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26 September 2019

Dear Sirs

Independent Reasonable Assurance Report on Transport for Greater Manchester's (TfGM) assessment of a proposed franchising scheme

Call Off Contract dated 28 June 2019 for the provision of corporate finance Services by Grant Thornton UK LLP (as "Supplier") to Transport for Greater Manchester (as "Customer") pursuant to the Corporate Finance Services Framework Agreement (RM 3719) dated 6 June 2016 between the Minister for the Cabinet Office acting through Crown Commercial Service as the Authority and the Supplier

This Independent Reasonable Assurance Report (the "Report") is made in accordance with the terms of our call off contract dated 28 June 2019 (the "Engagement Letter") (under the Corporate Finance Services Framework Agreement (RM3719)). The purpose is to report to TfGM in connection with its requirement for Grant Thornton UK LLP to review its assessment of a proposed bus franchising scheme (the "Assessment"¹) as prepared in accordance with the Transport Act 2000 (as amended by the Bus Services Act 2017 (together the Act)). The Report is prepared to comply with section 123D of the Act and as a result, this Report may not be suitable for any other purpose other than that set out in the Act.

Background

In June 2017, the Greater Manchester Combined Authority (GMCA) decided to prepare an assessment of a proposed bus franchising scheme in accordance with the Act. TfGM were instructed to prepare the same on GMCA's behalf, in accordance with the requirements of the Act and the Franchising Scheme Guidance (the "Guidance").²

¹ The Assessment we have reviewed includes the five case business case and associated supporting papers, other supporting material that underpins the Assessment, the report to the Combined Authority ("CA report 26.9CFA.docx.docx") received on 26 September and the clarification responses provided to us by TfGM.

² https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/694428/bus-services-act-2017-franchising-guidance.pdf

In June 2019, TfGM's Assessment was completed and approved by the GMCA. The GMCA also decided to proceed to the next step in the Act by instructing TfGM to obtain, on its behalf, a report from an independent audit organisation. Following that instruction, Grant Thornton UK LLP (Grant Thornton, we or us) was instructed to prepare the Report.

Responsibilities of TfGM

Per our Engagement Letter, TfGM's responsibilities in relation to this Report included but were not limited to:

- preparing the Assessment of a proposed bus franchising scheme
- providing us with any such information as may be reasonably requested by us in connection with the preparation of this Report
- responding to any queries that may be raised by us and ensuring that there were appropriate resources available to respond to such queries
- any such other matters as may be agreed by the parties and set out in the implementation plan in our Engagement Letter (the "Implementation Plan").

TfGM have provided us with a management letter of representation (dated 25 September 2019) confirming they have provided us with the information they believe we require in relation to the requirements of the Act and the Guidance.

Our responsibilities

Our responsibility is to provide a report and express an opinion in relation to the following areas required by the Act:

- whether the information relied on by TfGM in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality
- whether the analysis of that information in the Assessment is of sufficient quality
- whether TfGM had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.

As per paragraph 1.87 of the Guidance, our role is not to report or pass judgement on the decisions taken by TfGM or the outcomes of the assessment – our role is purely to consider the process that has been followed, the accuracy and robustness of the information that has been used in the analysis, and that the mechanics of the process have been carried out correctly. Paragraph 1.85 requires us to take into account the quality and timeliness of any information received from bus operators and the following criteria:

- whether the information used comes from recognised sources
- whether the information used is comprehensive or selectively supports the arguments in favour of, or against, any particular option
- whether the information used is relevant and up to date
- whether the assumptions recorded as part of the Assessment are supported by recognised sources
- the mathematical and modelling accuracy of the analytical methods used to calculate the impacts of the options.

We conducted our work in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), "Assurance engagements other than audits and reviews of historical financial information". Applying ISAE 3000 (Revised) to this engagement, requires us to conclude whether the Assessment has been prepared, in all material respects, in accordance with the requirements of 123D of the Act.

For the avoidance of doubt, our evaluation of the Assessment does not constitute a statutory audit under the Local Audit and Accountability Act 2014 nor is our evaluation of the Assessment conducted in accordance with auditing standards issued by the Financial Reporting Council.

We applied International Standard on Quality Control 1 to our work and accordingly maintained a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

Our approach to meeting the requirements of 123D of the Act was as follows:

- We have reviewed all the documentation provided by TfGM.
- Our work was conducted in line with the Act and the Guidance under the following workstreams:
 - **Process** – in line with paragraph 1.87 of the Guidance, our work considered how the Assessment has been prepared and whether TfGM followed the requirements of the Act and the Guidance.
 - **Assessment review** – this element of the work evaluated the quality of the analysis undertaken, the quality of the information used, whether the analysis of that information was of sufficient quality and whether TfGM had due regard to the Guidance.
 - **Base data including bus operator data** – this element of the work evaluated the quality and timeliness of the information used to underpin the Assessment of whether the analysis of that information was of sufficient quality and whether TfGM had due regard to the Guidance.
 - In relation to the Financial Model, Demand and Revenue Models, Cost-Benefit Analysis Models and Wider Economic Benefits Analysis Models (together “the Models”)³ we have undertaken:
 - **Calculation reviews of the Models** – this element of the work evaluated the quality of the analysis undertaken and the arithmetical accuracy of the analytical methods used
 - **Technical/Methodological/Analytical reviews of the Models** – in line with the Guidance, this element of the work evaluated the quality of the analysis undertaken and the quality of the information used

Section 123B (3) (d) and (e) of the Act requires the Assessment to include consideration of whether the proposed scheme is affordable and represents value for money. In reviewing the Assessment we set a threshold for materiality at a level where a finding is considered material if it demonstrates the proposed scheme would no longer be affordable or represent value for money and would not be consistent with Section 123B (3) (d) and (e) of the Act. During our work we identified and collated a number of observations in relation to the Assessment which we have reported to TfGM. None of these issues were considered to be sufficiently material for us to issue a modified conclusion.

Inherent limitations

The procedures we have performed do not constitute an examination made in accordance with International Standards on Auditing (UK). Our Report relates only to the Assessment and does not

³ The Models are spreadsheets and other electronic files provided to us by TfGM and the titles referenced are consistent with those used in the Assessment.

extend to any financial statements of TfGM nor the statutory financial statements of any of the bus operators on which the Assessment is based.

The procedures we have undertaken have not considered the whole internal control system in place at TfGM nor have we tested elements of the internal control system other than those used for the preparation of the Assessment which we considered necessary for us to be able to provide an opinion on the three matters required under the Act.

The process of modelling on which the Assessment is based, necessarily involves a simplified representation of the real-world, using a set of data and input assumptions and calculations to provide forecasts that inform decision making. As a result, there is inherent uncertainty over any forecasts or projections calculated by a model as these are based upon a series of assumptions from which future actual outcomes may differ.

This Report has been prepared by Grant Thornton UK LLP for our client TfGM in line with the terms and conditions of our Engagement Letter dated 28 June 2019 and its associated Implementation Plan dated 27 August 2019. For the avoidance of doubt, the terms and conditions of that engagement, including but not limited to the parties' respective liability, shall apply.

Conclusion

In our opinion, in all material respects:

- the information relied on by TfGM in considering the matters referred to in section 123B(3)(d) of the Act (the affordability of the scheme) or section 123B(3)(e) of the Act (the value for money of the proposed scheme) is of sufficient quality
- the analysis of that information in the Assessment is of sufficient quality
- TfGM had due regard to the Guidance issued under section 123B of the Act in preparing the Assessment.

Use of our report

This Report is made solely to TfGM, as a body, in accordance with the terms of our Engagement Letter. Our work has been undertaken so that we could prepare a report on the Assessment, which includes providing an opinion on the matters required under the Act. We acknowledge that both TfGM and the GMCA (which is bound by terms signed by TfGM) may rely on the contents of the Report and that the Report may be used by both TfGM and GMCA in accordance with the provisions of the Act. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than to TfGM and GMCA, as a body, for our work, for this report, or for the conclusions we have formed.



Grant Thornton UK LLP

Chartered Accountants

London

26 September 2019