

SCRUTINY REVIEW PANEL – Financial Impact of Bus Franchising

Report of the Deputy Chief Executive

1. Introduction

- 1.1 As part of the Scrutiny Work Programme approved by the Council, a review by the Corporate, Resource Management Governance Committee was agreed of the Financial Impact of Bus Franchising.
- 1.2 The review considered the current funding of transport in Greater Manchester and the impact on Stockport MBC, the current approach to fares and ticketing and key risks identified. The review also explored the current budget, medium term financial plan for franchising alongside patronage, revenue and growth plans as well as current and future plans to manage the franchised network including performance measures and network area reviews.

2. Methodology

- 2.1 The Scrutiny Committees established a joint Scrutiny Review Panel to undertake the review comprising:

Councillor Carole McCann (Chair)
Councillor Ian Hunter
Councillor Jeremy Meal
Councillor Charlie Stewart

Officers - SMBC

Michael Cullen, Deputy Chief Executive (& S151 Officer)
Vicki Bates, Assistant Director Legal & Democratic Governance and Monitoring Officer
Jonathan Davies, Assistant Director for Finance (Deputy S151 Officer)
Kora Yohannan, Strategic Financial Advisor
Sue Stevenson, Head of Highways and Transportation

Officers – Transport for Greater Manchester (TfGM)

Steve Warrener, Managing Director
Matt Bull, Deputy Director of Finance
Stephen Rhodes, Bus Director
Fran Wilkinson, Customer and Growth Director

- 2.2 The panel met three times to consider the scrutiny review. The first meeting 14th November 2023 considered the scoping of the report. The panel also received a presentation that provided:
- An overview of transport finance, bus franchising and reform;
 - Current funding of the transport levy and the Statutory Charge and its implications for Stockport MBC;

- The current approach to fares and ticketing; and,
 - Current Key risks.
- 2.3 The meeting considered the presentation and identified a number of key lines of enquiry for the second meeting which colleagues from TfGM were asked to provide further detailed information to the review panel.
- 2.4 The second meeting on 12 December considered a presentation from TfGM colleagues that provided detailed information on:
- 2024/25 Initial Budget and the Medium Term Financial Plan;
 - Patronage & Revenue and Growth Plans;
 - Network Performance and changes to services through a series of Network Reviews once franchising has taken place.
- 2.5 The final meeting of the panel met on 4 January to consider proposed conclusions and recommendations could be made to ensure greater visibility and oversight of the financial impact of bus franchising moving forward.

3. **Background and Context**

- 3.1 Bus Franchising is a key enabler to improving the public transport offer in Greater Manchester with the 'Bee Network' aiming to provide a London style transport system with more residents choosing to change their approach to travel by using public transport more. Currently there is a 60:40 split between car and sustainable travel (walking, cycling public transport) and the aim is to move this towards 50:50 by better planning of and access to the transport network.
- 3.2 TfGM will, in a franchised network, own many of the buses and also the main depots. It will tender out the running of the buses on a phased basis across Greater Manchester to third party operators. TfGM will be responsible for the design of bus routes, frequencies, branding, the establishment of ticketing products and the setting of fares. TfGM will also bear the significant financial risk (upside and downside) on fare box income which is substantial. The significance of this new responsibility and risk is being given the focus and attention necessary and will have impact on the approach, structures and processes within TfGM. Small changes in patronage and fares would have a significant impact on the overall financial position as does future inflationary pressures.
- 3.3 In 2023/24 the districts of Greater Manchester provide c. £200m to the GMCA in the form of the Transport Levy and the Transport Statutory Charge with Stockport paying £20.675m. This covers the main areas of spend including concessionary reimbursement, bus network support costs and operational costs.
- 3.4 There are one-off implementation costs of bus franchising, with Stockport setting aside £1.8m to contribute to these costs. In addition to the one-off costs TfGM, the Greater Manchester Combined Authority and District will have responsibility for the full operating financial implications of the

franchised bus network including all fare box income. The financial effect and risk on districts, including Stockport, were understood by the panel.

- 3.5 The Transport sector continues to face structural funding challenges due to the residual impact of recent shocks; revenues, while recovering, not returning to pre-COVID trend levels and the rapid increase in the cost base due to recent unprecedented levels of inflation. The government has gradually withdrawn COVID-era emergency funding and therefore all Transport Authorities (including TfGM) are faced with addressing residual funding deficits.
- 3.6 To date, deficits have been funded through a wide reaching TfGM efficiency programme and one-off funding, including from central government and from some utilisation of reserve balances. The structural deficit from 'lost revenue' compared to pre-COVID trends and higher costs (from inflation) will persist in the medium term and robust financial plans have been developed to ensure that the Bee Network can be sustained, grow and transform to meet the ambitions we have for our residents and place.
- 3.7 TfGM has limited pre-franchising patronage and fare box data however initial performance against budgets post franchising in Tranche 1 has been strong. Network control (of Metrolink and Bus) allows for TfGM to drive and deliver stretched revenue and passenger growth and better manage cost through efficiency and effectiveness of service delivery.
- 3.8 Post franchising there is a clear and articulated focus on Customer and Growth with a clear vision to improve peoples' lives by connecting people and places within Greater Manchester and the strategic priorities to:
- Get more people on public transport;
 - Grow revenue through farebox;
 - Grow other Revenue; and,
 - Be digital first.
- 3.9 TfGM have established stretched performance and quality measures and are continuing to work with all stakeholders to improve the quality of provision, with franchised services in the Tranche 1 area having seen improved levels of performance compared to their pre-franchise equivalent services.
- 3.10 The panel noted the legislative constraints on franchised networks, to respond at pace to changing environments, financial pressures and stakeholder expectations. Network reviews are the mechanism through which TfGM will develop the bus network in a co-ordinated, planned and consistent manner and robust processes have been endorsed by the Bee Network Committee.
- 3.11 Group Leaders in Stockport Council have recently agreed to establish a local authority level group, comprised of cross-party representation and officer support, to effectively feed into the development of the Bee Network

agenda in Stockport's interests as we prepare for the start of the south GM franchise in 2025.

4. Key Issues Raised by the Panel

- 4.1 **Reliance on non-recurrent resources** – the panel noted previous and current short-term reliance on non-recurrent resources to fund structural funding deficits from 'lost revenue' and higher costs (inflation) and recognised the significant risks of funding structural deficits with non-recurrent funding. The panel also recognised the significant amounts paid by Stockport Council by way of the transport levy and statutory charge. They were assured that detailed and robust medium term financial plans had been developed but noted the sensitivity that patronage has in terms of the significant upside and down-side risk. These risks are significant and are understood by TfGM and stakeholders however they will need robust management, monitoring and reporting. The panel also noted the disparity of transport funding between regions such as Greater Manchester and London and without a fairer transport settlement that crucial investment to deliver the transport ambitions in Stockport could be unduly delayed.
- 4.2 **Quality and Performance monitoring and reporting** - the panel recognised the paucity of historic information available to TfGM due to arrangements and responsibilities and highlighted areas where improvements could be made e.g. Peak Vehicle Requirement (PVR) data, the PVR measure is industry recognised and offers a standard measure that is easy comparable and can aid future oversight. The panel believed that performance and quality reporting was vital so residents could see the positive impact of franchising.
- 4.3 **Fare setting and concessionary travel** – The panel highlighted the importance of understanding the impact of fares on patronage and also decisions regarding discretionary concessionary schemes. Understanding impact, elasticity of price on demand and other evaluation methodologies will be crucial moving forward to dealing with the financial risks identified;
- 4.4 **Patronage & Revenue and Growth Plans** – The panel recognised the work undertaken so far by TfGM to understand the current and future growth opportunities while also appreciating the organisation shift and demand this places upon TfGM in a franchised setting. The panel also recognised the detailed thought that had been demonstrated in customer and growth plans highlighting the need for continued monitoring and reporting of key measures of success.
- 4.5 **Risk Management** – The panel fully appreciated the benefits brought and the ambitions of bus franchising but also recognised the key significant risks that have been identified (both upside and downside) and commented on the importance of monitoring and reporting in a timely way to ensure risks are understood and mitigated by all stakeholders. The panel reiterated the need for robust risk management processes to be in place and assurance that regular monitoring would be taking place to ensure

remedial action can be taken quickly if any of the significant risks identified crystallise.

5.0 Conclusions and Recommendations

5.1 The panel recognised and supported the benefits brought from the franchising of the bus network and supported the ambitions for the future network as outlined. The panel also recognised the significant risks (upside and downside) that are inherent in a franchised network due to the responsibilities now held. The panel reiterated the need for these risks to be robustly managed, monitored and reported. In light of the information supplied to the Panel and the discussions held, the Panel identified the following recommendations that it wished to make for consideration by the Cabinet which are detailed below:

1. Support the establishment of a local authority level group, comprised of cross-party representation and officer support, to effectively feed into the development of the Bee Network agenda in Stockport's interests as we prepare for the start of the south GM franchise in 2025.
2. Note that short and medium term financial and patronage performance indicators will be reported via a combination of GMCA financial monitoring reports and regular service delivery updates to the Bee Network committee. TfGM be requested to provide suitable information to give assurance about the resourcing of newly franchised service, such as the overall Peak Vehicle Requirement and this information should be shared with relevant committees and local authority level groups within Stockport.
3. An annual monitoring report be provided to CRMG Scrutiny Committee that provides assurance on the financial, quality, performance and risk management of bus franchising and transport provision funded by the transport and statutory charge.
4. The Cabinet alongside TfGM and the GMCA continue to lobby for a fairer transport settlement for Greater Manchester and Stockport.

Officer Contacts;

Anyone requiring further information should contact Michael Cullen - email Michael.cullen@stockport.gov.uk