

Date: 28 May 2021

Subject: Bus Reform: The Greater Manchester Franchising Scheme for Buses 2021 - Implementation and Operation

Report of: Eamonn Boylan, Chief Executive Officer, GMCA & TfGM

PURPOSE OF REPORT

To set out the next steps required for the implementation and operation of the Greater Manchester Franchising Scheme for Buses 2021 following the making of the scheme by the Mayor on 30 March 2021 and to make recommendations for the delegation of certain connected functions to TfGM to enable TfGM to implement and operate the scheme on the GMCA's behalf.

RECOMMENDATIONS:

The GMCA is requested to:

1. Note the contents of this report;
2. In relation to the Local Service Contracts required for the implementation and operation of Tranche 1 of the Greater Manchester Franchising Scheme for Buses 2021:
 - i. Agree to commence the procurement process as set out in the Assessment and summarised in section 2 of this report;
 - ii. Agree to delegate to TfGM the authority to undertake and manage the above procurement process on its behalf subject to the following condition as set out in section 2 of this report –
 - a) TfGM will recommend a preferred bidder in relation to each Local Service Contract; in relation to large Local Service Contracts the decision to award will be taken by the GMCA and in relation to small Local Service Contracts and contracts for schools the decision to award will be taken in accordance with the contract award delegations as set out in the GMCA Constitution.

BOLTON
BURY

MANCHESTER
OLDHAM

ROCHDALE
SALFORD

STOCKPORT
TAMESIDE

TRAFFORD
WIGAN

3. In relation to on-bus equipment, other equipment, any systems and associated services which are necessary for the implementation and operation of the Greater Manchester Franchising Scheme for Buses 2021:
 - i. Agree to commence the procurement of such on-bus equipment, other equipment, any systems and associated services as required;
 - ii. Agree to delegate to TfGM the authority to undertake and manage the procurement process on its behalf (including authority to determine the appropriate method of procurement as required and recommend preferred bidders);
 - iii. Agree to delegate authority to the GMCA Chief Executive to agree the award of, and final terms of, all necessary legal agreements;
 - iv. Agree to delegate authority to the GMCA Monitoring Officer to complete and execute all necessary legal agreements;
 - v. Agree to delegate to TfGM the function of managing any such contracts following their award, for the entirety of the contracts.
4. Agree to proceed with the depot strategy set out in the Assessment and to delegate to TfGM the authority to take any necessary or appropriate steps as required in relation to the implementation of the depot strategy. Members are asked to note that a further report will be submitted by TfGM in due course to recommend appropriate next steps.
5. Agree to implement the RV mechanism proposals as set out in the Assessment and to delegate to TfGM the authority to undertake any preparatory work necessary to establish, operate and manage the RV mechanism on its behalf and to note that a further report will be submitted by TfGM in due course to recommend appropriate next steps.

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Appendices

Appendix 1: The Greater Manchester Franchising Scheme for Buses 2021

[Bus reform decision March 2021 - Greater Manchester Combined Authority \(greatermanchester-ca.gov.uk\)](https://www.greatermanchester-ca.gov.uk/bus-reform-decision-march-2021)

Legal Considerations:

Legal considerations are set out in the report.

Financial Consequences – Revenue:

The financial consequences (revenue) relating to this report are included in the background papers set out below. A further report will be brought to GMCA in due course.

Financial Consequences – Capital:

There are no specific financial consequences (capital) relating to this report. A further report will be brought to GMCA in due course.

Number of attachments to the report: 0

BACKGROUND PAPERS:

Report to GMCA titled Bus Reform: Consultation and the GMCA Response dated 23 March 2021

Decision of the Mayor 25th March 2021

Report to GMCA titled Budget Paper C - GMCA Transport Revenue Budget 2021/22 dated 12 February 2021

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		
GM Transport Committee	Overview & Scrutiny Committee	

1. BACKGROUND

- 1.1 As members are aware, the GMCA considered the TfGM report titled ‘Bus Franchising in Greater Manchester March 2021: Consultation Report’ at its meeting on 23 March and recommended that the proposed franchising scheme be made by the Mayor.
- 1.2 On 25 March, the Mayor made the decision to make the franchising scheme.
- 1.3 On 30 March the Mayor made the Greater Manchester Franchising Scheme for Buses 2021 (“the Franchising Scheme”) and the GMCA published its response to

the consultation together with the Mayor's decision, as required by section 123G of the Transport Act 2000 and (on behalf of the Mayor) the Franchising Scheme itself.

- 1.4 The purpose of this report is to set out the next steps required for the implementation and operation of the Franchising Scheme and to make recommendations for the delegation of certain connected functions to TfGM to enable TfGM to implement and operate the Franchising Scheme on the GMCA's behalf.

2 COMMERCIAL MODEL AND PROCUREMENT PROCESS- SUMMARY

Commercial Model

- 2.1 As members are aware, the Franchising Scheme applies to the entire Greater Manchester area, which has, in turn, been divided into three franchising scheme 'sub-areas' (namely Franchising Scheme Sub-Areas A, B & C) to allow the transition from the existing deregulated market to a franchised model to take place over a period of time. The extent of each sub-area is set out in the map which is appended to the Franchising Scheme (Appendix 1 to this report).
- 2.2 Under franchising all local bus services provided within Greater Manchester (subject to certain exceptions including interim services, services provided under a permit and services which are excepted from regulation) will be provided under a Local Service Contract. There are three categories of Local Service Contract – large, small and those relating to school services. Sub Area A includes bus services running within and from the north west of Greater Manchester, including Wigan and Bolton.
- 2.3 Local Service Contracts will be awarded through competitive procurement processes under which operators tender for the exclusive right to provide certain local services. The operators will have to provide those local services on the terms specified in the relevant contract, including those relating to frequency, fares and standards. The services to be franchised are listed in the Franchising Scheme (Appendix 1 to this report).
- 2.4 As set out in the Assessment, the proposed packaging strategy for the Franchising Scheme is comprised of 10 large Local Service Contracts (a general principle of one large franchise per strategic depot has been adopted) and approximately 25 small Local Service Contracts across the whole Franchising Scheme. In addition, resource contracts for school services not included in large or small franchises (total PVR of circa 300) would continue to be franchised on a resource basis as they are currently. It is intended to let the large Local Service Contracts for a five-year term (with an optional extension of two years) and franchised terms of between 3 and 5 years are proposed for small Local Service Contracts and school contracts in line with current practice for the GMCA tendered routes. As set out in the Assessment, it may be necessary to vary the franchise term initially to ensure that, by the steady state, a similar number of franchises are let each year.
- 2.5 As set out in the Assessment, it is proposed that the 10 large Local Service contracts are let in three 'tranches' Tranche 1 relates to the Local Service contracts which relate to Sub-Area A, Tranche 2 to Sub-Area B and Tranche 3 to Sub-Area C. The procurement exercise will be run for each tranche in turn to allow bidders to

assess their approach to future tranches once the outcome of procurements in a tranche have been decided, and for lessons to be learned from the proceeding set of local service contract procurements. Once the Franchising Scheme has become operational across all areas future franchising arrangements can apply across the whole of Greater Manchester as appropriate.

Procurement of Local Service Contracts

- 2.6 As noted above, the GMCA is the franchising authority for the Franchising Scheme. The function of procuring, entering into and managing the required Local Service Contracts also sits with the GMCA. Accordingly, if TfGM is to implement and operate the Franchising Scheme on GMCA's behalf, the formal delegation of certain connected functions is required.
- 2.7 Procurement of the bus franchising operations will be conducted in accordance with the requirements of the Utilities Contracts Regulations 2016 (UCR 2016). The UCR permits the use of a number of different procurement procedures and in that regard, it is proposed that the negotiated procedure be adopted for the first two large bus franchise tranches because of the additional flexibility it provides. As members will recall from the Commercial Case in the Assessment, the negotiated procedure enables contracting authorities to enter into negotiations with a group of pre-qualified bidders by way of an Invitation to Negotiate (ITN) notably in areas such as the terms and conditions of any franchise agreement. The negotiated procedure provides greater flexibility than the restricted procedure but provides less scope for negotiating with the preferred bidder than competitive dialogue.
- 2.8 For future large bus franchise procurements, it is expected that the negotiated procedure will continue to be used, but there may be fewer areas which are open to negotiation, with the effect that use of the restricted procedure may ultimately be considered.
- 2.9 For the small franchises, it is also proposed that the negotiated procedure would be used, although the restricted procedure may be introduced from the second round of franchising.
- 2.10 For school services, the Assessment proposed that the restricted procedure would be used for those small service contracts and that the qualification system (described below) would also be used.

Pre-procurement market engagement

- 2.11 As set out in the Assessment, TfGM would undertake pre-procurement market engagement out on behalf of GMCA. This would include engagement on draft procurement documentation and a draft franchise agreement. This process would be used to invite initial comments from the operator market on the draft documents in order to further test commercial principles and contractual mechanisms prior to the commencement of procurement procedures.

Qualification system

- 2.12 As set out in the Assessment, a qualification system is recommended to be used for the procurement of all Local Service Contracts under the Franchising Scheme for the reasons set out below:
- i. Bidders are only required to complete the qualification process once.
 - ii. Once established, it represents a much more efficient system than a typical pre-qualification questionnaire (PQQ) approach as there is no need for repeated issue and evaluation;
 - iii. Although upfront work would be required to establish a Qualification System in time for the first franchise tranche, subsequent tranches can be procured more effectively and efficiently.
 - iv. It would also enable the introduction of Bus Services Framework Agreements (BSFA), one for large franchises and one for small franchises, which would contain the elements of the Local Service Contract that would not vary from franchise to franchise. These terms would not be negotiable, meaning the resultant reduction in the scope of the draft Local Service Contract would bring further efficiencies to the procurement process and be more transparent.
- 2.13 The qualification system would be similar to the 'Pre-Qualification Questionnaire Passport System' used by TfL Buses to provide an effective system for establishing minimum thresholds for tenderers to participate in the procurement of bus franchises.
- 2.14 All potential bidders who have successfully satisfied the requirements of the Qualification System (Passport Holders) would be also required, as part of the Expression of Interest stage (see below), to confirm agreement to the terms and conditions set out in the Bus Services Framework Agreement ("BSFA") as a further condition of being considered for any franchise.

Expressions of Interest

- 2.15 As set out in the Assessment, at the start of the procurement of a particular franchise contract, Passport Holders who have confirmed their agreement to the terms and conditions set out in the BSFA would be issued with an Expression of Interest (Eoi). The Eoi would test economic and financial standing, the purpose being to ensure that operators are of sufficient size and financial robustness relative to each franchise opportunity. Passport Holders would also be provided with the remaining procurement documents, including the draft Invitation to Negotiation (ITN) and franchising agreement, as required by the UCR 2016.

Invitation to Negotiate

- 2.16 All respondents to the Eoi that meet the financial and economic standing requirements of that Eoi would be invited to the ITN stage. For large franchises, it is proposed that there would be a two-stage ITN process to provide a deselection stage (ITN Stage 1) an advance of final bid submissions (ITN Stage 2).
- 2.17 It is proposed that ITN Stage 1 takes place early in the ITN phase and ensure that an appropriately sized shortlist of bidders is taken forward to final bid submission.

- 2.18 ITN Stage 1 would require bidders to submit short proposals in response to a small number of franchise specific issues or requirements. These proposals would be evaluated to establish a shortlist of bidders to be taken to ITN Stage 2 and bid submission. The number of bidders to be shortlisted would be finalized prior to franchising and in normal circumstances is expected to be three. A right not to apply ITN Stage 1 for any franchise procurement would be reserved where the number of successful respondents to the EoI does not exceed the number of bidders to be shortlisted for that franchise. In such circumstances the submission requirements for ITN Stage 2 would be adapted to include any submission requirements anticipated at ITN Stage 1.

For small franchises, it is anticipated that the ITN phase would be limited to a single stage for small franchise contracts, rather than the two-stage process described above.

Evaluation, preferred bidder and contract close

- 2.19 As set out in the Assessment, bids would be evaluated and where the negotiated procedure is used for large and small franchises, this may result in a period of clarification. Sufficient time would be allocated for final bid evaluation, preferred bidder validation, contract finalization and approvals process, which includes internal governance and sign-off procedures in addition to the ten-day standstill period required by the UCR 2016.

Local Service Contracts for schools

- 2.20 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.

Local Service Contracts - Recommendations

- 2.21 In relation to the Local Service Contracts required for the implementation and operation of Tranche 1 of the Greater Manchester Franchising Scheme for Buses 2021, it is recommended that the GMCA:
- i. Agrees to commence the procurement process as set out in the Assessment and summarised above;
 - ii. Agrees to delegate to TfGM the authority to undertake and manage the above procurement process on its behalf subject to the following condition:
 - a) TfGM will recommend a preferred bidder in relation to each Local Service Contract; in relation to large Local Service Contracts the decision to award will be taken by the GMCA and in relation to small Local Service Contracts and contracts for schools the decision to award will be taken in accordance with the contract award delegations as set out in the GMCA Constitution.

3 ON BUS EQUIPMENT, OTHER EQUIPMENT, SYSTEMS AND ASSOCIATED SERVICES

- 3.1 In addition to the Local Service Contracts described in section 2 of this report, the procurement of a number of types of on-bus equipment, other equipment, systems and associated services is also necessary for the implementation and operation of the Franchising Scheme. Such equipment and systems may include, for example equipment to enable the driver to issue tickets and provide communications between drivers and the control centre.

On-bus equipment, other equipment, systems and associated services - Recommendations

- 3.2 In relation to on-bus equipment, other equipment, any systems and associated services which are necessary for the implementation and operation of the Franchising Scheme the GMCA is recommended to:
- i. Agree to commence the procurement of such on-bus equipment, other equipment, systems and associated services as required;
 - ii. Agree to delegate to TfGM the authority to undertake and manage the procurement process on its behalf (including the authority to determine the appropriate method of procurement if required and recommend preferred bidders);
 - iii. Agree to delegate authority to the GMCA Chief Executive to agree the award of, and final terms of, all necessary legal agreements;
 - iv. Agree to delegate authority to the GMCA Monitoring Officer to complete and execute all necessary legal agreements;
 - v. Agree to delegate to TfGM the function of managing any such contracts following their award, for the entirety of the contracts.

4 DEPOTS

- 4.1 The Assessment proposed a depot strategy whereby the GMCA controls a strategic depot for each large franchise, with those depots being made available to large franchise operators for the delivery of franchise operations. Those depots were identified due to their strategic importance. This strategy would reduce the impact on existing operators in the event of otherwise having a stranded asset and was also considered to reduce transition risks as it avoids a significant reorganisation of depot provision.
- 4.2 The depot strategy in the Assessment proposed that GMCA would voluntarily negotiate depot transfers from operators. In the event that this was not possible for all of the strategic depots, it was considered that GMCA could:
- Provide short-term temporary depot facilities;
 - Propose alternative delivery options, mainly that operators would initially be required to provide their own depots for large franchises;
 - Build new depots;
 - Seek to compulsorily purchase the existing strategic depots.

Depots - recommendations

- 4.3 In order to allow for the provision of the depots which are required for the purposes of providing local services under the large franchises, it is recommended that the GMCA:

- i. Agrees to proceed with the depot strategy set out in the Assessment;
- ii. Agrees to delegate to TfGM the authority to take any necessary or appropriate steps as required in relation to the implementation of the depot strategy.

Members are asked to note that a further report will be submitted by TfGM in due course to recommend appropriate next steps.

5 FLEET – RESIDUAL VALUE MECHANISM

- 5.1 As set out in the Assessment, the current expectation is that a proportion of existing fleet operating across Greater Manchester would transfer from incumbent operators to new operators via the Residual Value Mechanism (“the RV mechanism”). These mechanics may involve a direct transfer from incumbent operators to new operators. In establishing the RV mechanism incumbent operators would be encouraged to contract for the future transfer of their fleet in accordance with this mechanism mitigating the possibility of stranded or surplus assets if they do not win a franchise where they are currently operating. This would also allow GMCA to let local service contracts on the assumption that these vehicles were available. It should be noted that the larger operators may choose to cascade their assets into other parts (in the UK or elsewhere) of their fleet instead of utilising the RV mechanism. The RV mechanism would also reduce barriers to entry for new operators. The residual value mechanism also guarantees the future value of vehicles and those vehicles would transfer to the incoming operator as part of the relevant local service contract, and then transfer between operators when any local service contract was replaced in accordance with the RV mechanism. The transfer values assumed in the RV mechanism would be designed on solid commercial principles including paying cognizance to operator’s existing depreciation policies in order to ensure that the RV mechanism is commercially attractive. GMCA would specify the value of any vehicles put into that RV mechanism.

Fleet – Residual Value Mechanism - recommendations

- 5.2 The GMCA is recommended to:

- i. Agree to implement the RV mechanism proposals as set out in the Assessment.
- ii. To delegate to TfGM the authority to undertake any preparatory work necessary to establish, operate and manage the RV mechanism on its behalf and note that a further report will be submitted by TfGM in due course to recommend appropriate next steps.

6 RECOMMENDATIONS

The GMCA is requested to:

1. Note the contents of this report;

2. In relation to the Local Service Contracts required for the implementation and operation of Tranche 1 of the Greater Manchester Franchising Scheme for Buses 2021:
 - iii. Agree to commence the procurement process as set out in the Assessment and summarised in section 2 of this report;
 - iv. Agree to delegate to TfGM the authority to undertake and manage the above procurement process on its behalf subject to the following condition as set out in section 2 of this report –
 - a) TfGM will recommend a preferred bidder in relation to each Local Service Contract; in relation to large Local Service Contracts the decision to award will be taken by the GMCA and in relation to small Local Service Contracts and contracts for schools the decision to award will be taken in accordance with the contract award delegations as set out in the GMCA Constitution.
3. In relation to on-bus equipment, other equipment, any systems and associated services which are necessary for the implementation and operation of the Greater Manchester Franchising Scheme for Buses 2021:
 - vi. Agree to commence the procurement of such on-bus equipment, other equipment, any systems and associated services as required;
 - vii. Agree to delegate to TfGM the authority to undertake and manage the procurement process on its behalf (including authority to determine the appropriate method of procurement as required and recommend preferred bidders);
 - viii. Agree to delegate authority to the GMCA Chief Executive to agree the award of, and final terms of, all necessary legal agreements;
 - ix. Agree to delegate authority to the GMCA Monitoring Officer to complete and execute all necessary legal agreements;
 - x. Agree to delegate to TfGM the function of managing any such contracts following their award, for the entirety of the contracts.
4. Agree to proceed with the depot strategy set out in the Assessment and to delegate to TfGM the authority to take any necessary or appropriate steps as required in relation to the implementation of the depot strategy. Members are asked to note that a further report will be submitted by TfGM in due course to recommend appropriate next steps.
5. Agree to implement the RV mechanism proposals as set out in the Assessment and to delegate to TfGM the authority to undertake any preparatory work necessary to establish, operate and manage the RV mechanism on its behalf and to note that a further report will be submitted by TfGM in due course to recommend appropriate next steps.