GMCA GREATER MANCHESTER COMBINED AUTHORITY

Bus Franchising in Greater Manchester Assessment

September 2019

Commercial Case Market Engagement Supporting Paper

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1 Document overview

1.1 Document purpose

1.1.1 This paper supports the market engagement analysis in Sections 28.2 – 28.5.4 of the Commercial Case of the Assessment. Due to the level of supporting detail, this material has been included as a supporting paper rather than in the body of the Assessment.

1.2 Document structure

1.2.1 The remainder of this document consists of three sections as follows:

- Market engagement – this section explains the market engagement exercise that was undertaken by TfGM regarding the franchise proposal and also the list of operators that were invited to participate in this exercise (Section 2);
- Detailed responses to large franchise proposition – this section details TfGM's proposition shared with operators, the responses from the operators, and TfGM's conclusions, in relation to TfGM's large franchise proposition (Section 3); and
- Detailed responses to small franchise proposition – this section details TfGM's proposition shared with operators, the responses from the operators, and TfGM's conclusions, in relation to TfGM's small franchise proposition (Section 4).

2 Market engagement

2.1 Overview

2.1.1 In April 2018 a market engagement exercise was undertaken involving both national and international bus operators. The purpose of this exercise was to test the proposed commercial proposition for a franchising model to ensure that it would support the delivery of the objectives of the commercial strategy and, in turn, support the achievement of the Vision for Bus.

2.1.2 TfGM invited the three large operators active in Greater Manchester (Arriva, FirstGroup Manchester and Stagecoach) to attend individual meetings, and the SME operators active in Greater Manchester to attend one of two group meetings. The purpose of these meetings was to engage with operators in respect of aspects of the franchising option where TfGM shared with them the current proposal in relation to how franchising could be structured. They, along with national and international operators, who are not currently active in Greater Manchester but who had expressed an interest in a franchised market in Greater Manchester, were then invited to respond to a short questionnaire to obtain their feedback on the proposed approach.

2.2 Operators engaged

2.2.1 The questionnaire, along with accompanying materials, were sent to 16 large operators and 22 SME operators. Each operator was then invited to respond to either the large franchise proposal, the small franchise proposal or to both proposals. Table 1 below details the operators that were invited to respond to the proposals and whether a response was received in relation to each proposal.

2.2.2 It is important to note that not every comment received is considered or referred to within this supporting paper. This is because there was both a large volume and a mix of comments received in both support of and disagreement to the various proposals, along with some comments which were tangential to the proposals.

2.2.3 TfGM has considered the comments received through this engagement appropriately and consistently. In addition, TfGM recognises that it would be important to engage with the market on a continual basis. Therefore, subject to the further development of the proposed scheme, it intends on carrying out further engagement with operators in the future to make sure they are aware of TfGM's proposals as appropriate.

2.2.4 TfGM has prepared this assessment on behalf of the GMCA and it would be the GMCA who would be the franchising authority, notwithstanding the fact that TfGM may be instructed to carry out further functions on its behalf. As a result, TfGM has not amended any comments from operators which state that TfGM should or should not do something; instead, it would be the GMCA who would be responsible as the decision-maker, and this paper should be read in this light.

Table 1: List of Operators Engaged with

Operator	Responded to large franchise proposal	Responded to small franchise proposal
Large operators active in Greater Manchester		
Arriva	Yes	No
First Group Manchester	Yes	Yes
Stagecoach	No	No
Other large operators		
Abellio	Yes	Yes
BusItalia	Yes	No
Centrebus[1]	Yes	Yes
Go-Ahead	Yes	No
Keolis	Yes	No
Metroline	Yes	No
National Express	No	No
RATPDev	Yes	Yes
Rotala	Yes	Yes
Tower Transit	Yes	Yes
Transdev[2]	Yes	Yes
Whippet Coaches	Yes	No
SME operators active in Greater Manchester		
Atlantic Travel	No	No
Belle Vue Manchester	Yes	Yes
Bullocks Coaches	No	Yes
Cumfybus	Yes	Yes
D&G Bus	No	No
Finches of Wigan	No	Yes
GB Coaches	No	Yes
Go Goodwins	No	No
Hattons Travel	No	Yes
Huyton Travel	No	Yes
Jim Stones Coaches	No	Yes
M Travel Minibus	No	Yes
Manchester Community Transport	Yes	Yes

[1] Centrebus do not currently operate in Greater Manchester, however they own 50% of High Peak Buses who do operate in Greater Manchester.
[2] Transdev do not currently operate in Greater Manchester, however they own 100% of Rossendale Transport who do operate in Greater Manchester.

Operator	Responded to large franchise proposal	Responded to small franchise proposal
Network Warrington	Yes	Yes
Olympia	No	No
Selwyns	No	No
South Pennine Community Transport	No	No
Stotts (Tours) Oldham	No	Yes
Trent Barton	No	No
Tyrers Coaches	No	Yes
Viking Coaches	No	Yes
Vision Bus	No	Yes

3 Detailed responses to large franchise proposition

3.1.1 As shown in Table 1 TfGM received responses relating to the large franchise proposition from 13 of the 16 large operators that were invited to respond to the questionnaire and from 4 of the 22 SME operators that were invited to respond. The low response rate from the SME operators was not unexpected as large franchises were unlikely to be their key area of interest. The responses from the large operators, and TfGM's conclusions, in relation to the large franchise proposition are considered in paragraphs 3.2 to 3.6. The responses from the SME operators in relation to the large franchise proposition are considered separately in paragraph 3.7.

3.1.2 The engagement was based on the large franchise commercial proposition as set out in the Assessment. The proposition shared with the operators is as set out below and has been updated in the Assessment in some cases where the proposition has since evolved. The responses considered below seek to summarise the key themes and relevant comments received in terms of challenge, contradiction and clarity of response. However, comments that are tangential to the proposals, or repeat other similar comments have not been considered further in this paper.

3.2 Franchising Design Parameters - Packaging

Franchise package size

Proposition shared with operators

3.2.1 The preferred approach was to have a combination of 'large' and 'small' franchises. The large franchises are to be comprised of a number of franchises of several routes with 5-10 franchises considered optimal to balance scale of opportunity for market with ability to keep active market. These franchises would range in size from circa 50 PVR to circa 200 PVR with a total large franchise PVR of circa 1,350 which is representing 75% of the current market.

Operator Response

3.2.2 The operators were asked "in respect of franchise size, which of the following large franchise package sizes, 30 – 50 buses, 51 – 100 buses, 101 – 200 buses and 201 + buses, would be attractive to your organisation (please select all those that would be of interest)**"**

In response to this question the large operators indicated their interest in the following large franchise package sizes:

Table 2: Large Franchise Package sizes that Large Operators indicated an interest in

Large franchise package size	Number of operators who indicated interest	Number of operators who did not indicate interest
30 - 50 buses	5	8
51 - 100 buses	10	3
101 - 200 buses	12	1
201+ buses	11	2

3.2.3 The operators were also asked to "*outline the rationale why the franchise package sizes you have selected are of interest, for example, do they provide the right balance between opportunities and managing overheads?"*

In response to this question, the common theme was that the franchise package sizes of 30 – 50 buses and 51 – 100 buses would only be attractive to those who have already won franchise packages of 100+ buses unless there are lower barriers to entry and higher profit margins on the franchise packages sized below 100 buses. The other key responses were as follows:

- One operator stated that they believe that there are opportunities in a franchised market that the current market cannot provide.
- One operator stated they believe that:
  - franchise packages greater than 100 PVR are likely to be more economically efficient to the operator due to recovery of fixed overheads and management of third party contracts;
  - franchise packages sized over 201+ buses may provide opportunities for additional economies of scale from a procurement perspective this would reduce the number of contracts awarded and hence the frequency of bus contract tendering. It was also noted that this may mean that a single operating contract would need to cover multiple depots.

- One operator stated that they believe larger packages could benefit both the GMCA and the successful operator in reducing costs, despite the fact that a larger package could bring with it greater mobilisation risks.
- One operator stated that they would consider bidding for franchises when considered in terms of a combination of franchises rather than considering them as single franchises.
- However, another operator stated that, whilst they are interested in all franchise package sizes, as they would be a new operator to the area their initial preference would be towards the franchise packages of over 100 vehicles as they would first need to establish a suitable scale to support their operations.

TfGM Conclusion

3.2.4 The responses received from the large operators confirm that there is market demand for each of the proposed large franchise package sizes.

Franchise package duration

Proposition shared with operators

3.2.5 It was proposed that the large franchise packages have a duration of five years, with a potential two year extension period dependent on performance and solely at TfGM's discretion. The rationale for this is:

- For operators, it balances the ability to manage cost risk over an appropriate period needed to make a suitable return.
- It is consistent with other competitive markets (e.g. London).
- Regular refranchising gives operators the chance to grow and also aims to maintain an active bidding market in Greater Manchester

The minimum mobilisation period is proposed as being six months for all franchises. This period might be extended by TfGM on a franchise specific basis to accommodate required mobilisation activity for that franchise with a timeframe longer than six months (e.g. vehicle supply).

Operator Response

3.2.6 The operators were asked in response to the proposed franchise duration "*To what extent do you consider that this period provides the ability to manage cost risk over an appropriate period needed to make a suitable return?*"

Operators noted franchising would represent a change in the market and agreed that a five year franchise term was an appropriate period to manage cost risk. However, there was a consensus that a franchise term shorter than five would be less attractive. Some operators also commented that this approach is consistent with the approach taken in London. Also, there was an overall consensus that a five year term would be more attractive alongside a two year extension period that has objective criteria rather than being solely at TfGM's discretion. The other key responses were as follows:

- One operator who agreed with the proposal stated that five year franchises allow for a sufficient return on the investment in staff recruitment, training etc. and that, without major investment requirements, the five year term is therefore attractive for a commercial return.
- One operator who agreed with the proposal stated that they believe the proposed franchise term is a perfectly adequate period of time to manage the cost risks as well as providing the operator with the ability to deliver a suitable return. The same operator also stated that a positive for the community is the continued competition, meaning that the incumbent operator for that period must continue to improve, deliver excellence and innovate, as they know that within five years they would be tendering for the service again.
- Various operators also stated that franchise terms below five years would not be acceptable to them as this would be too short a period to recover costs, would result in higher bid prices and may prevent new entrants from offering the most attractive packages.
- One operator who agreed with the proposal stated that the proposed franchise term is a suitable model to follow which both incentivises and rewards high performance, while providing opportunities for growth. The same operator also stated that they believe the challenge with a model with longer contracts, such as 10 years, is that if an operator fails to secure franchises in a bidding round, it is too long to sustain investment and wait between opportunities and that, the lengthier the contract, the greater the risk involved with accurately predicting inflationary changes which can have a significant impact on an operator's cost base.
- One operator stated that they believe that five years is a very short time to recover the investment of establishing a new company.

3.2.7 The operators were also asked "*Do you consider an optional 2 year extension, dependent on performance and at TfGM's discretion, to be attractive?*"

The majority of the responses received to this proposal were positive. However, there was a general view that the operators believe that the two year extension period should be based on objective criteria rather than being solely at the GMCA's discretion. There was also another comment that operators could face uncertainty as to whether the GMCA would exercise the option, meaning operators could have to pay a premium for any assets it needed to re-secure on short notice and for a short amount of time.

TfGM Conclusion

3.2.8 TfGM acknowledges the responses received in response to this question, and once in the steady state TfGM would consider making the extension period automatic based on objective criteria (e.g. performance). However, TfGM has concluded that it is necessary for it to retain sole discretion regarding the letting of the two-year extension period at least during the first round of franchising. This is required to enable the GMCA to manage the delivery of its depot strategy and to establish a rolling programme of franchise procurement.

Franchise package phasing

Proposition shared with operators

3.2.9 It was proposed that franchising would initially be introduced over approximately two years to minimise disruption to passengers, reduce mobilisation risk and provide the market with a manageable bidding programme.

In the steady state, following the introduction of franchising throughout Greater Manchester, a regular pattern of franchise procurement was proposed. This would see circa two large franchises being re-tendered each year.

In order to achieve the steady regular pattern, the length of the franchises in the first and second rounds would, in some instances, vary from the steady state length noted above.

Operator Response

3.2.10 The operators were asked "*to what extent do you consider that this regularity of refranchising gives operators the chance to grow and also keeps an active market in Greater Manchester?*"

All but one of the large operators that responded to the questionnaire agreed with the proposal. The operator who did not agree with the proposal stated that they believe five year fixed term contracts could discourage new entrants and that other markets tend to offer contracts of between seven and twelve years. The other key comments were as follows:

- One operator noted that some franchises may be easier to operate than others.
- One operator who agreed with the proposal stated that five year franchise cycles are sufficient to allow for strategic planning for bids and allows for service specifications and industry best practises to be applied.
- One operator who agreed with the proposal stated that the balance of the number of packages over a published timetable would encourage them to bid and remain active in the market, and that they believe the packages should be spread out relatively evenly over whatever is established as the term of the franchise.
- Two operators who agreed with the proposal stated that the proposed allocation of franchises would give operators suitable chances to bid for work and provide regular opportunity for potential new business. One of these operators stated that it would also allow innovation to be continuously developed and offered as part of the bidding process, ensuring TfGM can maintain a market-leading bus network, whilst the other operator stated that the proposal would encourage operators to stay focused on excellent, affordable service delivery.
- One operator who agreed with the proposal stated that the number of likely franchises within a relatively small geographical area combined with the proposed timetable would be acceptable and that it would avoid unnecessary peaks and troughs in any demands for capital expenditure or for internal resources required for the bidding process.
- One operator who agreed with the proposal stated that regularity of franchising is essential for keeping the Greater Manchester bus market attractive and will allow for more sophisticated and competitive bidders.

TfGM Conclusion

3.2.11 The responses received from the large operators confirm that there is general agreement with the proposed large franchise regularity of re-tendering in the steady state. In addition TfGM believes that the response stating that some franchises will be easier to manage than others appears to support TfGM's proposal for varied contract lengths and optional extensions that could be granted where the franchise is running successfully. However, in response to the operator who did not agree with the proposal and that instead longer franchise terms should be established TfGM believes that franchise lengths exceeding 10 years would be unlikely to be permissible under Regulation 1370/2007.

3.3 Franchising Design Parameters - Commercial Parameters

Proposition shared with operators

3.3.1 TfGM provided the operators with the following proposals:

- Fares and Ticketing - To ensure an integrated and simplified Greater Manchester wide approach to fares and ticketing, TfGM would be responsible for setting fares, determining the products to be sold and the channels for sales.
- Revenue and Patronage Risk - Consistent with the approach to product ownership and fares and ticketing, TfGM would bear revenue and patronage risk i.e. contracts would be let on a Gross Cost basis.
- Bus Product/Brand - To gain a consistent and unified approach across Greater Manchester in order to meet customer requirements, TfGM would be responsible for design and specification of the bus 'product'. This would include brand, marketing, approach to customer relations and product development.

Fares and Ticketing: Operator Response

3.3.2 In relation to the proposed Fares and Ticketing commercial parameters the operators were asked "*would your organisation comment on the proposed allocation?*"

All responses received to this proposal were positive and operators agreed that if the GMCA is taking revenue risk then the GMCA should also be responsible for setting the ticket fares and products. The other key comments were as follows:

- One operator also stated that they believe that this is especially true if there would be multi-modal tickets on offer in Greater Manchester.
- One operator stated that whilst their preferred business model is to allow operators to be responsible for fares and ticketing they understand that this could not be contemplated if TfGM's demands and expectations from bus reform are to be met.

3.3.3 In relation to the proposed Fares and Ticketing commercial parameters the operators were also asked to "*identify any aspects where you consider the franchise operator could be better placed to manage the risk than TfGM and why?*"

The majority of operators stated that they could not identify any aspects where the operator is better placed to manage the risk than the GMCA. However, four of the large operators stated that there could be a loss of innovation in the long term if the GMCA takes on the responsibility for setting fares and that, to help mitigate this, there could be knowledge sharing sessions to provide stimulation in the market and to ensure that products are flexible and innovative whilst providing value for money.

Fares and Ticketing: TfGM Conclusion

3.3.4 The responses received from the large operators confirm that there is general agreement with the proposed Fares and Ticketing commercial parameters.

The pre-procurement process and procurement process would include detailed engagement and dialogue with operators which, amongst other things, would consider measures to mitigate any risk of resultant loss of innovation.

Revenue and Patronage Risk: Operator Response

3.3.5 In relation to the proposed revenue and patronage commercial parameters the operators were asked "*would your organisation comment on the proposed allocation?*"

All responses received to this proposal were positive and operators agreed that the GMCA should take revenue risk. The other key responses were as follows:

- One operator stated that TfGM would need to manage revenue and commercial risk in order to guarantee an effective and integrated ticketing system.

- One operator stated that the GMCA would need the ability to amend any franchise contracts to account for any significant changes to patronage and/or revenue risk, to account for the risk of the service no longer becoming commercially viable.
- One operator stated that were the GMCA not to bear revenue risk, then they believe that incumbent operators in Greater Manchester would almost certainly have a competitive advantage in the initial round of tendering, compared to other operators not in possession of detailed, recent and validated revenue data.
- One operator stated that under a franchised environment it is likely the transport authority would want to plan the network and decide fares policy and therefore it makes sense that the transport authority retains revenue and patronage risk as this would be directly linked to how it decides to plan the network.
- One operator stated that, whilst their preferred business model is to take the revenue risk to permit incentivised commercial development, they recognise the multiple ambitions for bus reform in Greater Manchester and therefore they agree TfGM is better placed to take the revenue risk than the operator.

3.3.6 The operators were also asked in relation to the proposed revenue and patronage commercial parameters to "*identify any aspects where you consider the franchise operator could be better placed to manage the risk than TfGM and why.*"

In response, six large operators suggested that there could be incentives offered to operators where there are marked increased patronage levels on buses following franchising.

Revenue and Patronage Risk: TfGM Conclusion

3.3.7 The responses received from the large operators confirm that there is general agreement with the proposed revenue and patronage risk commercial parameters.

In response to the other key comments received:

- The franchise agreement would contain a change mechanism to facilitate changes in response to patronage and/or revenue risk as well as other changes within a franchise term.
- Operators would not be incentivised for increased patronage during the first round of franchising. However, TfGM recognises

that the delivery of a well calibrated performance regime would, amongst other things, support patronage levels. Therefore, offering franchisees direct patronage incentivisation may further drive competitive bidding and operational performance, and the GMCA could consider the introduction of this in the steady state if it can be demonstrated that specific operator behaviours could lead to increased patronage.

Brand Ownership: Operator Response

3.3.8 In relation to the proposed brand ownership the operators were asked "*would your organisation comment on the proposed allocation?*"

11 large operators stated that they agree that responsibility for the bus product should sit with TfGM. The other key responses were as follows:

- One operator who agreed with the proposal stated their reasoning for this is that the public would expect there to be a common livery of buses in Greater Manchester which applies to all operators and which does not vary upon contract changeover. However, both this operator and another operator stated that they believe that it is reasonable and beneficial for operators to be allowed some form of visual identity of their own (e.g. on the vehicles or on staff uniforms).
- One operator also stated that it was aware that GMCA's proposal would be consistent with other locations where franchising takes place, such as London, Singapore and Dublin.
- One operator who agreed with the proposal stated that TfGM should be responsible for design and specification of all aspects of the bus including brand, marketing, approach to customer relations and product development.
- One operator who stated that they do not agree with the proposal qualified this by stating they believe that local authorities/transport authorities are never best placed to undertake this work and the associated time and cost is not value for money for the authority.

3.3.9 In relation to the proposed brand ownership the operators were also asked to "*identify any aspects where you consider the franchise operator could be better placed to manage the risk than TfGM and why?*"

The key responses in relation to this were as follows:

- Four operators stated that they believe customer service should sit with the operators to prevent it becoming commoditised.
- Seven operators proposed that working groups could exist between operators and TfGM in relation to staff matters to share best practice from the industry to assist TfGM, as well as sharing local knowledge and practices that may benefit both parties.
- One operator stated they believe that operators should be able to provide input on elements of the vehicles such as choosing the engine manufacturer to ensure it is consistent with their national own brand.

Brand Ownership: TfGM Conclusion

3.3.10 The responses received from the large operators confirm that there is general agreement with the proposed brand commercial parameters, including that operators should be allowed some form of visual identity.

In response to the other key comments received:

- It is important that passengers know where they should go for information or to make comments or complaints. TfGM believes that this would be best supported by a single point of contact for passengers, and that therefore TfGM should be responsible for customer service.
- With regards to vehicle specification, operators would be able to provide input on elements of the vehicles providing that it meets a minimum specification set by TfGM.
- The view from one operator that local authorities/transport authorities are never best placed to undertake branding work appears to be an isolated view and is not consistent with the feedback from the majority of operators. Furthermore, TfGM has experience of branding on other modes of transport such as Metrolink.

3.4 Franchising Design Parameters – Operational Risk

Proposition shared with operators

3.4.1 In respect of the operational risk allocation TfGM provided the operators with an overarching approach of setting specifications that balance the need for consistency across the network whilst enabling operators to use their skill, experience and ability to innovate to meet TfGM's Key Performance

Indicators. As such, where appropriate TfGM would provide bidders with the flexibility to provide solutions that meet TfGM's output specification e.g. TfGM may specify route frequency but allow bidders to design the timetable to meet these requirements. TfGM expects to allocate risk as follows:

- Cost Risk - TfGM expects operators to largely bear operational cost risk, although in the following areas TfGM anticipates some sharing of risk:
- Fuel risk: TfGM expects operators to take volume risk but is proposing a mechanism to protect against price risk
- Inflation risk: TfGM is proposing a mechanism to apply inflation to the annual service charge paid to operators based on an appropriate basket of indices.
- Performance Risk - TfGM proposes to implement a performance regime focused on incentivising operators to meet key performance indicators covering operational and customer related matters. As part of this TfGM would protect operators from events and circumstances outside their control e.g. unforeseen incidents.

Operational Cost Risk: Operator Response

3.4.2 In relation to the proposed operational cost risk the operators were asked "*would your organisation comment on the proposed allocation?*"

All responses received to this proposal were positive. One operator also stated that they believe it would be appropriate for operators to be incentivised on quality of service, covering punctuality and customer service.

3.4.3 In relation to the proposed operational cost risk the operators were also asked whether they could "*identify any aspects where you consider the franchise operator could be better placed to manage the risk than TfGM and why?*"

The key responses in relation to this were as follows:

- One operator stated that they believe TfGM should make use of the operator's expertise and experience to deliver the service, in terms of HR management, scheduling, service control, vehicle maintenance, risk, insurance and safety management, customer service training, etc.
- One operator stated that they believe internal operational and cost risks should be managed by the operator whilst external ones are managed by TfGM.

- Two operators also stated that they believe operators are better placed to manage risk in areas where they can generate efficiency through group purchasing and sharing of best practice whilst one of these operators also stated they believe that operators are better at managing staff costs, including pensions.

Operational Cost Risk: TfGM Conclusion

3.4.4 The responses received from the large operators confirm that there is general agreement with the proposed operational cost risk parameters, including where those risks arise from a requirement from the 2000 Act.

TfGM believes that each of the suggestions outlined in Section 3.4.3 are aligned with TfGM's proposal aside from customer service for the reasons outlined in Section 3.3.10.

Fuel Cost and Volume Risk: Operator Response

3.4.5 In relation to the proposed allocation of fuel cost and volume risk operators were asked to "*comment on the proposed approach and include any suggestions on how you may wish this to work in practice?*"

The majority of operators stated that they agreed with the proposed approach. The other key responses were as follows:

- Some operators who agreed with the proposal stated that they believe it is for operators to use their expertise and experience to manage fuel volume risk and that they agree that a mechanism should be put in place to protect against price risk.
- One operator who agreed with the proposal stated that they believe TfGM taking the fuel price risk is the correct approach as fuel prices can be highly volatile over a five-year franchise term and this is wholly outside the operators' control. Without this risk allocation operators would have to try to forecast likely fuel price movements and build this into the tender costs potentially adding unnecessary cost.
- Multiple operators gave some examples of how volume risks could arise and suggested a variation mechanism where changes in timetable are reflected in a revised fuel consumption volume or that fuel cost indices or adjustments are made periodically.
- One operator stated that at the point of bidding they would need to know:

- how TfGM's aggregate fuel price hedge would be allocated between the various large franchises;
- whether this hedge would be a fixed price swap or a cap; and
- what the mechanism would be for operators to interact financially with TfGM in respect of any difference between the price at which they procure fuel and the price risk mechanism offered by TfGM.

- One operator also suggested it may be appropriate to seek to share the risk on fuel volume where changes in vehicle technologies are being introduced.

Fuel Cost and Volume Risk: TfGM Conclusion

3.4.6 The responses received from the large operators confirm that there is general agreement with the proposed fuel cost risk and volume risk parameters. In response to the other key responses received:

i. TfGM believes that where there is a change in the timetable the revised fuel consumption volume would be dealt with through the change mechanism, which would also be applied in the event of a change in technology that necessitated a revision to fuel consumption volumes.
ii. TfGM will consider how best to obtain fuel price certainty and value for money. The hedging strategy would be confirmed in advance of procurement and the hedging requirements and mechanisms would be shared with bidders via the procurement documentation.

Operational Cost Indexation: Operator Response

3.4.7 In relation to the proposed operational cost indexation operators were asked to "*comment on the proposed approach and include any suggestions on how you may wish this to work in practice.*"

The majority of the large operators that responded to the questionnaire stated that they agreed with the proposals. There were also various responses that the indices should:

- be weighted heavily towards staff costs as this is the operators largest outlay;
- use local labour rates over Average Weekly Earnings (AWE) as they believe that AWE is not accurate enough; and
- be reviewed annually alongside the weightings to reflect changes in relative costs of each element.

Operational Cost Indexation: TfGM Conclusion

3.4.8 The responses received from the large operators confirm that there is general agreement with the proposed operational cost indexation. The final indices would be explored with operators during the dialogue phase of the procurement.

Performance Risk: Operator Response

3.4.9 Operators were also asked to comment on TfGM's proposals regarding performance risk and they were asked to "*comment on the proposed approach and include any suggestions on how you may wish this to work in practice.*"

There was strong agreement amongst the operator responses that there should be a performance mechanism in place with the maximum amount at stake being the profit margin. This would mean that operators would need certainty at the time of bidding on what requirements would be imposed on them, in terms of performance and accounting for the risk of any unforeseen risks or matters outside of their control. The other key responses received were as follows:

- One operator stated that they believe the performance mechanism should reflect the value of key specific customer service indicators in relation to route and customer-segmented characteristics.
- There were concerns from some operators on how exactly performance would be measured, how measures that the GMCA could influence would be measured, and that within the performance regime there could potentially be subjective measures such as customer satisfaction and cleanliness that are penalised financially when the operators believe that these measures could be penalised in other ways such as published tables.
- One operator stated that they believe there should be lost mileage protection for the operator against mileage not run for reasons beyond the control of the operator.
- Multiple operators also suggested that such a performance mechanism should also reward good performance as well as penalise poor performance.

Performance Risk: TfGM Conclusion

3.4.10 The responses received from the large operators confirm that there is general agreement with the proposed performance risk parameters. To prepare the Assessment, TfGM developed the principles of the performance regime but the measures would be developed in more detail prior to procurement. TfGM also anticipates that the performance regime would include a lost mileage element which would distinguish between 'deductible' and 'non-deductible' lost mileage, and apply dispensation where mileage is not delivered for reasons beyond operators' reasonable control. The performance regime would be set out in the procurement documents.

3.5 Franchising Design Parameters – Asset Ownership

Proposition shared with operators

3.5.1 The following ownership structure for large franchises was proposed to operators by TfGM. The primary drivers for this being to create a level playing field for all franchisees, facilitate mobilisation and transition to follow on franchises and to ensure consistency, where appropriate, across the network.

Table 3: Proposed Allocation of Asset Ownership

	TfGM ownership	Operator ownership
Depots	✓	X
Fleet	X	✓
Intelligent Transport Systems	X	✓

Asset Ownership – Depots

Proposition shared with operators

3.5.2 TfGM's preferred approach to depots for an enduring market is for these to be made available to operators under each large franchise by TfGM. This is due to the costs associated with developing new depots and the land constraints within Greater Manchester. Franchisees would be required to use the depot provided, pay an agreed lease charge and be responsible for the hard and soft facilities management associated with the depot. There would be one depot per large franchise (i.e. there would be no sharing of depots between operators). However, it is possible that alternative arrangements might be adopted for transition.

Operator Response

3.5.3 In relation to the proposed allocation of ownership of depots operators were asked "*to what extent does your organisation agree or disagree with TfGM's* *conclusion that responsibility for the provision of a depot per large franchise is best placed with TfGM?*"

There was full agreement from the large operators that responded that the GMCA should be responsible for the provision of a depot per large franchise. Operators also stated that they believe this is the best way to lower the barrier to entry and to attract new entrants to the market. However, one operator did propose an alternative proposal whereby effectively an independent third party could purchase the depot on behalf of the GMCA, who would then lease it for a long-term and sub-lease to operators.

3.5.4 In relation to depots operators were also asked "*Would your organisation consider bidding for a large franchise if a depot was not provided by TfGM?*"

Seven of the large operators, who responded to the questionnaire, stated that they would still consider bidding for a large franchise. However, the remaining six large operators stated that they would not bid for a large franchise if a depot was not provided by the GMCA.

3.5.5 In relation to depots operators were also asked whether their "*response on this question was predicated on any other changes to the proposed commercial proposition set out in this document?*"

In response to this question fours operators stated that a decision on bidding for a large franchise where no depot is provided would depend on availability of suitable sites and on a longer contract term. In addition to this other comments included:

- Costs would likely be higher if the operator had to secure its own depot if one wasn't provided by the GMCA.
- In the event that an operator had to source its own depot for large franchises then a longer mobilisation period would be needed to allow them to procure, secure a depot and put the necessary planning permissions in place etc.
- The proposed depot proposition would help to remove significant barriers to entry for new entrants.

3.5.6 Operators were asked in relation to the proposed allocation of ownership of depots that "*assuming TfGM provides a depot for each large franchise, does your organisation agree or disagree that the operator should have responsibility for hard and soft facilities management at the depot?*"

In response to this question 11 operators stated that they agreed with the proposed allocation of responsibility. However, the remaining two large operators stated that they believe if the operator takes responsibility for hard and soft facilities management there should be an independent expert who assesses the condition of the depot at the start and end of the franchise. The key responses in relation to this were as follows:

- Two operators who agreed with the proposal stated that it was important that depots are fit for purpose and that the details, such as any minimum standards of maintenance, (within agreed parameters) are known and understood at the time of bidding.
- One operator who agreed with the proposal stated that they believe that the operator should be responsible for all hard and soft facilities management as this would encourage operators to take better care of the depot and to ensure a thorough inspection of the depot is undertaken prior to handover.
- Whilst operator stated that TfGM would need to ensure that incoming operators were not left liable for incidents that occurred when the previous operator was in place and were not picked up at the time of transfer.

3.5.7 Operators were also asked *“do you have any other comments or points related to depots?”*

The key responses in relation to this were as follows:

- One operator queried who would be responsible for determining which the right depot to operate from is.
- Operators queried which depot staff would be subject to transfer (in accordance with the 2000 Act) and stated that this would need to be clarified, including who bears responsibility for the associated risks to such transfers.
- Two operators also raised the possibility of sharing depots between different operators where appropriate to improve value for money and reduce unnecessary dead mileage.

TfGM Conclusion

3.5.8 The responses received from the large operators confirm that there is general agreement with the proposed allocation of ownership of depots.

The depot lease agreement would specify the allocation of responsibility for hard and soft facilities management and would also ensure that operators are not left liable for incidents that occurred when the previous tenant was in place.

In response to the other key comments received in relation to depots:

- Large franchise packages are built around depot sizes and TfGM would determine the right depot that would be provided for each large franchise which the successful operator must use to deliver that franchise package.
- TfGM has considered the use of an independent third party depot leasing arrangement, however this was not thought to be an appropriate or suitable strategy.
- The 2000 Act prescribes when TUPE applies and the appropriate procedure that must be followed to determine which staff may be subject to a transfer between operators. Therefore, under the current statutory framework, both TfGM and operators would be expected to comply with the TUPE procedure, meaning operators would be able to identify which staff would be transferring either in or out of its business and therefore able to manage the risks associated with the same.
- The GMCA would not permit two operators to operate separate franchises from one depot as:
  - Large franchise packages are being built around depot sizes therefore it would be unlikely for there to be spare capacity for two large depots packages to be operated from one physical depot; and
  - TfGM considers that it would be too operationally complex for two operators to operate successfully from one physical depot.

Asset Ownership – Fleet

Proposition shared with operators

3.5.9 TfGM's requirements in relation to vehicle age and type would be specified at route level for each franchise. The vehicle specification would be sufficiently generic to enable bidders to usually utilise their own supply chains to provide vehicles. Given the useful economic life of a bus exceeds the expected franchise length, TfGM proposes to implement a residual value ("RV") mechanism which would guarantee a price for vehicles that have a useful remaining life exceeding that of the franchise length. The current proposed approach to the RV mechanism for each large franchise is as follows:

- TfGM would specify fleet requirements for franchise services.
- It is anticipated that in the steady state a number of vehicles would already be in the RV mechanism and allocated to a franchise.

- Bidders would be required to utilise the allocated RV fleet for that franchise, purchased at the agreed RV price.
- Where the RV fleet is insufficient to meet total fleet requirements for that franchise, bidders would be required to provide the remaining fleet.
- Any new fleet purchased by an operator for the purposes of meeting the required fleet requirement would automatically become RV fleet.
- Any existing fleet may be accepted into the RV fleet if agreement is reached between TfGM and the franchise operator.

Following commencement of franchising any new fleet purchased by an operator would automatically become part of the RV fleet, however leased fleet would not be entered into the RV mechanism. At the end of the franchise term any vehicles within the RV fleet would transfer into the following franchise at the agreed RV price.

Operator Response

3.5.10 In relation to the proposed RV mechanism operators were asked "*does your organisation consider the residual value mechanism to be helpful or unhelpful in managing fleet residual value risk?*"

All but one of the large operators that responded to the questionnaire agreed with the proposal, however concerns were raised regarding the possible condition that buses could be left in when they are passed from franchise to franchise, and therefore operators proposed that periodic checks are carried out on the buses during the franchise term rather than solely at the end of the term.

The other key responses received were as follows:

- One operator who agreed that the RV mechanism is helpful also stated that the RV mechanism would reduce operator costs since this may allow operators to purchase vehicles instead of taking them on an operating lease, the term of which is back to back with the term of the bus franchise. The same operator also stated that the RV mechanism makes it easier for the GMCA to manage transition between operators.
- Another operator who agreed that the RV mechanism is helpful stated that it would remove the risk of operators owning surplus buses at the end of a franchise, allow a shorter mobilisation period and mean operators would not have to supply a whole fleet of new buses for every new franchise. The same operator

also suggested that the aforementioned periodic checks on buses should be over and above what an MOT would cover.

- The operator that did not express their agreement with the scheme stated that it is becoming increasingly common practice for operators to obtain an operating lease whereby at the end of the lease term they would be returned or bought at a significant discount and therefore residual risk isn't an issue on a fleet of leased vehicles.

3.5.11 Operators were also asked "*to what extent does your organisation agree or disagree with TfGM's conclusion that operators should retain ownership of vehicles?*"

There were varying viewpoints in response to this question, however the consensus was agreement providing an RV mechanism was in place. The focus of the arguments against were that:

- Due to the complexities around vehicle transfer an operator believed it may be a better option for TfGM to own the vehicles.
- One operator believed the franchise term was considered too short a period to invest in vehicles.
- One operator believed that there would be an inability to innovate despite owning the buses.
- One operator stated that due to the risk that an operator would not know its own prospects beyond the life of the franchise TfGM would be better suited to owning the vehicles.

3.5.12 Operators were also asked "*Do you have any other comments or points related to vehicles including other potential vehicle provision models (e.g. the possibility of leasing vehicles)?"*

In response to this question 11 operators stated that leasing vehicles would be attractive to bidders, either from the open market or directly from TfGM subject to agreeing the terms of the lease agreements and with the return conditions being clearly defined beforehand.

TfGM Conclusion

3.5.13 The responses received from the large operators confirm that there is general agreement with the proposed allocation of ownership of fleet.

In response to the other key comments received:

- The RV mechanism is predicated on the fact that an operator would have to maintain the fleet to a required standard in order for the fleet to be purchased at the agreed RV price.
- TfGM would be responsible for fleet specification to ensure consistency of fleet specification and on bus experience across Greater Manchester.
- TfGM believes that the concerns regarding the franchise terms being too short a period compared to the life of the fleet are mitigated by the RV mechanism. TfGM plans to hold further engagement with operators to ensure that the RV mechanism is fully understood.
- In the event that incumbent operators do not transfer vehicles into the RV scheme, or the number of vehicles in the RV scheme is less than required, bidders would be expected to provide vehicles which could be new, second-hand, vehicles from their existing fleets, or leased.

Asset Ownership – Intelligent Transport Solutions (ITS)

Proposition shared with operators

3.5.14 In order to ensure an integrated system with consistency for customers, operators and TfGM, the preferred position was for TfGM to specify a chosen provider and system for Ticketing/AVL, radio, RTPI and CCTV. However, for passenger Wi-Fi TfGM's preferred position was to specify minimum requirements and for operators to then choose a solution which meets these. In both situations operators would be responsible for the day to day management of ITS. It is possible that alternative arrangements might be adopted for transition. Each component of ITS would be included within the RV mechanism.

Operator Response

3.5.15 In relation to ITS operators were asked "*Does your organisation agree with TfGM's proposal that, in the steady state, a single system across the network is preferred for each ITS component?*"

There was general agreement from the operators to TfGM's proposals. The key responses received were as follows:

- One operator who agreed with the proposal stated that a single system for ITS would be the most effective solution for both the operator and TfGM as they believe "this would be the only way to ensure consistent delivery to both customers and operations, irrespective of actual operator".

- One operator stated that there could be issues if the market is aware that one particular ETM/AVL is being sought going forward and a fixed price has either not been agreed or the fixed price expires and therefore the price subsequently increases.
- One operator queried who would pay for a new ITS component when it begins to deteriorate and the franchise duration is coming to an end.
- One operator also stated that they believe TfGM should have ownership of the ITS in terms of repairs and maintenance and therefore they believe that equipment availability shouldn't form part of the performance regime.

TfGM Conclusion

3.5.16 The responses received from the large operators confirm that there is general agreement with the proposed allocation of ownership of ITS.

In response to other key responses received:

- TfGM expects that ITS contracts lengths would be cognisant of expected useful life to mitigate the risk of pricing increases through monopoly provision.
- Bid prices would need to reflect all asset renewals during the franchise term. The RV mechanism would facilitate the transfer of ITS equipment at a predetermined price at the end of the franchise term.
- TfGM is currently exploring a number of procurement, maintenance and ownership models. The final model would allocate risk, including equipment availability and performance, to the party that TfGM believes is best placed to manage that risk.

Subsequent to the market engagement TfGM has undertaken further analysis to confirm its preferred ITS equipment solution. As a result it is now anticipated that TfGM would:

- specify a chosen provider and system for passenger Wi-Fi; and
- specify minimum requirements for both CCTV and driving standards monitoring, with operators required to provide a solution which meets these.

3.6 Franchising Design Parameters – Procurement Process

Proposition shared with operators

3.6.1 TfGM provided the operators with the following information with TfGM seeking to procure and transition to franchising in a programme which minimises the risk of any disruption to customers and is attractive to and manageable by the market.

Programme

3.6.2 TfGM proposed procuring all franchises in the first round of franchising over three or four tranches with each franchise being procured on a stand-alone basis (i.e. bidders can choose to bid one or more franchises within a tranche). The procurement process for a particular tranche would not commence until preferred bidders had been selected for each franchise in the previous tranche. This is to enable the market to make informed bidding strategy decisions for each tranche. In the steady state it is anticipated that circa 2 large franchises would be re-tendered per year.

3.6.3 TfGM proposed the establishment of a 'passport system' that would allow for the pre-qualification of any operator wishing to bid. To obtain a passport operators would need to meet a number of technical and legal pre-qualification requirements.

3.6.4 TfGM would use the negotiated (ITN) procedure in the first two tranches, following which it would consider the use of the tendered (ITT) procedure.

TfGM would have a two stage ITN process as follows:

Stage 1:

- Any bidder meeting the requirements of an Expression of Interest would be invited to ITN Stage 1. The tender response for Stage 1 would require a short submission in respect of key aspects of the franchise in question.
- TfGM would evaluate this response and shortlist three or four bidders to proceed to the ITN Stage 2.

Stage 2:

- This would involve negotiation with the shortlisted bidders, followed by the main bid submission based upon technical, commercial and financial requirements.

3.6.5 Submissions would then be evaluated against criteria which would seek to balance quality with price. A Preferred Bidder would be appointed following

Stage 2 evaluation. There would be validation of certain aspects of the bid at the same time as approval processes leading to contract signature.

Operator Response

3.6.6 In relation to the proposed procurement process operators were asked "does your organisation have a view on the optimal number of shortlisted bidders that you would expect to see at the main bid stage?**"**

In response to this question there was broad consensus between the operators that the process should be as competitive as possible. Eight large operators stated that three or four bidders should be shortlisted, with four operators also stating that this is the optimum number such that bidders consider their chances of a successful bid are reasonable relative to the bid costs incurred.

One operator stated that they would expect between two and four bidders to be shortlisted whilst another operator would expect between three and five bidders to be shortlisted. It should be noted that the other three operators who did not explicitly confirm agreement did not provide a proposed optimal number.

3.6.7 Operators were also asked "*do you have any other comments or points related to the proposed procurement process?*"

One operator stated that between the Expression of Interest and ITN Stage 1 it would be important for new market entrants to have sufficient time to study and, if necessary, question the content of the data room to ensure a level playing field with incumbent operators. Another operator stated that they believe there should be an opportunity during the procurement process for operators to demonstrate additional value and innovation to TfGM.

TfGM Conclusion

3.6.8 The responses received from the large operators confirm that there is general agreement with the proposed procurement process.

The data room would be made available immediately following the EoI phase to give all bidders sufficient time to access and make use of it. Bidders would have the opportunity to demonstrate additional value and innovation to TfGM in bid submissions.

3.7 SME Operator Responses to Large Franchise Questions

3.7.1 Four SME operators indicated that they were interested in large franchise packages. However, it is unknown if these operators would be of adequate financial/economic standing or have sufficient technical expertise and experience required to bid for large franchises. Their responses, and TfGM's conclusions reached, have been categorised by area below.

Packaging

Operator Response

3.7.2 In response to this question the SME operators indicated their interest in the following large franchise package sizes:

Table 4: Large Franchise Package sizes that SME Operators indicated an interest in

Large franchise package size	Number of operators who indicated interest	Number of operators who did not indicate interest
30 - 50 buses	4	0
51 - 100 buses	2	2
101 - 200 buses	2	2
201+ buses	1	3

3.7.3 Two of the SME operators selected packages that matches their current fleet size only.

The other key responses were as follows:

- Two operators stated that they are in favour of an objective performance related extension period.
- Another operator stated that they believe that smaller operators would eventually be pushed out the market if they have been unsuccessful in the first few rounds of franchising and therefore would not be in business when the time comes to bid for future rounds.

TfGM Conclusion

3.7.4 TfGM's review of responses received, particularly when taken in the context of comments received from large operators, has provided TfGM with sufficient assurance that its proposition is acceptable to the market.

In response to the key comments submitted by operators:

- TfGM acknowledges the responses received in response to this question and whilst in the steady state TfGM would consider whether to make the extension period automatic based on object criteria e.g. performance, TfGM has concluded that it is necessary for it to retain sole discretion regarding the letting of the two-year extension period at least during the first round of franchising. This is required to enable it to manage the delivery of its depot strategy and to establish a rolling programme of franchise procurement.

- TfGM has developed a packaging strategy across both large and small franchises that is cognisant of SME operators and provides them with continued access to the market.

Fares and Ticketing

Operator Response

3.7.5 The responses received from the SME operators confirm that there is general agreement with the proposed Fares and Ticketing commercial parameters. However, there was a concern from one operator regarding how the proposed fares and ticketing approach would operate on services where they currently have a de minimis contribution/net cost contract in place with TfGM.

TfGM Conclusion

3.7.6 TfGM's review of responses received, particularly when taken in the context of comments received from large operators, has provided TfGM with sufficient comfort that its proposition is acceptable to the market.

In response to the concern submitted by an operator regarding current net cost contracts, as franchises would be let on a gross cost basis TfGM believes that the operator has misunderstood the proposal and that this concern is not applicable.

Brand

Operator Response

3.7.7 There was general agreement from the SME operators that responsibility for the bus product should sit with TfGM, with one operator who agreed with the proposal stating that they believed it would complement a simplified ticketing system. However, there was a concern from one operator over brand protection in cross boundary areas. Another operator also stated that they believe operators would lose identity if TfGM was to be responsible for design and specification of all aspects of the bus product.

TfGM Conclusion

3.7.8 The responses received from the SME operators confirm that there is general agreement with the proposed brand commercial parameters, including that operators should be allowed some form of visual identity.

In response to the key comments received from the operators:

- Franchised buses would be required to adopt TfGM branding. However, non-franchised services would not be expected to do so.
- Operators would be able to provide input on elements of the bus product providing that it meets a minimum specification set by TfGM.

Operational Cost and Performance Risk

Operator Response

3.7.9 The majority of SME operators stated that they agreed with the proposed approaches with one operator who agreed with the proposal stating that they believed such a scheme, if properly designed, would lead to high quality of service which will lead to increased patronage, revenue and customer satisfaction. However, one operator suggested that operators could be incentivised to have zero emission vehicles, whilst another argued that the current TfGM vendor rating, which is used to manage operator performance on current subsidised services and sets a threshold of past performance which operators must achieve to bid on future tenders, "is unreasonable and shouldn't be used."

TfGM Conclusion

3.7.10 TfGM's review of responses received, particularly when taken in the context of comments received from large operators, has provided TfGM with sufficient comfort that its proposition is acceptable to the market. In response to the key comments submitted by operators:

- TfGM has prepared a Clean Air OBC which assesses options for achieving compliance in Greater Manchester and identifies a 'preferred option', being the proposed package of measures that achieves compliance in the shortest possible time in accordance with the Greater Manchester local authorities' legal duties and public law principles. The costs and funding of any associated interventions will form part of the Clean Air FBC.
- TfGM is currently exploring the most appropriate mechanism to monitor operator performance.

Depots

Operator Response

3.7.11 Three out of the four SME operators that responded to the questionnaire stated that they would bid for large franchises even if no depot was provided, whilst one operator stated that they would not bid. However, as this operator indicated in response to a previous question that they believe that operators shouldn't be forced into using a depot if it can be shown they can run a lower cost service from elsewhere it is unclear whether they meant to select this answer.

TfGM Conclusion

3.7.12 TfGM's review of responses received, particularly when taken in the context of comments received from large operators, has provided TfGM with sufficient comfort that its proposition is acceptable to the market. In response to the key comment submitted by an operator:

- As large franchise packages are sized to reflect the depot capacity in any one franchise the successful operator would have to use that depot to deliver the franchise package.

Fleet

Operator Response

3.7.13 All but one of the SME operators stated that they believe the RV mechanism is helpful as long as it has a robust structure. The operator who believes it is unhelpful stated that as devaluation and residual values are not equal between bus manufacturers they believe this would encourage a race to the bottom end of the vehicle supply chain.

TfGM Conclusion

3.7.14 TfGM's review of responses received, particularly when taken in the context of comments received from large operators, has provided TfGM with sufficient comfort that its proposition is acceptable to the market. In response to the query received from an operator, TfGM would issue an approved fleet and model list as part of the contract to restrict bus models and fleet would only be permitted to be used in the franchised network if it has been demonstrated that they have the necessary operational longevity, manufacturers' aftermarket support network and evidence of a competitive whole life cost profile. The RV mechanism would also specify that fleet must meet the approved fleet and model list and as such fleet quality standards would be controlled.

ITS

Operator Response

3.7.15 All but one of the SME operators stated that they agree with the proposed allocation of ownership of ITS. However, there was a comment from an operator that where operators also operate in cross-boundary areas they would need to use their existing equipment rather than a TfGM specified system, however they could sell TfGM products.

TfGM Conclusion

3.7.16 TfGM's review of responses received, particularly when taken in the context of comments received from large operators, has provided TfGM with sufficient assurance that its proposition is acceptable to the market. In response to the key comment submitted by operators, under the proposed Service Permit Scheme operators would use their own equipment but where necessary must be able to transact TfGM fares/tickets.

4 Detailed responses to small franchise proposition

4.1.1 As shown in Table 1 TfGM received responses relating to the small franchise proposition from 15 of the 22 SME operators that were invited to respond to the questionnaire and from 7 of the 16 large operators that were invited to respond. The responses from the SME operators, and TfGM's conclusions reached, in relation to the small franchise proposition are considered in paragraphs 4.2 to 4.6, whilst the responses from the large operators in relation to the small franchise proposition are considered separately in paragraph 4.7.

4.1.2 The engagement was based on the small franchise commercial proposition as set out in the Assessment. The proposition shared with the operators is as set out below and has been updated in the Assessment in some cases where the proposition has since evolved. The responses considered below seek to summarise the key themes and relevant comments received in terms of challenge, contradiction and clarity of response. However, comments that are tangential to the proposals, or repeat other similar comments have not been discussed further in this paper.

4.1.3 TfGM plans future engagement with SME operators to ensure that the small franchise proposition is fully understood and that detail can be further discussed.

4.2 Franchising Design Parameters - Packaging

Franchise package size

Proposition shared with operators

4.2.1 The preferred approach was to have a combination of 'large' and 'small' franchises. Circa 25 small franchises are proposed, each consisting of between one and six routes, involving all day and all week workings. This would provide ongoing opportunities to small and medium size bus operators, as well as larger operators. These small franchises would range from circa 2 PVR to circa 15 PVR, with a total PVR of small franchises of circa 150, representing 10% of the current market.

4.2.2 School services would be left as resource contracts, similar to current arrangements, with the total PVR of school services being circa 300, representing 15% of the current market.

Operator Response

4.2.3 The operators were asked in response to the proposed franchise sizes "*in respect of franchise size, which of the following small franchise package sizes, 2 – 5 buses, 6 – 10 buses, 11 – 15 buses, 16 - 20 buses and 21 – 29 buses, would be attractive to your organisation (please select all those that would be of interest)*"

In response to this question the SME operators indicated their interest in the following small franchise package sizes:

Table 5: Small Franchise Package sizes that SME Operators indicated an interest in

Small franchise package size	Number of operators who indicated interest	Number of operators who did not indicate interest
2 - 5 buses	9	6
5 - 10 buses	7	8
11 - 15 buses	7	8
16 - 20 buses	8	7
21 – 29 buses	9	6

4.2.4 Three SME operators indicated they were interested in all franchise package sizes i.e. ranging from 2 – 29 buses, with the other SME operators selecting franchise packages that matched their current fleet size only and therefore it is not known whether these operators fully understood the implications of their response. Only one operator indicated they were only interested in franchise packages of the smallest size (i.e. 2 – 5 buses).

TfGM Conclusion

4.2.5 The responses received from the SME operators confirm that there is market demand for each of the proposed small franchise package sizes.

Operator Response

4.2.6 In relation to franchise package sizes the operators were also asked "*To what extent do you consider that this structure will allow small to medium size operators ongoing opportunities?*"

In response to this question nine operators agreed that the proposal would allow SMEs to still be involved in the Greater Manchester bus market. The key responses to this question were as follows:

- There was a concern from one operator that if there is only one small franchise package available in their current operating area then they effectively only have one chance of winning a franchise.
- One operator suggested that small franchises should be phased so that operators don't go out of business by losing all their routes in a single year.
- One operator stated that they believe "large operators should be excluded from mopping up smaller franchises to support large franchises".

TfGM Conclusion

4.2.7 The responses received from the SME operators were consistent with TfGM's view that the proposed small franchise package sizes allow SME operators ongoing opportunities. Also, the various concerns raised by the operators are mitigated by TfGM's approach to ensuring a larger number of smaller franchise packages to provide operators with multiple chances of a successful bid.

In response to the key comments submitted by operators:

- TfGM's packaging strategy would provide a range of small franchises of varying sizes within each geographical area to provide SME operators with multiple bidding opportunities.
- For the first round of franchising, TfGM has concluded that each geographical area would commence franchise operations on the same date in order to maximise customer benefits and reduce transition risk. However, contract terms may vary by franchise and, in addition, each geographical area would have differing franchise commencement dates. In the second and subsequent franchise rounds the franchise terms may start on different dates, including within a single geographical area.
- Small franchise package would be open to all operators. However, TfGM proposes to limit the number of small franchises that one operator can be awarded to help provide protection to the SME market and to prevent other operators from dominating the market.

Franchise package duration and phasing

Proposition shared with operators

4.2.8 In respect of franchise package duration it was proposed that small franchises have a duration of three years, with no option for an extension period. The rationale for a shorter period than proposed for large franchises was in recognition of what TfGM considered to be a suitable period over which SME operators can reasonably take cost risk.

4.2.9 The minimum mobilisation period was proposed as being six months for all franchises. This period might be extended by TfGM on a franchise specific basis to accommodate required mobilisation activity for that franchise with a timeframe longer than six months (e.g. vehicle supply).

4.2.10 TfGM's intention would be to initially implement franchising on a phased basis over a period of approximately two years. This time period is intended to minimise disruption to passengers, reduce mobilisation risk and give the market a phased procurement programme. However, in the steady state following the implementation of franchising, TfGM proposes to move to a regular pattern of procurement of franchises. This would see circa eight small franchises being re-tendered each year. In order to achieve the steady regular pattern, the length of the franchises in the first and second rounds would, in some instances, vary from the steady state length noted above.

Operator Response

4.2.11 In response to the proposed franchise duration the operators were asked "*To what extent do you consider that this is a suitable period, with no provision for extension, over which SME operators can reasonably take cost risk?*"

In response to this question only two operators stated that they considered a three year franchise term to be acceptable. There was strong disagreement to the proposal of a three year franchise term from the remaining 13 operators that responded to the questionnaire. They stated that they believe that this is too short a time period to recover investment in vehicles. They instead proposed that the franchise term should be a 5 year term with four operators also indicating that they believe a 5 year term with a 2 year extension period would be more appropriate.

TfGM Conclusion

4.2.12 In response to the feedback received TfGM has amended its steady state franchise proposition to small franchise terms of between three and five years.

Notwithstanding this, it is noted that the proposed RV mechanism would manage the recovery of operator fleet investment.

4.3 Franchising Design Parameters – Commercial Parameters

Proposition shared with operators

4.3.1 The proposed commercial parameters for small franchises are as described for large franchises in Section 3.3.

Operator Response

4.3.2 The SME operators were not asked any specific questions regarding the proposed commercial parameters.

4.4 Franchising Design Parameters – Operational Risk

Proposition shared with operators

4.4.1 The proposed operational risk allocation for small franchises are as described for large franchises in Section 3.4.

Operator Response

4.4.2 The SME operators were not asked any specific questions regarding the proposed operational risk parameters.

4.5 Franchising Design Parameters – Asset Ownership

Proposition shared with operators

4.5.1 The following ownership structure for small franchises was proposed to operators by TfGM. The primary drivers for this being to create a level playing field for all franchisees, facilitate mobilisation and transition to follow on franchises and to ensure consistency, where appropriate, across the network.

Table 6: Proposed Allocation of Asset Ownership

	TfGM ownership	Operators ownership
Depots	X	✓
Fleet	X	✓
Intelligent Transport Systems	X	✓

Asset Ownership – Depots

4.5.2 TfGM has considered the approach to depot provision for small franchises and, given the scale of each small franchise, TfGM did not propose to provide depot facilities for these franchises. Franchisees would therefore be expected to provide fit for purpose facilities to meet operational requirements

Operator Response

4.5.3 In relation to the proposed allocation of ownership of depots the operators were asked "*does your organisation agree or disagree with TfGM's proposal that responsibility for the provision of a depot per franchise is best placed with the operator?*"

In response to this question 12 of the SME operators stated that they agree that responsibility for ownership of a depot is best left with the operator with one operator who agreed with the proposal stating that they believe due to the size and location of the operator this decision is best held by the operator not TfGM. However, one operator who didn't express agreement with the proposal stated that any use of large franchise depot facilities to deliver small franchises would create an uneven playing field.

TfGM Conclusion

4.5.4 The responses received from the SME operators confirm that there is general agreement with the proposed depot provision model.

In response to the key comment submitted by an operator TfGM has considered how best to protect SMEs in this regard, including potential restrictions on the ability of large franchise operators to operate small franchises from strategic depots.

Asset Ownership – Fleet

Proposition shared with operators

4.5.5 The proposed allocation of ownership of fleet for small franchises are as described for large franchises in Section 3.5.9.

Operator Response

4.5.6 Operators were asked in relation to the proposed RV mechanism "*does your organisation consider the residual value mechanism to be helpful or unhelpful in managing fleet residual value risk?*"

In response to this question 10 SME operators stated that they believe that the RV mechanism is a helpful mechanism for small franchises. However, other key responses received were as follows:

- Three operators stated that they believe the mechanism is unhelpful as they would prefer to maintain ownership of their own vehicles. One of these operators also stated that they believe the mechanism is too complicated and queried whether the RV mechanism would apply if the operator is unsuccessful in

- bidding for a franchise so that they aren’t left with an unused fleet.
- One operator queried whether the RV value is a true market value allowing them to sell to third parties and not just TfGM.

4.5.7 Operators were also asked in relation to the proposed RV mechanism “*to what extent does your organisation agree or disagree with TfGM’s conclusion that operators should retain ownership of vehicles?*”

All responses received to this proposal were positive.

TfGM Conclusion

4.5.8 The responses received from the SME operators confirm that there is general agreement with the proposed allocation of ownership of fleet. However, TfGM recognises that a minority of respondents disagreed with the RV mechanism proposition and plans future engagement with SME operators to ensure that the RV mechanism is fully understood and that detail can be further discussed.

In response to the key comments submitted by operators:

- The current incumbent operators would be offered the chance to enter their vehicles into the RV mechanism prior to any tender process commencing in order to avoid the risk of stranded assets.
- The RV mechanism would allow the operator to retain ownership of their vehicles until the end of the franchise term, at which point the vehicles would transfer with the franchise, and would also guarantee a residual value for the vehicles.
- Operators can also choose to opt out of entering their vehicles into the RV mechanism and to retain ownership of their vehicles which would mean that the vehicles would remain with the operator either if they were unsuccessful in bidding for the franchise or at the end of the franchise term. However, successful operators must utilise RV vehicles allocated to the franchise prior to utilising their own vehicles which could in turn also lead to stranded assets if the operator has not entered their vehicles in the RV mechanism. In the event that incumbent operators do not transfer vehicles into the RV scheme, or the number of vehicles in the RV scheme is less than required, bidders would be expected to provide vehicles which could be new, second-hand, vehicles from their existing fleets, or leased.

Asset Ownership – Intelligent Transport Solutions (ITS)

Proposition shared with operators

4.5.9 The proposed allocation of ownership of ITS assets for small franchises are as described for large franchises in Section 3.5.14.

Operator Response

4.5.10 Operators were asked in relation to ITS "*Does your organisation agree with TfGM's proposal that, in the steady state, a single system across the network is preferred for each ITS component?*"

In response to this question 10 operators stated that they agree with the proposal. There were, however, concerns from operators including:

- That they would have to purchase the hardware and that they believe this is an added pressure for SMEs.
- One operator stated that SME operator buses mainly do not currently have Wi-Fi and therefore this would be an added cost that other operators may not have.
- One operator stated that they would wish to retain their current suppliers for various items of ITS equipment whilst also querying that where there are existing contracts with suppliers there would be termination costs for those contracts and there is therefore a query as to who pays those costs.

TfGM Conclusion

4.5.11 The responses received from the SME operators confirm that there is general agreement with the proposed allocation of ownership of ITS.

In response to the key comments submitted by operators:

- TfGM is currently exploring the available options to support small franchise operators with the purchase of on-bus ITS equipment. The options under consideration include TfGM purchasing the assets and leasing the equipment to the successful operators.
- The proposed RV mechanism would mean that the same fleet is made available to all bidders and any ITS enhancement requirements would be consistent for all bidders. This assumes that existing operators agree to transfer relevant fleet into the RV mechanism ahead of the commencement of franchising.
- Where TfGM has deemed that consistency of ITS equipment is not needed across Greater Manchester it will provide a

minimum specification with operators free to procure their own supplier. However, in some instances TfGM will specify the provider to ensure consistency of customer experience and data flows.

4.6 Franchising Design Parameters – Procurement Process

Proposal

TfGM is seeking to procure and transition to franchising in a manner which minimises the risk of disruption to customers and is attractive to and manageable by the market.

Programme

TfGM proposed procuring all franchises in the first round of franchising over three or four tranches with each franchise procured on a stand-alone basis (i.e. bidders can choose to bid one or more franchises within a tranche). The procurement process would not commence for a tranche until preferred bidders had been selected for each franchise in the previous tranche. This is to enable the market to make informed bidding strategy decisions for each tranche. In the steady state it is anticipated that circa 8 small franchises would be re-tendered per year.

TfGM proposed the establishment of a 'passport system' that would allow for the pre-qualification of any operator wishing to bid. To obtain a passport operators would need to meet a number of technical and legal pre-qualification requirements.

TfGM intends to simplify the bidding process (compared to large franchises) for small franchises. TfGM may adopt the negotiated (ITN) procedure for the initial procurements but would move to a restricted procedure as soon as practical. It is currently intended that there would only be one phase of tendering following an Expression of Interest. The tender would require a short technical submission, price submission and confirmation of acceptance of contract terms and conditions.

Operator Response

4.6.1 In relation to the proposed procurement process operators were asked "*Do you have any comments or points related to the proposed procurement process?*"

In response to this question six operators stated that they agree with the proposal with one operator who agreed with the proposal stating that they believe it is sensible that the complexity of the bidding process should be proportionate to the size of the franchise. Six operators also confirmed that they have no further comments relating to the proposed process. However, other key responses received were as follows:

- One operator stated that large operators should be restricted from utilising TfGM depots to bid for small franchises as this would otherwise create an uneven playing field
- One operator stated that they believe that if a large operator is awarded a small franchise then a large franchise should be sliced up to maintain the number of small franchises on offer to SMEs.
- One operator stated that they would prefer route based franchises to be on offer.

4.6.2 Operators were also asked "*do you have any further comments relating to the proposals*?"

In response to this question, one operator noted that they did not understand how current subsidised services would be turned into franchised routes. There was also a query from one operator regarding who would be responsible for the painting of buses.

TfGM Conclusion

4.6.3 The responses received from the SME operators confirm that there is general agreement with the proposed procurement process. However, TfGM recognises that a minority of respondents raised concerns regarding the proposition and plans future engagement with SME operators to ensure that the procurement process is fully understood and to prepare for franchising.

In response to the key comments submitted by operators:

- As stated in Section 4.5.4, TfGM has considered how best to protect SMEs in this regard, including potential restrictions on the ability of large franchise operators to operate small franchises from strategic depots.
- The small franchise and schools market would be broadly equivalent in size to the tender market available to small and large operators today and therefore TfGM does not consider it necessary to increase this were large operators to win a share of this market.
- TfGM has previously considered and discounted the possibility of route based franchises.
- TfGM would bear revenue and patronage risk and franchises would be let on a gross cost basis. Therefore, TfGM does not

- believe that the concern regarding routes that are currently subsidised is applicable.
- It is anticipated that TfGM would procure the contract for the rebranding of the buses with the franchise operator being TfGM's agent to manage the rebranding process.

4.7 Large Operator Responses to Small Franchise Questions

4.7.1 Seven large operators indicated that they were interested in small franchises. Their responses, and TfGM's conclusions reached, have been categorised by area below.

Packaging

Operator Response

4.7.2 In response to this question the large operators indicated their interest in the following small franchise package sizes:

Table 7: Small Franchise Package sizes that Large Operators indicated an interest in

Small franchise package size	Number of operators who indicated interest	Number of operators who did not indicate interest
2 - 5 buses	3	4
5 - 10 buses	4	3
11 - 15 buses	6	1
16 - 20 buses	7	0
21 – 29 buses	7	0

4.7.3 One operator queried whether large operators would be expected to pick up small franchise packages on an emergency basis if there are no suitable bidders. Another operator stated that TfGM needs to ensure that the school contracts would allow part time drivers to achieve 20 - 30 hours per week by packaging the correct mix of work within each school contract.

TfGM Conclusion

4.7.4 TfGM's review of responses received, particularly when taken in the context of comments received from the SME operators, has provided TfGM with sufficient assurance that there is market demand for each of the proposed small franchise package sizes, although there appears to be least interest in the smallest franchise package sizes.

In response to the key comments submitted by operators:

- TfGM would carry out market engagement before the tender goes out to ensure that there is sufficient competition for small franchises. However, TfGM is also currently considering the options available in the event of no acceptable bids for a small franchise.

- TfGM recognises the particular operational characteristics of school work. Whilst school services would be part of the franchise scheme (as they are often registered local bus services), this does not necessarily mean any change to the ways in which these contracts would be procured. It is also not anticipated that they would be 'wrapped into' larger franchise contracts and the retention of existing resource-based school contracts is expected to see little substantive change from existing restricted procedures, albeit the required standards would be both better defined and more comprehensive.

Operator Response

4.7.5 In relation to franchise package duration there was also strong disagreement from all seven large operators that responded to the questionnaire who stated that they believe that three years is too short a franchise term for small franchise packages and that the term should instead be a minimum of five years.

TfGM Conclusion

4.7.6 In response to the feedback received TfGM has amended its steady state franchise proposition to small franchise terms of between three and five years. Notwithstanding this, it is noted that the proposed RV mechanism would manage the recovery of operator fleet investment.

Depots

Operator Response

4.7.7 There was a suggestion from one operator that there should be an opportunity for large franchise depots to share with SME operators to reduce overheads and wasted costs and ultimately improve pricing for TfGM.

TfGM Conclusion

4.7.8 TfGM does not propose to permit multiple operators to operate separate franchises from one depot as:

- Packages are being built around depot sizes therefore it would be unlikely for there to be spare capacity for two large depots packages to be operated from one physical depot; and

- TfGM considers that it would be too operationally complex for two operators to operate successfully from one physical depot.

Vehicles

Operator Response

4.7.9 There was a suggestion from one large operator that SME operators may struggle to raise finance, and therefore the combination of franchise term and the RV mechanism should be worked through finance industry experts to ensure they are realistic. Another large operator stated that they believe, given the RV mechanism and the complexities around vehicle transfer, it may be a better option for TfGM to own the vehicles.

TfGM Conclusion

4.7.10 TfGM believes that the feedback in paragraph 4.5.6 from SME operators shows that SME operators are generally in support of the RV mechanism and will therefore continue to develop the RV mechanism proposition. However, TfGM recognises that a minority of respondents disagreed with the RV mechanism proposition and plans future engagement with SME operators to ensure that the RV mechanism is fully understood and that detail can be further discussed. TfGM also intends to issue the heads of terms at the commencement of the discussions with operators relating to the RV mechanism.