

Greater Manchester Combined Authority

Date: Friday 25th October 2024

Subject: Bus Franchising Fleet – Part A

Report of: Andy Burnham, Mayor of Greater Manchester, Portfolio Lead for Transport and Caroline Simpson, Group Chief Executive, GMCA, GMFRS & TfGM

Purpose of Report

This report details a number of bus franchising fleet related proposals in preparation for the introduction of the third and final tranche of bus franchising on 5th January 2025; and to support bus services across the rest of the Bee Network.

Recommendations:

The GMCA is requested to:

1. Approve the following bus fleet transactions, and approve borrowings of up to £71.2m to fund those transactions:
 - a. Purchase of 72 Euro VI diesel buses from Greater Manchester Buses South Limited (Stagecoach) to replace 'life expired' and other older vehicles and to strengthen services;
 - b. Purchase and novation of 94 zero emission electric buses (ZEBs) from Stagecoach and Go North West in order to reduce operational costs in future years, via a reduction in the service fee payable to franchise operators; and
 - c. Short term grant funding to Greater Manchester Buses South Limited (Stagecoach) for 'ZEBRA' ZEBs that were procured initially by Stagecoach prior to the award of contract for Tranche 3 for reallocation across franchises.
2. Approve the continued use the GMCA financial contribution from grant funding of up to £12.5m for the Volvo 'ZEBRA' fleet, to support the proposed revised allocation of the ZEBRA fleet.

Contact Officers

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Equalities Impact, Carbon and Sustainability Assessment:

Equalities

The introduction of electric buses and the removal of older fleet will help improve the bus fleet for bus users in GM who will benefit from a modern fleet of buses that incorporate improved standards of passenger ambience and accessibility when compared to the current diesel fleet. Bus specification has been designed to minimise issues which could result from electric vehicle performance in relation to passenger safety such as vehicle acceleration and lack of noise to inform / warn deaf pedestrians that the vehicle is coming.

Carbon and Sustainability

The investment in Zero Emission Buses in particular, but also that in Euro VI bus technology that will displace older fleet, will have a positive impact on the environment and air quality in GM and will contribute to the goals of the GM Investment Led Clean Air Plan. Bus passengers will benefit from a modern fleet of buses with a reduced environmental footprint when compared to the current diesel fleet.

The Zero Emission buses referenced in this report are a component of a broader ambition to transition the full GM bus fleet to Zero Emission Buses. This is forecast to reduce transport sector CO₂e emission by approximately 100,000 tonnes of CO₂e by 2038 contributing to the GM ambition to become carbon neutral by 2038.

Risk Management

The risks of not entering into the various agreements set out in the report include the potential for a shortage of fleet and / or older, lower emission standard fleet operating on the Bee Network.

The opportunities include having Bee Network branded and Bee Network specified fleet earlier than would be the case if new fleet had to be acquired; and the potential to generate cost savings across the remaining asset life of the fleet.

Legal Considerations

Legal advice has confirmed that the purchase of the buses contained within this report is not a subsidy for the purposes of the Subsidy Control Act 2022 on the basis that a fair market value is being paid for the vehicles, which does not confer an economic advantage on the bus operator. The necessary legal agreements will be entered into to allow grant

funding to be paid to the operators and to incorporate the buses into the relevant franchise agreements.

Financial Consequences – Revenue

The purchase and novation of 94 zero emission electric buses (ZEBs) from Stagecoach and Go North West in order to reduce operational costs in future years, via a reduction in the service fee payable to franchise operators.

Further detail on the financial implications is included in the Part B report on this agenda.

Financial Consequences – Capital

The 72 Euro VI buses are to be funded from borrowings, which would otherwise have been incurred at a later date, the costs of which can be managed within this year's budget; and are included in future years' financial forecasts.

The purchase and novation of 94 zero emission electric buses (ZEBs) from Stagecoach and Go North West is to be funded from borrowing, the costs of which can be managed within this year's budget; and are included in future years' financial forecasts.

The short term grant funding to Greater Manchester Buses South Limited (Stagecoach) for 'ZEBRA' ZEBs that were procured initially by Stagecoach prior to the award of contract for Tranche 3 will be recovered in full, from franchise operators in the current financial year. Any costs associated with the additional short term funding can be managed within this year's budget.

Further detail on the financial implications is included in the Part B report on this agenda.

Number of attachments to the report: None

Background Papers

GMCA Report 25/10/2024 Bus Franchising Fleet – Part B

GMCA Report 28/01/2022 Bid to the Zero Emission Bus Regional Areas (ZEBRA) Fund

GMCA Report 29/07/2022 Delivering the Bee Network: Bus Fares, Zero Emission Buses, Bus Depots and CRSTS

GMCA D-3 Notice Friday 24th March 2023 - Allocation of funding for the purchase of 170 zero emission buses.

Tracking/ Process

Does this report relate to a major strategic decision, as set out in the GMCA Constitution?

Yes

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?

No

Bee Network Committee

N/A

Overview and Scrutiny Committee

N/A

1. Introduction

1.1. This report requests approval from the Combined Authority for a number of bus franchising fleet related decisions in preparation for the introduction of the third and final tranche of bus franchising on 5th January 2025; and to support bus services across the rest of the Bee Network, as set out below.

1.2. The benefits of the proposals within the report include:

- Access to a fleet of circa 9 month old 72 Bee Network branded and Bee Network specified fleet a year in advance than would be the case if we were to undertake a new procurement exercise, which will replace old diesel fleet in Tranche 2 that would otherwise operate a year longer than anticipated;
- Replacing a number of old Yellow School Buses in Tranches 1 and 2 which cannot currently be 'interworked' between school and general network services. The allocation of a number of the 72 vehicles would allow for 'interworking' in the Large Franchises;
- Improving punctuality and reliability - and reducing operational costs - relative to the costs of operating and maintaining older fleet;
- Providing fleet to strengthen existing franchised services across the network;
- Reducing future annual operational costs by using GMCA borrowings (which have a lower cost than operators cost of capital) to fund the full costs of 94 Zero Emission Buses, rather applying than the current model of funding the incremental Zero Emission costs only. Should there be an opportunity to fund the full amount from capital grants, the annual savings in operational costs would increase significantly; and
- Confirming the revised allocations of the DfT funding for the 170 'ZEBRA' vehicles.

2. Stagecoach Fleet Procurement

1.3. Stagecoach and TfGM have been negotiating the potential acquisition by TfGM of 72 Stagecoach ADL Diesel Euro VI, Bee Network branded and Bee Network specified, double deck buses. These buses are currently operated by Stagecoach in the south of Greater Manchester (GM) and, if not acquired by TfGM, would be

cascaded by Stagecoach to their other (non-GM) operations upon the commencement of Tranche 3 in January 2025.

- 1.4. By January 2025, these buses will be circa 9 months old and, if retained in GM, would be used to:
 - Replace 37 older 'interim' diesel fleet, of a lower emissions standard, which would otherwise have to operate for a further circa 12 months;
 - Replace 18 hybrid Yellow School Buses currently operating in Tranches 1 and 2; and
 - Provide 12 additional buses to strengthen services.
- 1.5. Agreement has been reached with Stagecoach to acquire the 72 buses with the cost benchmarked against the equivalent cost of purchasing 'second hand' non Bee Network branded / specified fleet; and against the scenario whereby the vehicles were not available to acquire and we, instead, had to retain the older vehicles, and order the additional fleet via a procurement exercise, which would take c9-12 months, and fund that order from borrowings.
- 1.6. Given the challenges with electrifying depots, beyond those already electrified and those in the process of being electrified, any procurement of new vehicles would, at this stage, need to be for OEM Euro VI buses.
- 1.7. TfGM is proposing to purchase of 72 Euro VI diesel buses from Greater Manchester Buses South Limited (Stagecoach) to replace life expired and other older vehicles and to strengthen services to be funded from borrowings that would otherwise have been incurred at a later date, the costs of which can be managed within this year's budget; and are included in future years' financial forecasts.

3. 94 Zero Emission Buses

- 1.8. On 22 February 2024, the Bee Network Committee approved a drawdown of £20.8m from the City Region Sustainable Transport Settlement (CRSTS) to enable the procurement of 94 ZEBs by franchise operators. The report noted that the £20.8m would be used to fund the incremental cost difference between a new ZEB and a new Euro VI diesel vehicle. And, whilst TfGM would pay for the incremental Zero Emission costs, the operators would, under the Franchise Agreements, be required to pay the underlying diesel element cost of the buses.

- 1.9. Were GMCA to also finance the underlying diesel element cost of the 94 ZEBs that would reduce operational costs in future years, via a reduction in the service fee payable to franchise operators. Should there be an opportunity to fund the full amount from capital grants, the annual savings would increase further. Options to use grant funding to repay the proposed initial borrowing for this transaction are currently being explored

4. 170 ZEBRA Funded ZEBs

- 1.10. In January 2022 approval was given by GMCA to delegate approval to the Chief Executive Officer, TfGM & GMCA, to approve and submit the GMCA ZEBRA fund bid that was produced in collaboration with Stockport MBC and Stagecoach Group PLC.
- 1.11. The bid was successful, with DfT funding of £35.7m (of which £28.2m for fleet and the balance for associated infrastructure) awarded, alongside Stagecoach investment of £37.2m and GMCA investment of £12.5m to support the introduction of 170 zero emission buses (ZEBs) for use in Stockport. An order for 170 ZEBs was placed by Stagecoach, with Volvo, in March 2023.
- 1.12. There have subsequently been delays with the order for the 170 ZEBs and as a result only part of the order is due to arrive this year, with the rest due to arrive in 2025. The delivery of the fully electric depot in Stockport has, as previously reported, also been delayed. As a result, the ZEBRA fleet will be reallocated across the Bee Network, as follows
- 110 of the ZEBs will be allocated to Metrolink across their Tranche 3 franchises;
 - 43 of the ZEBs will be allocated to Stagecoach to operate in the Middleton Tranche 2 franchise; and
 - 17 of the ZEBs are currently unallocated but will be allocated.
- 1.13. The Department for Transport (DfT) have been made aware of the changes and have agreed that the DfT funds can still be used to support the introduction of the 170 ZEBs, despite the revised proposals to allocate the fleet as set out above. As a result, the Combined Authority is requested to approve the continued use of the GMCA financial contribution of £12.5m for the proposed revised allocation of the ZEBRA fleet.

- 1.14. To facilitate the transfer of grant funding to Stagecoach, TfGM and GMCA would enter into a grant agreement with Stagecoach. This would allow TfGM to release the grant funding to Stagecoach to pay Volvo as and when the buses are delivered. This grant agreement will also include a requirement on Stagecoach to facilitate the transfer of the ZEBs to Metroline and TfGM, as appropriate.
- 1.15. It is currently estimated that 69 of the 110 buses to be allocated to Metroline across their Tranche 3 franchises will be delivered by 5 January 2025. This will result in a short term funding requirement that will then be recovered in full, from Metroline, by 5 January 2025.
- 1.16. 17 of the ZEBRA fleet are currently unallocated and this means that initial ownership of those buses will transfer from Stagecoach to TfGM, and will also result in a short term funding requirement that will then be recovered in full, from the operator(s) in this financial year once allocated to one or more franchises.
- 1.17. Following delivery of the new Zero Emission Bus Depot in Stockport, the proposal is to transfer the originally allocated ZEBRA fleet (or potentially a mix of the originally allocated ZEBRA fleet and other, newer, Zero Emission buses) to the new Stockport Zero Emission Bus depot. The proposals and the design for the new depot in Stockport do not include any provision to operate a diesel fleet.