GMCA GREATER MANCHESTER COMBINED AUTHORITY

Bus Reform Consultation Assessment

Commercial Case Franchising Risk Allocation Supporting Paper

Commercial Case Franchising Risk Allocation Supporting Document

Table of Contents

List of Tables

1 Document overview

1.1 Document Purpose

1.1.1 This paper supports the franchising risk allocation and performance regime analysis in 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

i. The remainder of this document consists of two sections as follows:
ii. Risk Allocation – this section explains the ownership of the main operational and commercial risks under a franchise model; and
iii. Performance regime – this section explains the key components of the operational and service quality performance regime. Whilst operational, quality and safety risks are considered to be core operator responsibilities, a performance regime would be used to incentivise operational performance and service quality.

2 Risk Allocation

2.1.1 This section explains the ownership of the main operational and commercial risks under a franchise model with the objective of allocating risks to those best able to manage them, supports value for money and ensures that ownership and responsibility for each risk lies with the party best placed to manage them efficiently and effectively.

2.1.2 This allocation of risk between TfGM and operators supports the delivery of the objectives of the commercial strategy and, in turn, support the achievement of the Vision for Bus.

2.1.3 The proposed risk allocation defines how risks are allocated between TfGM and the Franchise operators, and the extent to which TfGM either mandates or allows the operators to determine how best to manage the risk that they are responsible for and align incentives to deliver the strategic objectives and offer value for money.

2.1.4 This risk allocation would form the basis of the development of the draft contract ('Franchise Agreement'). The Franchise Agreement would be structured as a standard service agreement and draw on examples including TfGM's 2017 Metrolink contract and the TfL bus franchise master agreement.

2.1.5 Table 1 sets out the detail of the ownership of key risks under a Franchise model, and the rationale for this allocation.

Table 1: Risk Allocation under a Franchised Model

RISK AREA	LONG TERM OWNER	TRANSITION OWNER	RATIONALE
Passenger revenue	TfGM	TfGM	Delivers the maximum opportunity for TfGM to realise its strategic objectives. TfGM would take all revenue risk, enabling it to implement multi-modal fares and ticketing policies, and control the passenger offer. TfGM would need to prepare a fares and retailing strategy to apply at the introduction of franchising, through transition and into steady state franchised operation, to provide continuity for passengers transferring from the incumbent operators and lay the groundwork for fares harmonisation.
Other commercial income	Predominantly TfGM	TfGM: Passenger Wi-Fi Operator: Other	TfGM would manage advertising, passenger Wi-Fi and newspaper contracts centrally, to provide consistency across small and large franchises and to passengers, and to maximise contract value by offering Greater Manchester-wide coverage to commercial customers. During transition operators would take commercial risk other than passenger Wi-Fi until the whole network has been franchised. Scope for operators to manage other commercial income streams.
Brand/ reputation	TfGM (option for operator sub-branding)	Phased introduction of TfGM brand	TfGM would need to take branding and reputational risk in order to create a unique brand for bus which could, over time, be part of a single public transport brand for Greater Manchester. This approach aligns with TfGM taking revenue risk, and is a key enabler for TfGM to fully own the customer relationship. Whilst there will be some Operator sub-branding (similar to in London) in practice TfGM would be taking the reputational risk. The new TfGM brand would be phased in as the first franchises are rolled out, and operational requirements limit the number of vehicles that could be re-branded at once.
Safety	Operator	Operator	The operator would be considered best-placed to manage the safety risk, given its core competencies and having staff and equipment in place to develop and implement a safety management system. However, TfGM would look to assure the operators approach to safety through appropriate specifications, tender responses and contract management procedures. A performance regime would also be used to incentivise operational performance and service quality, and the franchise agreement would provide mechanisms for TfGM to take further action in the event of specific safety breaches.
Operational cost	Operator with TfGM taking inflation risk	Operator with TfGM taking inflation risk	The majority of operational cost risk would be with operators to benefit from outsourced delivery of bus services. Control measures would be required, including at bid stage, as TfGM would take reputational risk, to maintain commercial performance incentive and reduce the temptation for operators to focus on cost reduction to the detriment of the service. TfGM would manage inflation risks, such as consumer price and wage inflation and fuel prices, to protect operators against cost inflation risk which would otherwise be priced for by bidders.
Operational performance	Operator (via capped performance regime)	Operator (via capped performance regime) – potentially phased.	Operators would be made responsible for operational performance via a performance regime, which would contain suitable caps to avoid excessive risk pricing. The performance regime would also support TfGM's management of revenue and reputational risk resulting from poor delivery. Allied to this, TfGM would retain strong contractual rights (e.g., remedial plan, step-in) to take effect where performance regime caps are breached. A performance regime has been developed in outline. This regime would need to be phased in during the life of the first franchises let, to allow performance data to be baselined and allow for the phased introduction of some ITS and system requirements needed to support the regime.
Congestion	Operator (via capped performance regime and lost mileage deduction)	Shared	TfGM would set operational specifications that reflect congestion levels at the time the franchise was tendered. Congestion risk would then be borne by operators during the franchise period. TfGM anticipates it would retain some baseline congestion risk for the first round of franchising, due to the limited operational data initially available to it and bidders. It is expected that the improved quality and quantity of operational data gathered over the first round of franchising would enable congestion risk to be fully borne by operators for subsequent franchise periods. Performance data received via the 'on-bus' AVL system would inform congestion risk management and future network investment decisions.

RISK AREA	LONG TERM OWNER	TRANSITION OWNER	RATIONALE
Service quality performance	Operator (via capped performance regime)	Operator (via capped performance regime) – potentially phased.	As with operational performance risk, operators would be made responsible for service quality performance via a performance regime, which would contain suitable caps to avoid excessive risk pricing. The performance regime would also support TfGM's management of revenue and reputational risk resulting from poor delivery. It may not be possible to implement in full this regime at the outset, due to the availability of data for baselining and the supporting internal systems. In this case, this would be gradually introduced over the course of the first franchises awarded.
Fare evasion	TfGM	TfGM	Operators would be obliged to collect fares and passenger data on TfGM's behalf, with drivers being a key point of customer contact, retailing and revenue collection. Revenue receipts and passenger data by vehicle, route and driver would be monitored by operators on TfGM's behalf to prevent and detect fraud. In addition, centralising the provision of the Revenue Protection Inspectors team would provide TfGM with maximum flexibility and consistency and allows, for example, city centre or town centre cordons to be set up.

3 Performance regime

3.1 Introduction

3.1.1 Under a gross cost contract, an effective and well-calibrated performance regime is critical to support the delivery of the objectives of the commercial strategy and, in turn, support the achievement of the Vision for Bus.

3.1.2 Given that revenue risk and ownership of both the brand and customer relationship would be owned by TfGM, it would be important to exercise some control (through the contract specification) over the core operator deliverables, to manage the residual revenue and reputational risks of poor performance that would be borne by TfGM.

3.2 Operational performance regime

Steady state model

3.2.1 The operational performance regime would comprise three key components lost mileage, punctuality and excess waiting time.

3.2.2 These elements of the regime all build on existing practice and systems including drawing extensively from the TfL system in place in the London bus market, and as such it would be intended to introduce them into the initial round of large and small franchises.

3.2.3 Automatic Vehicle Location (AVL) data would be used to underpin the operational performance elements of the performance regime. To monitor performance consistently, the standardisation of AVL data configurations would be facilitated through the plan to introduce a single AVL solution across franchised services.

3.2.4 The regime would be carefully calibrated, to ensure that targets are achievable and set at a level that incentivises operators properly, but not so aggressively that operators price unnecessary risk into their bids. A strong baseline of data is required prior to franchise commencement to understand current performance levels across the franchise areas.

Lost Mileage

3.2.5 Lost mileage is a measure of any non-delivered service miles, with the resultant operator cost saving of these miles deducted from the franchise payment.

3.2.6 It is anticipated that the performance regime would distinguish between ‘deductible’ and ‘non-deductible’ lost mileage, and apply dispensation where mileage is not delivered for reasons beyond operators reasonable control. This

would enable TfGM to maximise the value attained by the regime, by not forcing operators to take risk on factors beyond their control, such as adverse weather.

Punctuality

3.2.7 Punctuality is applicable to low frequency services (five buses per hour or less), and measures adherence to the timetable within a defined window of tolerance, with performance adjustments applied against the franchise payment where departure times do not occur within the window.

Excess Waiting Time

3.2.8 Excess waiting time is applicable to high frequency services (six buses per hour or more), and measures variance in actual average waiting time from the scheduled average waiting time, with performance adjustments applied against the franchise payment where the required frequency is not achieved.

Additional Long-Term Measures

3.2.9 In future franchises, TfGM would consider enhancing the performance regime to fully reflect its strategic objectives and passenger priorities. Specifically, it may introduce two additional metrics:

i. First and last bus delivery – similar to lost mileage as detailed in Section 3.2.5, with additional penalties should the operator fail to deliver key services at the beginning and end of the operational day.
ii. Connections/interchange regime – similar to punctuality as detailed in Section 3.2.7, this metric would reduce the tolerable 'window' of timetable adherence at designated interchange locations with other services and/or modes, to improve passenger confidence where journeys require one or more interchanges.

3.2.10 These elements of the performance regime are some way removed from usual practice. A connections/interchange regime would, and first and last bus delivery may, require more extensive development of existing systems in order to monitor them. As such, these elements are not considered for introduction until later rounds of franchising.

Transitional Arrangements

3.2.11 Due to the limited volume of useable AVL data held by TfGM, the operational performance regime is unlikely to have been calibrated using AVL data prior to franchising. Therefore, a brief transitional arrangement may be necessitated. TfGM is developing an interim solution to enable operational performance to be subject to a performance regime during transition. This

would be replaced by an operational performance regime driven by AVL data once sufficient data has been collected.

3.3 Risk-sharing mechanisms: service quality regime

Steady state model

3.3.1 The service quality regime is similar to the operational performance regime, but considers driver behaviour and driving style (assessed via driver and engine monitoring (Section 3.3.3) and customer complaint levels (Section 3.3.4)), vehicle compliance ('Right Bus Right Route') (Section 3.3.5) and availability of equipment (for example, CCTV, audio-visual screens and passenger Wi-Fi) (Section 3.3.6), and is underpinned by a mystery shopper regime (Section 3.3.7). Therefore, similarly to the operational performance regime described in Section 3.2, a means of monitoring achievement of service quality standards would be implemented to adequately control the risks to TfGM's revenue and reputation, which would be affected by poor delivery in this area.

3.3.2 Operator performance would be measured against each of these KPIs in each reporting period. The operators would therefore need to ensure they have appropriate monitoring and reporting processes to compile and submit reports to TfGM to the required timescales. However, in some cases it is anticipated that data collection, and potentially reporting to TfGM, would be automated, and as such this would not impose a significant incremental burden onto operators.

Driver and Engine Monitoring

3.3.3 TfGM would require operators to provide eco-drive/engine management systems to monitor in-service events of severe braking, cornering, acceleration and idling. Excessive speed may also be monitored.

Customer Complaints

3.3.4 TfGM would also monitor the number of customer complaints that each Operator receives in each reporting period. The operator must investigate each complaint, to enable it to be either upheld or rejected, within a specified period from the complaint date. TfGM would audit operator responses to ensure adequate investigation and appropriate classification of decision.

Vehicle Compliance

3.3.5 TfGM would specify vehicle requirements for each route within a franchise, with compliance monitored using ETM/AVL data matched against a pre-approved fleet list. Any mismatches would indicate that a non-compliant

vehicle had been deployed on the trip. However, it is not intended to penalise 'right side failures' where the actual bus deployed is of adequate size and at least the same specification as contracted.

Equipment Availability

3.3.6 TfGM would also monitor the availability of critical on-bus ITS equipment, including ETM, AVL, audio visual announcements, CCTV, driver and engine monitoring and passenger Wi-Fi equipment. Operators would be expected to maintain a supply of spare equipment and buses, and therefore an equipment failure would not necessarily have an impact on service delivery. Equipment would therefore only be considered to be unavailable in-service, with spare vehicles and equipment being utilised to maintain availability.

Mystery Shopper Surveys

3.3.7 TfGM would establish a programme of mystery shopper surveys, to objectively assess the customer experience.