfW decide whether to contract the baseline bid, or one of the alternatives. At that point the contract assumptions (timetable, mileage, patronage) are set; unless adjusted later by one of the mechanisms outlined in subsequent chapters.

5.1.7 In addition, TfW can ask for an alternative bid which features zero emissions buses. This is discussed in detail in section 10.3.

5.2 Worked Example

5.2.1 At its very simplest, this bidder proposes a network solution which is £50k cheaper to deliver than the baseline option. If accepted, this would mean a £50k lower subsidy bill for TfW.

Illustrative annual figures	Baseline bid	Alternative option 1	
Total revenue	£800k	£800k	
Total costs	(£950k)	(£900k)	Bidder proposes a network variation which will deliver the specified output for a lower cost (without changing the revenue)
Subsidy (premium) from TfW	£200k	£150k	Subsidy requirement drops accordingly
Profit for operators	£50k	£50k	
Profit margin	*5.0%*	*5.3%*	

5.2.2 A more realistic example is shown below. The bidder proposes a network solution which saves £50k of cost, but models that this will sacrifice £15k of revenue to achieve this saving. If accepted, TfW would save £35k from the subsidy bill (which could be reinvested in providing higher service levels elsewhere).

Illustrative annual figures	Baseline bid	Alternative option 2	
Total revenue	£800k	£785k	Bidder assumes network variation will: a) reduce revenue by £15k
Total costs	(£950k)	(£900k)	b) save £50k of cost
Subsidy (premium) from TfW	£200k	£165k	Subsidy requirement drops accordingly
Profit for operators	£50k	£50k	
Profit margin	*5.0%*	*5.3%*	

5.2.3 To continue the example, TfW decides to contract alternative option 2. This then forms the contract against which operators are reimbursed.

- If costs over-run, then the problem is the operator's. Their profit declines, but TfW's subsidy does not change.
- If the operator outperforms on costs, then the benefit is shared.
- At worst, TfW never spends more than the £165k contracted subsidy (which let's not forget is significantly better than the £200k 'baseline' bid at the start of the tendering process). At best, TfW may spend significantly less than £165k.

Illustrative annual figures	Alternative option 2 as contracted	Costs worse than contracted	Costs as per contracted	Costs better than contracted	
Total revenue	£785k	£785k	£785k	£785k	In worse case, operator over-spends. The problem is the operators.
Total costs	(£900k)	(£915k)	(£900k)	(£885k)	In best case, they underspend,and the benefit is shared with TfW.
Subsidy (premium) from TfW	£165k	£165k	£165k	£158k	TfW never spend more than contracted price; and may spend less
Profit for operators	£50k	£35k	£50k	£58k	
Profit margin	*5.3%*	*3.7%*	*5.3%*	*6.1%*	
Innovation value add	-	-	-	£15k	
TfW's benefit from value add	-	-	-	£8k	

5.2.4 A more complicated situation arises if revenue falls short of the contracted bid model for reasons beyond anyone's control (e.g. an economic downturn).

- In the 'worse' scenario, revenue falls short of what was contracted. This is not the operator's risk, and increases the subsidy requirement to achieve the agreed bid profit.
- In the 'better' scenario, revenue outperforms, quite probably through the energies and actions of the operator. In this case, the benefit is shared with TfW.
- Therefore, the only scenario in which TfW pay more subsidy than contracted is if revenue falls short of the contracted value. **This is no different to a gross cost model contract.**
- (And in this example, TfW's £180k subsidy is still lower than the £200k baseline price at the start of the process. Even if sometimes the operators' innovations do not pay off, the authority is no worse off than under the gross cost model.)

Illustrative annual figures	Alternative option 2 as contracted	Revenue worse than contracted	Revenue as per contracted	Revenue better than contracted	
Total revenue	£785k	£770k	£785k	£800k	In worse case, revenue falls short. This is not held against the operator (nor would it in a Manchester gross cost model).
Total costs	(£900k)	(£900k)	(£900k)	(£900k)	In best case, revenue outperforms and benefit is shared.
Subsidy (premium) from TfW	£165k	£180k	£165k	£158k	TfW only spend more if the agreed revenue falls short of the contract target
Profit for operators	£50k	£50k	£50k	£58k	
Profit margin	*5.3%*	*5.3%*	*5.3%*	*6.0%*	
Innovation value add	-	-	-	£15k	
TfW's benefit from value add	-	-	-	£8k	

5.3 Balance of Risks and Opportunities

5.3.1 To sum up:

- If underlying/organic revenue is worse than the contract price: TfW hold the risk (as it would be in the gross cost model).
- If underlying revenue is better than contract price: benefit shared. This however is a relatively low likelihood scenario if the bid model is robust.
- If revenue actions generate additional revenue: benefit shared (something not possible in gross cost model).
- If costs are worse than contracted price: operator holds the risk.
- If costs are better than contracted price: benefit shared.

Versus contracted assumptions	Gross cost model		Welsh model	
	Authority	Operator	Authority	Operator
Revenue organically £100k worse	(£100k)	-	(£100k)	-
Revenue organically £100k better	£100k	-	£50k	£50k
Operator action generates £100k revenue	n/a		£50k	£50k
Costs £100k worse	-	(£100k)	-	(£100k)
Costs £100k better	-	£100k	£50k	£50k

5.3.2 One anomaly of Y Ffordd Gymreig is that if overall patronage improves beyond the bid model, this benefit is shared between authority and operator. An operator could profit 'by osmosis' if the patronage tide rises, without them doing anything.

- However, this is unlikely to be a common issue. We suspect the downside organic revenue risk is greater than the upside organic opportunity. Higher than expected patronage in a model where operators play no part in achieving it is unlikely.
- And this unlikely potential output is offset by a far more likely upside: that revenue outperforms as a result of operator actions.

5.3.3 And of course, in any situation TfW could just accept the baseline gross cost bid instead, but will not get as much benefit if so. It is not a choice of always gross cost model or always Y Ffordd Gymreig – it is a mix and match approach.

5.3.4 One slight complexity worth exploring further when the precise mechanisms are documented is how to handle a sustained underperformance in patronage. If after year one it is clear that patronage is lower on a route than contracted (e.g. due to a recession or school relocation), then however hard the operator works on marketing etc, they will never outperform the contracted revenue assumption. This would remove the incentive to work hard. The solution would be to re-baseline the contracted revenue assumption – in other words operators should keep half of the revenue achieved above 'what would happen anyway'.

6. The Cost Mechanism

6.1 Introduction

6.1.1 This section examines various components of the cost base and suggests an approach to how these would be treated.

6.2 Driver Wages and Indexation

6.2.1 There are numerous elements which make up an employee's overall package – it is the combination of hourly rate, how often nights and weekends are worked, the nature of the routes, the intensiveness and stressfulness of the work, and other benefits such as pensions.

6.2.2 Some areas will be short of drivers and need to pay more; others will not have this issue. Certain networks – for example those serving tough urban neighbourhoods and covering long operating hours – will likely need to pay more than buses only running daytime hours for tourists or elderly shoppers.

6.2.3 The industry already works closely with Trades Unions to achieve the best balance of these factors, while ensuring sufficient driver numbers to run services.

6.2.4 There is also a risk of excessive wage inflation caused by harmonisation of every term and condition, as well as hourly rates. This risks a race-to-the-top, with nobody willing to lose any legacy benefit. It is not a problem to have a diverse range of T&Cs and wage rates if that works for the employees and the operators – and thus delivers for the people of Wales.

6.2.5 So rather than fixing a Wales-wide hourly rate, an indexation approach seems wise. This would automatically uplift the subsidy each year by an index, such as regionally-appropriate average weekly earnings. As the contract progressed, operators would bear the cost if they opted to pay above this; but would share the benefit with TfW if they could agree settlements below this level.

6.3 Fuel Indexation

6.3.1 This seems straightforward and should index fuel prices (be that diesel, electricity or hydrogen) to a national benchmark. This approach would apply in either the gross cost or Y Ffordd Gymreig

6.4 Network Changes during the Contract Term

6.4.1 The primary network design would happen during the bidding stage. But that does not mean the entire network is set in stone for the next seven or more years.

6.4.2 While too much network change can put passengers off and make it hard for people to make bus their mode of choice; too little change can also be a problem. Routes need to evolve for various reasons: new trip generators or attractors (e.g. housing estates or college campuses), changing road speeds, new integration opportunities (e.g. changing rail timetables), or the ongoing process of continuous improvement to attract more passengers.

6.4.3 Y Ffordd Gymreig therefore needs a mechanism for operators to propose network changes, and to be incentivised to do so. TfW would need to approve these changes, and therefore would be the final decision-maker on whether the change was right, and whether the time was right to make it. This would also ensure appropriate consultation and suitable democratic accountability.

6.4.4 If a change was agreed, the benefit would be shared between operator and TfW, incentivising ongoing entrepreneurial creativity.

6.4.5 By contrast, under a gross cost model, operators (who may be new-entrant global groups with little local knowledge) would not be incentivised or resourced to think this way. The result would be networks which were sub-optimal for growing patronage, and sub-optimal for cost efficiency.

6.4.6 The retention of commercial knowledge in the operator base would also be an asset to TfW in the event of change becoming a necessity. For example, if TfW needed to reduce expenditure due to an economic downturn, the operator base could assist in identifying the best way to achieve this while protecting patronage. The opposite is also true, for example in the event of additional funds for decarbonisation becoming available.

7. The Revenue Mechanism

7.1.1 This section examines various components of revenue and suggests an approach as to how these would be treated.

7.1.2 In broad terms, as long as an operator was working within the franchise rules (e.g. vehicle standards, branding, fares, timetable specification and KPI delivery), there would be flexibility to invest in revenue growth actions. Operators would be encouraged to seek agreement to vary those franchise rules where this would enhance outcomes for the people of Wales.

7.2 Marketing and Publicity

7.2.1 Overall, TfW would be responsible for marketing the bus network in Wales. However, there is a role for very local marketing, communications and publicity to attract local people on board, overlaying TfW's high-level publicity. This could range from the very basic (distributing fliers and displaying posters to inform people of a newly enhanced service); to more complex city-wide promotions on social media (e.g. targeting new students enrolling at university).

7.2.2 The precise mechanism is less important than the general point. TfW will market and promote the network as a whole, and will ensure the simplicity of branding, pricing, and ticketing. But there is a gap which only local knowledge and action can fill. This might include attending village fetes, paying student brand ambassadors to attend freshers' fairs, agreeing partnerships with local employers for staff travel schemes. None of this would be done by TfW due to bandwidth constraints. None of this would contradict or undermine the overall aspiration for one co-ordinated brand and product – quite the opposite, it would have significant potential to enhance the overall brand and network, by pushing it to more people.

7.2.3 The cost of these marketing and sales initiatives would be borne by the operator. The revenue benefit would be shared with TfW. There is clearly an in-built incentive to focus on initiatives which have a positive return on investment. If an operator spends £10k on an advertising campaign which does not generate £10k or more of revenue, it is the operator's risk. If however the campaign generates £20k of new revenue, then both operator and TfW share the £10k benefit.

7.2.4 Many of these marketing or publicity actions could be virtually free to deliver. A photo shoot and press release in a town's local newspaper, accompanied by timetable leaflets and maps distributed in a community centre, and simple posters on board the bus, would cost almost nothing; but could help boost a rural service from loss-making into sustainability. None of these things would be incentivised in a gross cost model, where the operator has no ability or need to care about patronage.

7.3 New Routes

7.3.1 One type of entrepreneurial innovation which should be especially welcomed is the identification of new routes. These would come in three forms:

- A purely commercial venture. If an operator was confident that a route within their franchised area would fully cover its costs, an operator could ask TfW for permission to operate. Any revenue shortfall would be the operator's to cover. To avoid fragmentation, the new route must comply with franchise rules – i.e. part of the integrated ticketing, branding, vehicle specifications etc. When the franchise term ended, this new route would be rolled into the future franchise to be let. There is no material risk to TfW other than the risk of a trial service being withdrawn later if it fails to succeed.

- A 'kick-start' commercial venture within the franchisee's area. This is a service enhancement which should cover its costs, but not straight away. This could range from a service to a new housing development, to a weekend expansion or a frequency enhancement on an existing service. Operators could propose this to TfW, along with an estimated cost, revenue and thus subsidy required. If, after discussions, TfW agreed, this would be added to the franchised network for that area, with the same risk and benefit share arrangements that apply to the rest of the franchise.

- A commercial venture in another operator's franchise area. This is akin to an open-access rail operation, and risks abstracting revenue from the franchised network. It would be tempting to instantly rule this out, but like open-access rail, it could form an important enhancement to the network without unduly cannibalising existing revenue. The precise mechanism would need defining but broadly an operator could propose the new service to TfW, identifying any abstraction from the existing franchise expected. If this abstraction was, say £10k a year, then the new operator would need to pay £10k to TfW for the right to run the new route, or make a compelling case that the social benefit of the route was worth TfW accepting this reduction in franchise revenue (perhaps in exchange for a share of the new route's profits). The existing operator would be asked for their view. If everyone was in agreement, then the new service would be permitted. And as in the first scenario, this would need to comply with franchise rules on ticketing and branding, to feel part of the integrated system.

7.4 Revenue Protection

7.4.1 In some networks, "fare-dodging" will be a considerable problem and lead to 1 to 3% of revenue being lost (based upon UK-wide figures). While the franchise specification could mandate a specific number of revenue protection officers, the gross cost model does not provide an incentive (or visibility) for operators to optimise and target this resource using their detailed knowledge of when and where the problem arises.

7.4.2 Revenue protection actions could include ticket inspectors (who might be part-time based upon problem hotspots), and incentivising drivers to proactively enforce fare paying. In London there is no incentive for drivers to even record tickets, let alone ensure they are valid[1].

7.4.3 As with all revenue initiatives, if an operator invested in revenue protection, the benefit would be shared with TfW. And as with new routes, this might be a certain win, in which

[1] *In an internal report from 2010, fraudulent travel on London bus services was estimated to cost TfL £30m a year, which amounted to 3.2% of that year's revenue. https://content.tfl.gov.uk/bus-fare-evasion-communications-development-presentation.pd*

case it would be implemented immediately. It might be a slower-burn measure, in which case the operator could agree with TfW to share the up-front costs (i.e. the operator could make a business case to TfW).

7.5 Fares

7.5.1 Ticketing and pricing is clearly the remit of TfW and ensuring 'one ticket' is a key reason to move to a franchised system. We absolutely do not propose introducing a fragmented landscape of tickets. But local knowledge and insight from operators will be helpful, and could generate patronage and reduce costs.

7.5.2 An example could be that an operator identifies lower-than-expected fare-paying patronage on a route. From talking to drivers and passengers, they realise this is because the fares, set at a national level, are too expensive for the short journeys on this route. The operator could propose a cheaper ticket on this journey to help improve patronage and revenue.

7.5.3 Another example would be around the product range. An operator may identify that groups of tourists are poorly served by the nationwide ticketing types. A new explorer ticket for those scenic journeys may fill a gap in the market and help attract new customers on board, reducing the overall subsidy bill for TfW.

7.5.4 The general point is not to replace the national ticketing and fares simplicity, which is a goal we absolutely support. It is to find niches and opportunities to enhance this simple ticketing and pricing range, all with the shared aim of getting more people on board buses.

7.5.5 As with all of these revenue levers, the upside would be shared, and TfW would have to approve any fares or ticketing innovations – and can always say no.

7.6 New Fares or Concession Changes Introduced by TfW

7.6.1 There could be future TfW initiatives which change the contracted assumptions. Recent examples are England's £2 single fares, and Scotland's under-22 concessions.

7.6.2 The contract would need a change mechanism which would model the impact of these changes and update the subsidy level accordingly. This is one area where the gross cost model is simpler than Y Ffordd Gymreig, because there is no direct link between the price a passenger pays and the return to operators. However, this change mechanism it is not prohibitively complicated to model, as recent schemes have shown, so is by no means a compelling argument against Y Ffordd Gymreig.

7.7 Ancillary Income

7.7.1 Ancillary revenue can include bus-side advertising, private hire work, and distributing free newspapers, amongst other things. Obviously, some care is needed to balance the additional income with the passenger experience – covering every window in adverts or dropping timetabled journeys to run a special event would be taking it too far. But with appropriate protections in place, all these income streams could reduce the overall subsidy requirement (or help keep fares lower) and are therefore to be welcomed.

7.7.2 Again, local knowledge is important here. TfW can set ground-rules, and agree nationwide bus-side advertising contracts, but this can be built upon with local knowledge. For example, reducing the contracted fleet cost by using a bus in the evenings for private hire. Or local ad sales to fill advert frames which the national deal has not sold.

7.7.3 As with all of the revenue initiatives, any benefit of this would be shared.

7.8 Incentives Regime

7.8.1 In London and Manchester and other gross cost tenders around the world, there is an incentive and penalty regime, generally based upon delivery of service quality KPIs, particularly punctuality and sometimes also cleanliness and other audited metrics.

7.8.2 Given Y Ffordd Gymreig will likely involve over a hundred operators, spread over the entire country, these metrics should ideally be generated automatically and not rely upon auditors or mystery shoppers physically visiting each route. Automation also reduces administrative burden and improves accuracy.

7.8.3 This topic warrants further evaluation with operators and TfW, but a focus on punctuality (including lateness, excess wait time and lost mileage), seems particularly appropriate as a key driver of customer satisfaction and patronage; and is easily captured and recorded by common on-board and back-office systems.

7.8.4 These incentives and penalties would sit on top of the financial risk sharing outlined earlier. An operator (and TfW) could share the financial benefit of having reduced costs, whilst at the same time the operator is also penalised for poor service delivery.

8. Tendering Approach

8.1 Size of Packages

8.1.1 In London a 'lot' or package of work for franchising is typically one route. In Manchester it is one depot, plus some 'small' packages targeted at SMEs for school routes.

8.1.2 For Y Ffordd Gymreig, we don't think one size fits all.

8.1.3 In big urban areas, or small networks radiating from a county town, a package covering the whole contiguous network would make sense. This would keep the current network together without disruption and avoid the need to increase the number of depots beyond current levels. It would also create the conditions for the success of at least the existing municipal operators.

8.1.4 In smaller communities, route-level packages would make more sense – and operators are highly likely to want to combine several packages to run from one depot location. In terms of a tendering approach, TfW could release a list of all routes and invite bidders to tender for one or more of them. 'Alternative' bids which combined multiple routes into one depot would be most likely to succeed.

8.2 Franchise Duration

8.2.1 The duration of the franchises could be five years with possibility for extension (as in London and Manchester), seven years, or ten years (as assumed in the white paper). The duration does not impact the rest of the content of this paper – and Y Ffordd Gymreig makes longer contract terms more appealing for all involved due to the inherent flexibility and room to evolve in response to changing market conditions.

8.3 Cost vs Quality Appraisal Mechanism

8.3.1 Manchester bids are marked as 60% quality and 40% price. Many global bids work on a roughly 50/50 split of cost and quality. On the face of it, this is appealing – quality is clearly something to be aspired to; but the reality is less clear cut.

8.3.2 In a tightly specified gross cost bid such as Manchester, there is limited scope to actually differentiate on service quality. The operator cannot change the vehicle specification, branding, ticketing system, fares, timetable, depot or off-bus facilities – all of the things that a rail franchise bidder would look to improve as part of their quality proposition. A quality score is primarily a measure of the credibility of the operator in mobilising and delivering the franchise, rather than their creativity in designing a world- class customer experience.

8.3.3 This gives a clear advantage to operators who can a) write a compelling 100+ page submission; and b) already have extensive operations in the area, to de-risk start-up i.e.big owning groups already in the region.

8.3.4 Other bid contexts (such as home to school transport) involve a 'passport' process to demonstrate key capabilities, which gets credible operators onto a framework to pick up

routes as required. This is much less onerous while still acting as a barrier to cowboy operators. However this is a pass/fail which means any operators who pass are then assessed on financial criteria alone.

8.3.5 In Y Ffordd Gymreig, we propose a slightly different approach which fuses the price and quality elements.

8.3.6 Firstly, operators must acquire a passport to join the franchising framework. This should not be onerous, and operators who do not succeed at first should get help in remedying shortfalls to join in due course. It should not be a barrier or undue administrative burden for SMEs.

8.3.7 Passport holders could include those who operate in Wales today, as well as new entrants, such as small or large owning groups from elsewhere in the world.

8.3.8 Any bidder with a passport could then submit a baseline and alternative bids for any of the packages.

8.3.9 There would not be a specific quality submission – because the alternative bids would take into account the bidders' plans to improve revenue and cost through their innovations. As such quality would be built into the bids in the most numerical way possible – the expected revenue and cost benefit.

8.3.10 The alternative bid submissions would be primarily numerical, with supporting short narrative / maps / timetables / investment plans where required to give credibility to the numbers.

8.3.11 The risk is that for certain attractive packages – e.g. Swansea – TfW would have to evaluate over ten bids. This is true, but is not unhelpful. Ten innovative companies, local and from further afield, suggesting ways to improve Swansea's bus services is something to be welcomed. And because each bid would be primarily numerical, it would be a much easier evaluation process than ten 100-page written submissions.

8.3.12 The most complex part would be validating revenue growth assumptions from new routes etc – which could be done using standard methodology and tools such as WebTAG. It is worth TfW investing a bit more time and resource up front to evaluate a series of compelling improvement options – this should pay back many times over the franchise life.

8.3.13 TfW may also want to add a risk rating score to bids, which would naturally benefit incumbents and those already in the area, who are inherently less risky choices. It would reflect transition risk, and driver, engineer and management availability. For example, a successful incumbent operator would have a lower risk rating to run an area's buses than an experienced new entrant with great plans, but who has only ever run buses elsewhere.

8.3.14 Quality would also be ensured through the penalty and incentive regime focused on punctuality; and tightly specified vehicle and branding criteria in the contract. This is not dissimilar to how tendered routes (whether gross or net cost) work across the UK today.

8.4 Unplanned Operator Change and Step-in Rights

8.4.1 There is a risk in any contract that the operator ceases trading, is taken over, or has some other unforeseen situation which impacts their ability to operate. In some ways Y Ffordd Gymreig proposed here makes this situation more likely, with more SMEs and smaller lots meaning less financial robustness underpinning some of the bids. However, in other ways, it mitigates the problem, with smaller lots meaning any operator failure is likely to be on a smaller scale.

8.4.2 The contract would need careful design to ensure that it could be readily transferred – including staff and where relevant the vehicles – to a new operator. This is covered more in the asset approach section. Smaller one-route franchises may have less onerous criteria in this regard compared to larger multi-route networks.

8.4.3 One important feature of the contact is that the drivers should be clearly allocated to the routes operated, meaning that TUPE would apply if the contract transferred to another operator, whether in a planned or unplanned manner. It would be against the spirit of the franchise model for drivers to be 'hoarded' by operators and become a barrier to competition.

9. Administration and Governance

9.1 Audit Regime

9.1.1 As mentioned earlier, the focus of the quality KPIs would be on metrics which are easily generated by automated systems. It would not require the creation of a team of auditors as this data would be readily available. However, there could still be a role for spot checks and audits.

9.1.2 As well as open-book operational data, Y Ffordd Gymreig would require open-book financial data, to ensure that the benefits were indeed being shared correctly. The big risk would be a rogue operator manipulating the cost base so that any benefits were not surfaced and thus not shared with TfW. A clear format for data sharing such as that used by DfT in England for various covid recovery schemes, along with random and for-cause accounting audits, should address this. It should not be onerous for operators.

9.2 Regulatory Approach

9.2.1 There are limited differences between the gross cost and Y Ffordd Gymreig in terms of the regulatory powers of the Traffic Commissioner (TC). It would be worth giving further consideration to whether these powers sit most effectively with the TC, or for example, with TfW. However, in either scenario, the TC or TfW can effectively enforce the franchising regime, primarily by prohibiting the operation of non-franchised routes.

9.2.2 As noted in the White Paper, cross-border services will need some thought and care, but this should not be prohibitive. And that care and thought would apply in both gross cost and Y Ffordd Gymreig.

9.3 Partnership Forum

9.3.1 Throughout this paper we talk about operators being encouraged and incentivised to propose improvements to their service. The intention is to foster a true partnership, where operators are constructive partners for TfW, rather than simple order-takers.

9.3.2 Without becoming excessively formal and bureaucratic, and stifling creative joint working, this will need some structuring to ensure that things happen in a transparent way.

9.3.3 We suggest a franchise improvement forum, at which representatives TfW and the franchise operator would meet at agreed, set intervals. The agenda for this meeting would include the standard performance review and matters arising common to any franchise relationship. And in addition should explicitly cover:

- Operator revenue proposals
- Operator cost control proposals (including network changes)
- Any network change proposals

- Other areas to improve outcomes – for example highlighting highways issues, roadside infrastructure improvement opportunities etc

10. Asset Approach

10.1 Buses

10.1.1 A very centralised approach to franchising would see the authority acquiring all the vehicles, both existing and new, and then passing these to operators via some residual value mechanism. Operators may choose to involve third-party leasing companies in this process to avoid the capital cost of purchasing the fleet. There is some logic to this approach – it ensures a consistency of fleet, and ease of mobilisation and transition between operators when franchises change hands. It also makes electrification of the fleet easier to control and subsidise from the centre.

10.1.2 This centralised approach could work under the proposed Y Ffordd Gymreig. However, it comes with several disadvantages:

- A high initial cost to the authority – tens of millions of pounds for all the buses in Wales.
- It also restricts operator flexibility to use assets more creatively – for example if a bus currently runs non-franchised home-to-school or private hire work outside of the franchised local bus operating times.
- It may also increase the overall price of vehicles acquired. TfW will have greater purchasing power than an SME, but may get less advantageous deals than big groups with global purchasing deals.

10.1.3 More thinking around this topic will be an important next step. Broadly, Y Ffordd Gymreig foresees a mixed approach, where operators can choose from three options:

- Draw upon a TfW-managed residual value fleet. This would acquire vehicles from pre-franchising operators (not necessarily in the same geographic area) and 'sell' them at the RV price to operators who wished to draw upon them. TfW would then buy them back at the future RV price at franchise handover. In essence this would make TfW a 'Rosco' for operators who wanted to acquire vehicles this way. It would make most sense for larger urban networks.
- Use operator's own fleet. This would allow operators to use vehicles they currently have in the franchise area, or have within their UK portfolios, maximising cost-effectiveness and reducing mobilisation risk. It is a question for debate whether there should be a commitment to sell these on to TfW using the RV mechanism when franchise operator changes. The disadvantage of this is to reduce the duration of the benefits of the operator's own procurement innovation; but the advantage is a more seamless transition.

- Lease vehicles from a third-party leasing agency. A variant of using own fleet, but with operators independently sourcing vehicles from a commercial leasing company. This is common in London. It would make particular sense for zero emissions 'buses as a service' from a supplier such as Zenobe, in a package which rolls in parts, warranty, batteries, electricity etc. Again, there is a point of debate about whether these leases would need a clause ensuring that the vehicles would transfer to TfW or a new operator when required. In essence, they would need to 'TUPE' the same way employees do. A compromise could be that TfW have the right to transfer the vehicles but may choose not to exercise that right. The approach may also differ for single-route franchises, compared to multi-route networks where replacement vehicles will be harder to source.

10.1.4 The point of having flexibility is to achieve best value for TfW (as using existing fleet may be better value than a complex RV process); to reduce up-front capital expenditure for TfW; and to reduce barriers for SMEs. It should also allow more flexibility in asset deployment if operators want to use their own vehicles outside of franchised operating hours to run home to school or private hire work, both of which will help fill social needs and spread overhead cost, reducing the cost to both TfW and schools.

10.1.5 Announcing a clear vehicle approach well in advance of franchising will help avoid blighting investment. Operators need to be able to make investment decisions now with clarity on what will happen to that fleet when franchising begins.

10.1.6 It is also worth reiterating that a flexible fleet procurement approach does not mean a polluting, poorly-maintained or randomly-branded fleet. Any vehicle used will need to meet the clear criteria in the franchise – ensuring high standards of branding, technology, emissions ratings and roadworthiness. As far as the passenger is concerned, it will be one fleet. The travelling public will get the same experience on every bus they catch across Wales. Even though some will be owned or leased in different ways, the passenger will know no difference.

10.2 Depots

10.2.1 In many ways depots are like buses. TfW acquiring every depot in Wales would be a huge project, both expensive and time-consuming. Manchester envisages nine depots; Wales might need many times that number. But depot ownership is also a barrier to new entrants, and cannot become a blocker to competition for the market. Therefore a two-track approach makes sense.

10.2.2 We foresee two main options:

- TfW purchase depots from incumbents, as in Manchester, and rent these to successful bidders. These rental terms would be a clear assumption for bidders to use in their cost model (and there would be limited scope for innovation). This would make sense in bigger networks, and TfW potentially could set a size limit above which it always owned the depot.

- Bidders use their own facilities, particularly for smaller franchises. The term 'depot' may be over-stating the scale of some of the sites involved, which could be basic parking for one vehicle alongside a yard used for other purposes. If TfW tried to acquire this site it would entail an administrative workload disproportionate to the value of the facility, and risk much higher prices as a standalone entity. For these reasons, we do not envisage a right of transfer at the end of a franchise for these small sites. While that may make new entry into the market harder, it is not difficult to find land to operate a small number of vehicles, so should not be a prohibitive barrier.

10.3 Decarbonisation

10.3.1 One of the most complex aspects of this process is the transition to zero emissions vehicles. This has a financial element – in most cases the ZEVs will have a different cost profile to diesels. It also has a practical one, with ZEV charging infrastructure funded by the taxpayer impossible to move when a franchise ends if the depot does not also transfer.

10.3.2 For clarity, this section refers to electric buses and electrification, but this should equally be taken to mean hydrogen buses and the relevant infrastructure.

10.3.3 As a general rule, the priority routes for electrification are likely to be intensively used (to maximise EV operating hours and thus the carbon saved), and in dense urban areas (to maximise air quality benefits). Long rural routes will be low on the priority list for these reasons, as well as potential limitations on range. This makes initial the electrification challenge more likely to be focused on larger depots which are owned by TfW, rather than small operator-owned sites.

10.3.4 When submitting a baseline and alternative bid, TfW could request that operators provide both a diesel price, and an electric price (this may be to electrify the entire franchise, or a portion of it). TfW would focus these requests on their priority areas (i.e. areas with high intensity operation, poor air quality and appropriate range).

10.3.5 This would be a very clear way of generating a price for decarbonisation by franchise area. TfW could stack rank the preferred schemes, calculating a BCR based upon cost and the environmental benefits, and then commit to as much electrification as funding allowed each year. There would also be a phasing consideration reflecting the practicalities of acquiring vehicles, upgrading the electricity grid, expanding depot space etc. In essence, the bidding process would identify the most beneficial decarbonisation schemes, and then TfW would work down the list as quickly as funding and practicalities allowed.

10.3.6 In addition, operators could propose decarbonisation of routes even where TfW had not requested it, if the operator could deliver this at no additional cost to the taxpayer (some operators across the UK are now rolling out zero emissions vehicles with no government support, because the business case now works in certain operating environments, and this will increasingly become the case as the technology matures). If an operator wants to electrify a route 'for free' which TfW have not prioritised, then it would be to TfW's advantage to consider that proposal.

10.3.7 Because the bid price for an electric franchise and a diesel franchise would be separate, an operator could differentiate by pitching a low-cost electric transition. This is a key advantage of Y Ffordd Gymreig and will incentivise operators to help drive the decarbonisation agenda, rather than simply waiting for the authority to take the lead (as would be the case in a gross cost franchise).

10.3.8 Because most of the decarbonisation schemes would likely focus on larger franchises, the charging infrastructure would likely be in TfW-owned depots. This would make the vehicles and fixed infrastructure easy to transfer to the new operator at franchise end.

10.3.9 For any electrification schemes with infrastructure in depots not owned by TfW, there are two approaches:

- TfW fund the infrastructure on the condition that it is made available to future bidders if appropriate (e.g. by selling the depot to TfW at franchise end; or permitting other operators to access it).
- TfW does not fund the infrastructure but pay a higher price to the operator for them having fitted it. Effectively the operator rolls the infrastructure depreciation into the franchise price, and it the operator's risk if they choose to depreciate this over longer than the franchise term. This is perhaps the easier option, albeit slightly more costly to TfW.

10.4 Ticketing Technology

10.4.1 A key part of 'one ticket' is ensuring on-board ticketing technology works with all products, across all operators and all modes. At present this works for some products using ITSO (e.g. concessionary passes) but does not work for contactless or mobile ticketing. Seamless daily or weekly capping on contactless as seen in London is simply not possible with today's equipment.

10.4.2 There are two ways around this:

- Equip every bus with the same type of ticket machine, for example Ticketer. This would be relatively simple but would require significant capital spend for those vehicles which do not currently have the selected system.
- Take advantage of the DfT, Transport for West Midlands (TfWM), and bus industry's Project Coral, which is developing ways to facilitate contactless capping across all operators and all modes. Much of the capital cost is already committed, but it is unlikely to be operational at scale until at least 2026. Ensuring this works for TfW and not just England will also be likely to require some capital investment and ongoing engagement.

10.5 Other On-board Technology

10.5.1 Other franchised networks mandate specific equipment, such as CCTV, audio-visual announcements, and various telematics. This could involve mandating a particular manufacturer, or, increasingly, specifying output levels which can be provided by a variety of suppliers.

10.5.2 TfW can do this by writing the franchise specification to include specific technology outputs. Expecting everything from day one will increase the cost (as it will involve extensive retrofitting), and increase delivery risk. A phased approach, such as that taken in some English Enhanced Partnerships, may be better – for example specifying that every new bus registered after a particular date must have specific technology.

10.6 Branding and Information

10.6.1 Much like technology, this can be written into the specification. TfW will take a view on speed of roll-out – expecting signage to change immediately is eminently sensible; while fully repainting old vehicles due for replacement next year may be a poor use of public funds.

11. Transition Plan

11.1 Implementation Timescales

11.1.1 Under Y Ffordd Gymreig, much of the transition could happen very quickly, even ahead of full franchising legislation.

11.1.2 In Wales, 24% of mileage is already under tender to local government[2]. Based upon a typical tender duration, this means around 5% will come up for renewal every year. Some will be parts of what will become a larger franchise – e.g. tendered evening journeys in a town which will form part of a town-wide franchise. Others however will stand alone – entire tendered routes covering rural areas. These standalone routes (or groups of routes) could be early candidates for franchising.

11.1.3 Formal franchise legislation is particularly required in order to stop commercial operation and ensure only TfW can determine timetables and routes. But in rural areas where there is no commercial operation, this is a moot point. So non-commercial rural areas can effectively be franchised before the legislation is fully completed.

11.1.4 To do this, TfW would announce that contracts awarded after a specific date were 'shadow franchises' under the new Y Ffordd Gymreig, with the formal legislation making them officially into franchises was to follow.

- For easy quick wins, this could include branding, ticketing, information and emissions standard criteria which are already. This does not require new franchise legislation but can be written into the tender criteria.

- This would also include a minimum subsidy award process as outlined in this paper, under Y Ffordd Gymreig inviting innovation and benefit sharing. Again, in areas with no commercial operation, this should not require legislation or the completion of the franchising set-up process.

11.1.5 Other more complex areas could follow once the legislation was in place, including the RV mechanism for acquiring depots and fleet.

11.2 Other Levers and Quick Wins

11.2.1 TfW also have other levers to begin the process of implementing quick wins around branding, information, ticketing and quality monitoring. Any funding above the statutory minimum can have strings attached.

11.2.2 For example in England, TfWM have linked covid recovery and concessionary top-up funding to operational KPIs, deducting income in respect of lost mileage. And in order to access new BSIP and network support funding, TfWM require operators to meet specific fleet standards and coordinate ticketing ranges.

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[2] *Figure for 2022/23. Source: Annual Bus Statistics, DfT, Sheet BUS02_km*

11.2.3 As Wales moves away from its own emergency funding provisions, and the Bus Transition Fund comes to an end in April 2024, there may be opportunities for any new funding to build an effective bridge to franchising through these levels.

11.2.4 Obviously, these levers need to be used judiciously and are not cost-free – for example requiring operators to upgrade their fleet may make certain routes uneconomic and require subsidy or reduction. Care needs to be taken to avoid unforeseen consequences, particularly in the context of reducing public funding and ongoing threats to the survival of many routes in Wales, but these levers offer scope to start moving towards the benefits of franchising very quickly.

12. Impact on Municipals and SMEs

12.1 Municipal Companies

12.1.1 The Welsh Government's proposals foresee a significant role, for municipal operators, not just in Cardiff and Newport where there are incumbent municipal operators, but also through the creation of new municipal bus companies.

12.1.2 In developing Y Ffordd Gymreig, we do not foresee a way that it would be legal and fair to treat municipal operators differently during the bidding process for new franchises. However, the incumbent municipal operators would be in an extremely strong position given their local knowledge, which would help them to find innovations to develop a compelling bid and provide network innovations that those without the intimate knowledge of a local area may not have. It is also proposed that their incumbency would count in any mobilisation risk score.

12.1.3 We consider it highly likely that this would lead to the current incumbent municipal operators would win any Cardiff or Newport franchise. However, Welsh Government would need to give careful consideration to the barriers that may exist to the creation of new municipals.

12.1.4 In a situation now, or in the future, whereby a municipal operator is either unsuccessful in its bid for a franchise, or loses an existing franchise, TfW would acquire their vehicles and depots for a fair price and protect the employment of their people.

12.1.5 Areas losing a municipal operation would continue to receive a quality bus service, specified by the public sector in the interests of local people. It may have a different operator's name on the 'O' Licence, but the service will still be publicly specified and controlled. And indeed, the service should be better integrated with other buses and other modes as part of the wider franchising process.

12.2 SMEs

12.2.1 There are 42 SMEs operating local buses in Wales (as listed on the Traveline Cymru website).

12.2.2 As discussed, the gross cost model seen in Manchester and elsewhere is heavily weighted towards large owning groups, in part because of the requirement for a lengthy quality submission, and also the large franchise sizes. While some 'small lots' are kept and targeted at SMEs, even some of these have been won by national groups such as Rotala and FirstGroup.

12.2.3 Our proposed Y Ffordd Gymreig does not explicitly protect or help SMEs. But it contains various features which are favourable towards the SME market, because that delivers the best results for the people of Wales:

- Small franchise sizes.

- ‘Alternative bids’ based upon local knowledge, with encouragement to submit innovative variants.
- Ability to use own fleet and own depots – no one-size-fits-all approach.
- Potential for TfW to risk-rate mobilisation and weight more favourably bids by incumbents and those with drivers, depots and fleet already in the right place.
- Bidding based upon financial submission with simple supporting documents, rather than 100+ page narrative.
- Ability to use entrepreneurial skills to boost profits, and think creatively, allowing efficient interworking with home-to-school and other ancillary work.
- Actively encouraging local knowledge, local marketing and partnerships; rewarding and engaging those operators who are part of their community.

13. Risks and Mitigations

13.1.1 This section outlines some risks and potential mitigations of Y Ffordd Gymreig proposed here.

Table 1: Outline Risk Register

Potential risk	Mitigation
Administrative burden to evaluate numerous alternative options	The bids will be shorter than Manchester-style 100+ pages of written submission, so the overall admin burden may be similar. However this up-front investment will pay back in much more advantageous franchise terms for TfW.
May end up with 10+ bidders in some cases	This is true, but only in the most attractive large franchises. Again, there is a benefit to TfW of having plenty of informed options to choose from so this is an investment which will pay back, rather than a burden.
Difficulty of objectively evaluating alternative options	TfW can use a standard model for evaluating patronage impacts of a network change – for example generalised journey time and industry-standard models such as WebTAG.
Large number of franchises risks lack of control and standards slipping	This is true to an extent. It is partly mitigated by KPIs which are designed to be automated and easy to collate from all operators, meaning no need for physical audits. The open book accounting will be more complex with more operators, but means more SMEs continue to operate and unlocks the innovation value adds.
Risk that operators can gain 'by osmosis' if organic underlying revenue exceeds bid model naturally	Quality is included in the bid process in three ways: clear quality criteria in the contracted service spec. risk rating to reflect mobilisation risk (e.g. existing site). turning quality innovations (e.g. network enhancements), into financial measures (e.g. expected passenger gain) for ease of evaluation. This is a better way of assessing quality than 100+ pages of corporate narrative.
Risk that if organic revenue falls short of bid model there is no incentive for operators to invest in growth (as it would simply make the underlying shortfall a bit smaller)	These are two sides of the same issue, and best solved by a re-baselining exercise when required to re-calibrate (up or down) the contract baseline above which operators can share in the benefits.
Risk to municipals	There is no legal or fair way to protect municipals under either regime.
A new and untested model	Elements of this model apply already in net cost tenders across Wales, so it is not entirely new. The model is proven in Jersey, and we are building on this to apply in a Welsh context. And these proposals are the start of a debate which need refinement and development together.
Congestion plus social and economic macro trends mean the cost and revenue predictions do not prove accurate	This risk is the same in either model, but in Y Ffordd Gymreig operators are able and incentivised to assist in mitigating the risk

Potential risk	Mitigation
Operators providing own depot could be a barrier to entry	These are both issues for small franchises (as they would be in the gross cost model). For larger franchises TfW owning the depot, as suggested, would resolve it.
Operators providing own depot could be a barrier to investment in zero emissions buses	
Operators providing own fleet could be a barrier to entry	The RV fleet is designed as a way for operators without their own fleet to enter the market without this issue. For larger franchises the use of the RV fleet could be mandated.
Financially-based investment case for ZEVs does not reflect qualitative factors such as ensuring each region of Wales benefits	The process as outlined will create a cost for electrification. TfW can then add other benefits to this to form the overall BCR evaluation.

13.2 Unmet Challenges

13.2.1 The challenges and risks associated with the delivery of bus services are here to stay, regardless of the delivery model adopted. Neither the Welsh Government's proposals, nor Y Ffordd Gymreig franchising models will solve the issues around reliability, punctuality and speed. Decisions that affect these issues – primarily bus priority measures – can be taken forward at any stage by Welsh Government, Transport for Wales, or Local Authorities, regardless of the delivery model taken forward.

13.2.2 There are many macro socio-economic trends, outlined below, which require a response from across government, which will continue to affect the delivery of bus services across Wales under any model.

13.2.3 It is worth restating that franchising, of whatever model, is not a panacea. It does not solve every problem and automatically make buses better. It has many features which should improve things, but regardless of the model progressed, the same issues have to be addressed, particularly congestion and other macro trends.

- Working from home and online shopping impact bus patronage equally, whatever the regulatory model.
- Wages and operating costs rising faster than passengers' willingness to pay higher fares is an economic problem whatever the system.
- The political difficulties of building bus lanes outside a resident's house, or restricting parking outside a shop, or road pricing, remain whoever controls the transport system.
- And the funding available from Welsh and UK Governments for investment in buses is a fiscal question, not a regulatory one.

13.2.4 These are all far more important influencers of the future of buses in Wales than how they are regulated.

13.2.5 But all that said, a well-designed regulatory structure – which ensures political control and clarity of direction while taking advantage of the entrepreneurial skills of the Welsh bus industry – will surely deliver the best outcomes whatever the overall environment may bring.

14. Comparison and Conclusions

14.1 Delivering Government Aspirations

14.1.1 The table below sets out the Welsh Government's aims and objectives and compares how the two models could meet them.

Table 2: Franchise Model Delivery – a Comparison

Government aspiration	Gross cost model	Y Ffordd Gymreig
A bus system that:		
Is purposely designed to maximise the public good	Is designed by the state to maximise public good but suffers from lack of involvement of private sector innovation.	Is designed by the state to maximise public good, and benefits from and shares in innovation by private sector.
Efficiently uses public investment to strategically address public priorities for bus improvements	Less efficient use of investment as operators not incentivised to use their expertise to deliver more cost-effectively and attract more passengers.	More efficient use of investment by unlocking entrepreneurial skills of operator base to grow patronage and reduce costs.
Forms part of an integrated transport network that provides an excellent travel option, wherever people need it, whenever people need it, throughout Wales	Delivers an integrated system, but by relying upon single controlling mind, rather than local entrepreneurs, may miss out on growth opportunities.	Delivers an integrated system, and incentivises local entrepreneurs to grow patronage and improve connections.
Objectives		
A comprehensive network of bus routes to serve the widest feasible range of destinations, both at busy times and less busy times in the evenings and Sundays.	Gross cost model delivers these two aspirations, but risks over-spending to do so by not incentivising operators to contain costs or grow patronage.	Y Ffordd Gymreig innovation value-adds will reduce the subsidy bill, enabling TfW to afford a bigger network. And operator insights will help target this investment.
Coordinated timetables for bus-bus connections and bus connections with all other modes of public transport.		
Simple area-wide fares, valid across all bus routes and on all modes of public transport.	Delivers simple and consistent fares, but by relying upon single controlling mind, rather than benefiting from local insights, may miss out on growth opportunities.	Delivers simple and consistent fares, and builds upon this by incentivising local entrepreneurs to find opportunities to grow demand.

Government aspiration	Gross cost model	Y Ffordd Gymreig
Bus services that run quickly and on time, with congestion-busting dedicated road space and bus priority infrastructure enabling buses to offer a time-competitive alternative to private car use.	Both models deliver this (Though it is worth noting that franchising of any sort is not a panacea – highway priority is essential to fast reliable buses).	
Stable bus network from one year to the next, that people come to know and trust.	Delivers a stable network. However may lack responsiveness to changes in market conditions.	Delivers a stable network and has greater scope to identify and act upon changes in local market conditions.
Easy-to-find comprehensive information and a unified high visibility brand.	Delivers this.	Delivers this and amplifies and enhances the centrally-provided information with local activity.
Affordable fares that represent good value in comparison to driving.	Delivers fares at whatever price TfW can afford to offer.	Delivers fares at whatever price TfW can afford to offer… and by incentivising operators to innovate will mean TfW has more funding available to cut fares if it wants.
Passenger-friendly drivers, trained and supported to be front-line ambassadors providing a day-to-day public face for the bus service that helps attract users.	Delivers this.	Delivers this better by incentivising operators to focus on customer service above the minimum specified in the contract (because they will share in the resulting revenue).
Good quality waiting facilities	Delivers this with whatever investment TfW can afford to make.	Delivers this with whatever investment TfW can afford to make… and by unlocking innovation to save TfW money, will mean TfW can spend more if required.
Good quality vehicles, with a rapid transition to zero emission vehicles	Delivers this with whatever investment TfW can afford to make.	Delivers this with whatever investment TfW can afford to make… and by unlocking innovation to save TfW money, will mean TfW has more money available to spend. Also provides a helpful stack ranking of BCRs for electrification by franchise. And incentivises operators to propose rapid electrification schemes without requiring government funding.

14.2 Conclusions

14.2.1 Y Ffordd Gymreig outlined here delivers the benefits of franchising and achieves the Welsh Government's aspirations. While franchising is not a panacea and should not be seen as a magic bullet which will immediately improve every aspect of public transport, if Wales does pursue franchising, then we believe a version of net cost franchising as proposed in this paper is the best way to do it.

14.2.2 This proposed Y Ffordd Gymreig achieves the benefits of gross cost franchising: centralised control of one network, one timetable, one ticket. And while a gross cost franchising model leaves operators unable and not incentivised to grow patronage and save the authority money, Y Ffordd Gymreig does so. The authority will get the benefit of centralised command and control, but while also harnessing the local knowledge and entrepreneurial energies of the hundreds of incumbent operators (as well as new entrants).

14.2.3 We see only limited downsides to Y Ffordd Gymreig. The administrative burden is arguably higher, requiring some up-front investment to unlock the value adds which will reduce TfW costs later on – but the pay-back will make this more than worth it. And pioneering a new model is always harder than following an existing template.

14.2.4 But when the existing template is designed for very different markets in a very different part of the UK, blazing a trail will deliver better outcomes for the people of Wales. Adopting this pioneering Y Ffordd Gymreig will mean a bus service which truly delivers for the people of Wales.