

# GMCA Overview and Scrutiny Committee

**Date:** 24 August 2022

**Subject:** Greater Manchester Bus Service Improvement Plan – Fares Proposal

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

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## Purpose of Report

To update members of the Overview and Scrutiny Committee on the Greater Manchester Bus Service Improvement Plan (BSIP), which includes proposals to use a proportion of those funds to reduce bus fares, both in response to the cost of living crisis; and to grow patronage.

## Recommendations:

The GMCA Overview and Scrutiny Committee is requested to:

1. Note the indicative award of £94.8m for the Bus Service Improvement Plan and the proposal to use a proportion of those funds for bus fare reductions in response to the cost of living crisis; and to grow patronage;
2. Note the proposal for lower bus fares via maximum £2 single fares (£1 for children), and a maximum £5 (£2.50 for children) all operator day ticket, from September 2022, subject to final agreement with Government and bus operators; and
3. Note the progress that has been made towards the implementation of lower bus fares.

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# 1. Introduction/Background

- 1.1 GM's move to bus franchising provides the mechanism to deliver transformational change in bus service delivery. This all builds towards delivering the Bee Network, an integrated 'London-style' transport system, which will transform the way people travel across the city region.
- 1.2 The locally funded programme to transition to franchising will be supplemented by government funds, including via the City Region Sustainable Transport Settlement (CRSTS) and from funding for the Bus Service Improvement Plans (BSIP). At the same time, Greater Manchester is facing uncertain passenger numbers and economic forecasts as the city region recovers from the pandemic. Since March 2020, Greater Manchester's public transport network has been supported by emergency funding provision from central Government which is currently scheduled to expire in early October 2022.
- 1.3 The initial GM BSIP submission<sup>1</sup> made in October 2021 included ambitious asks from GM over the three financial years 2022/23, 2023/23 and 2024/25 for circa £300 million of revenue funding (including stabilisation / 'recovery' funding of c£30m per annum i.e. £90m in total) and £600 million of capital funding over three years from 2022/23 to 2024/25. GM and other Mayoral Combined Authorities were subsequently advised that:
  - their BSIP allocations would be revenue funding only; and any capital elements should be funded from the GM CRSTS allocation; and
  - stabilisation / 'recovery' funding would, for a period, be provided via a separate source and that the BSIP funding should be applied to 'transformational' interventions in the bus market rather than for stabilising bus (or indeed the Metrolink) network.
- 1.4 On 4<sup>th</sup> April, the Secretary of State (SoS) for Transport awarded GMCA an indicative BSIP allocation of £94.8m revenue funding, conditional on GM and DfT agreeing a Delivery Plan that would need to be submitted by 30th June, with the SoS setting HM Government's priorities for BSIP as fare reductions to improve passenger affordability and for additional bus priority (funded from CRSTS) to help improve bus performance

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<sup>1</sup> <https://tfgm.com/corporate/bus-service-improvement-plan>

and hence drive patronage and revenues and also to reduce bus service operating costs.

1.5 Reports were presented to GMCA in June and July 2022 in relation to BSIP and particularly in relation to proposals relating to bus fares reductions.

1.6 This paper presents:

- The decisions made by GMCA in relation to lower bus fares;
- The evidence that supported these decisions; and
- An update on the implementation of the proposals.

## **2. Fares Proposal Decision and Rationale**

2.1 On 24<sup>th</sup> June, GMCA approved a BSIP<sup>2</sup> that included a proposal, in order to act to help mitigate the cost of living crisis, to deliver fares reductions 15 months earlier than was previously anticipated in the October 2021 BSIP submission, conditional on agreeing arrangements with operators and funding with government, that would see maximum £2 singles fares (maximum £1 for children) introduced GM wide, with a maximum £5 (£2.50 for children) all operator day ticket, on an initial one-year basis.

2.2 In approving this proposal, GMCA considered:

- the challenges and opportunities facing the public transport network and the conditions and details for the Market Renewal programme of work as set out in the report (see footnote 2);
- the indicative award of £94.8m for the Bus Service Improvement Plan and the proposal to initially use these funds for bus fare reductions in response to the cost of living crisis; and
- the plan for lower bus fares via maximum £2 single fares (£1 for children), with a maximum £5 day ticket (£2.50 for children), from September 2022, subject to agreement with Government and bus operators.

2.3 A further consideration of significance was the development of a Network Review, which was a condition of recovery funding from the Department for Transport. This involved TfGM engaging with bus operators to understand their commercial response to the ending of Government funding support from early October. Operators notified

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<sup>2</sup> <https://democracy.greatermanchester-ca.gov.uk/documents/s21089/16%20BSIP%20Network%20Review%20and%20Market%20Renewal.pdf>

TfGM that in the absence of further funding they planned to withdraw or reduce the frequency of services which would be significant in terms of accessibility to the network and accessibility for residents through the network in order to reach employment, education and key services such as health facilities. The degradation of the network would also hinder further recovery in revenue and patronage whilst undermining future opportunities for network growth and development as Greater Manchester transitions towards bus franchising.

- 2.4 In response, TfGM developed an approach to network stabilisation which would see withdrawn or reduced services replaced at current frequencies, up to a maximum of four buses per hour, and with the exception of minor variants where there is no negative impact on network coverage. This approach was recently considered and endorsed by the GM Transport Committee.<sup>3</sup>
- 2.5 At the 25<sup>th</sup> July 2022 meeting, GMCA were informed that discussions had commenced with bus operators on the proposal to reduce fares and; subject to an agreement being reached with operators, and receipt of funding from Government, were recommended to approve allocation of BSIP funds to implement reduced fares, noting that the fares initiative would be supported by a targeted public transport campaign to drive patronage as part of a wider programme of insight-led network and market renewal
- 2.6 The GMCA agreed to delegate authority to the Chief Executive Officer, GMCA & TfGM, in consultation with the Mayor of Greater Manchester, to allocate Bus Services Improvement Plan (BSIP) funding of £68 million, over the three year period 2022/23, 2023/24 and 2024/25, to reduce bus fares to a maximum of £2 single fares (£1 for children), with a maximum £5 day ticket (£2.50 for children), from 1 September 2022, subject to agreement with Government and bus operators.

### **3. Fares Proposal Considerations**

- 3.1 The evidence presented to GMCA to aid its decision-making included in relation to:
- The estimated costs of the proposals;
  - The funding for the proposals in the context of the overall three year, and beyond, forecast revenue funding position; and
  - The legal and other mechanisms to deliver the proposals (see Section 4).

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<sup>3</sup> <https://democracy.greatermanchester-ca.gov.uk/documents/s22177/GMTC%2020220812%20Bus%20Network%20Review.pdf>

3.2 The following sections present summaries in relation to each of the above.

### **Estimated Cost of the proposals**

3.3 The estimated total cost of introducing the maximum £2/£1 bus fares and holding them at those cash values across the period from September 2022 to March 2025 is c£40m.

3.4 The option to also introduce £5/£2.50 bus day tickets is estimated to cost an additional £28m across the same period.

3.5 The overall estimated cost of the proposals is therefore c£68m in total. The costs include:

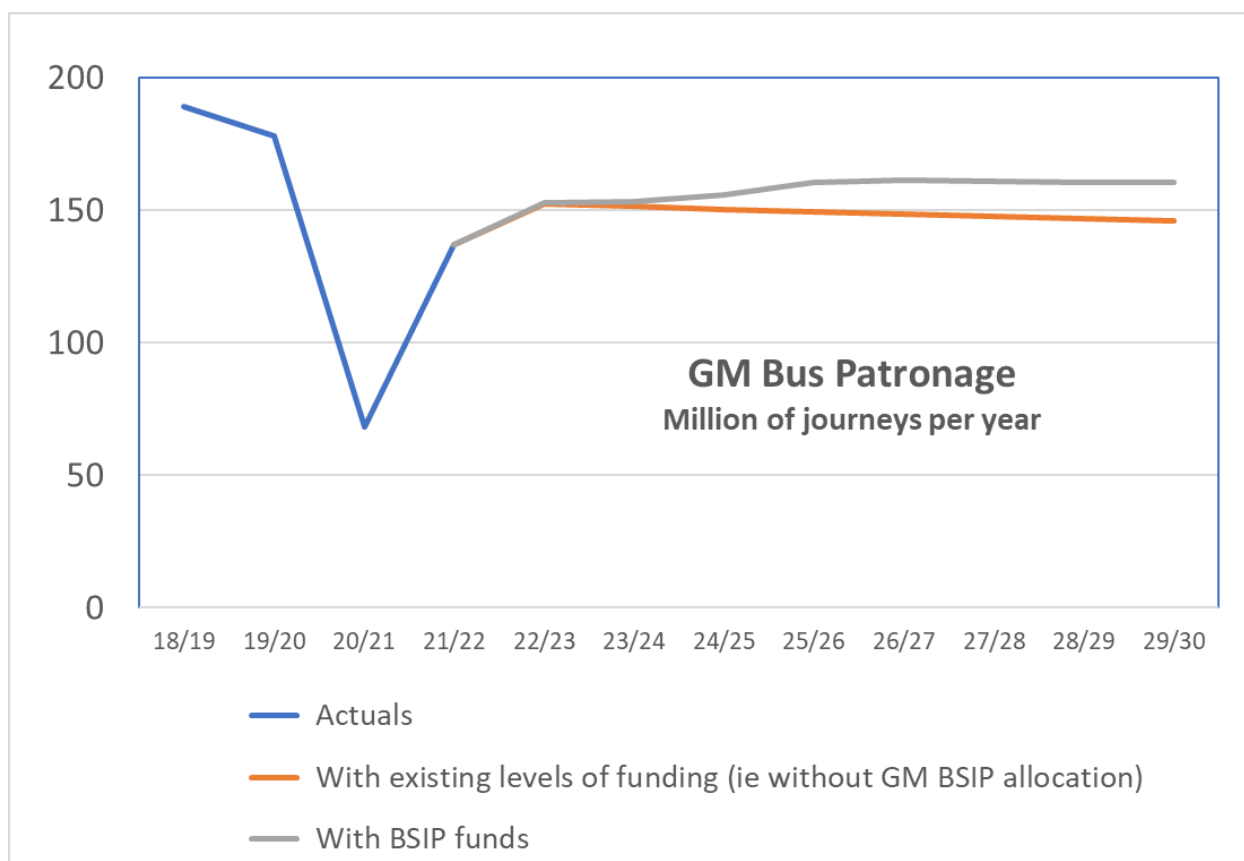
- the estimated amounts to reimburse operators on a 'no better, no worse' basis for their reduced revenue in advance of franchising and for 'lost revenue' to GMCA once services are franchised; and
- the costs of additional services to manage additional demand as a result of additional, predominantly peak, capacity requirements, resulting from the fares reductions.

3.6 These amounts are very sensitive to a number of factors including future patronage demand and future rates of inflation and the impact of those rates of inflation on fares policy. There will be a clear focus on managing costs and those costs that can be, at least in part, mitigated by effective travel demand management.

3.7 The ongoing cost, from the end of the BSIP period from April 2025, of funding the full set of fares reductions will be dependent upon post March 2025 demand, fares policy and costs; with the net cost to GMCA being dependent upon the extent of BSIP and / or other Government funding beyond March 2025.

3.8 The initial GM BSIP submission in October 2021, which included c£300 million of funding over a three year period, projected to move bus patronage back to pre-pandemic levels by the late 2020s. As set out in the graph below, with existing levels of funding (i.e. without the GM final BSIP allocation of £94.8 million), bus patronage is forecast to stabilise at circa 150 million journeys per annum from 2022/23. The BSIP funding, including for reduced fares is forecast, for financial planning purposes, to increase patronage by 4% i.e. from 150 million journeys to 156 million by March 2025; and then subsequently stabilise at circa 160 million from 2025/26.

## GM Bus Patronage Actual and Projections



### Funding the proposals

- 3.9 The report to GMCA on 24 June noted that, given the challenges and opportunities facing the public transport network, including that, with franchising, GMCA will bear the long term impact on revenue of the fares proposals; and that without the commitment for further funding from Government in place, combined with an agreed local funding strategy, GMCA were not in a position to commit to the proposal in full at the present time.
- 3.10 It was therefore proposed that the proposals be introduced on an initial one year basis, from September 2022 to August 2023, with a commitment to review the delivery by Summer 2023. The review, which would require information from operators, would determine whether the policy is achieving its objectives and whether it would be affordable to GMCA to continue to hold the fares at these levels. The period to Summer 2023 would also allow GMCA to better understand and hence forecast both the ongoing costs of operating the network and future demand and revenue.
- 3.11 It was agreed at the 24<sup>th</sup> June meeting of GMCA that the one-year bus fares' reduction would be funded from the GMCA's BSIP allocation, subject to agreement with

Government, noting that an indicative budget of up to £25 million, from the £94.8 million GM BSIP allocation, had been estimated.

### **Three year, and beyond, forecast revenue funding position**

3.12 The overall revenue funding position over the period to March 2025 is complex and complicated, due, but not limited, to the following:

- The ongoing impacts of the pandemic on bus and Metrolink patronage and revenues and the Government's previously stated position that the funding to 4<sup>th</sup> October this year will be the final recovery funding.
- Significant cost pressures faced by TfGM and operators as a result of inflation and other changes caused by ongoing uncertainty faced by operators and other suppliers, including difficulties in recruiting and retaining key staff; and the impacts that may have on patronage and revenues.
- The estimated net cost of stabilising the bus network is up to c£100m over the period to March 2025.
- GM taking revenue risk on bus on a phased basis from September 2023 as franchising is rolled out.
- The funding that GM has been allocated from BSIP amounts to less than half the total amount requested in the original BSIP submission.
- The requirement to fund c£20m (over three years) of revenue / opex costs relating to capital that was, at Governments' direction, moved from BSIP to CRSTS.
- The pre-pandemic funding model for Metrolink is threatened as it relied on net revenues to fund costs of historic borrowing and the costs of future years' renewals and enhancements, which has been significantly impacted by the pandemic.

3.13 The proposal to introduce the fares reductions from September this year was therefore made in the context of GMCA understanding that:

- Bus and Metrolink patronage are yet to recover from C-19 and ongoing financial support will also be required in the medium term to maintain service levels, whilst we recover patronage to enable the region's economic growth and to encourage mode shift;

- Investing significantly to reduce fares reduces GMCA's ability to intervene to support services in the event of further degradation of the bus network during the transition to a fully franchised network, beyond the approach to Network stabilisation recently endorsed by the GM Transport Committee<sup>4</sup>; and
- With the removal of recovery funding in early October, GMCA have previously recognised the requirement to use Reserves to cash-flow the Metrolink operating account on a temporary basis (i.e. those Reserves will subsequently need to be 'repaid'). The amount required from Reserves is estimated at c£16m this Financial Year, after Government funding of £20.5m; and c£36m per annum in subsequent years, primarily to fund the costs of historic borrowings.

3.14 GMCA were also aware that the options to mitigate those strategic financial risks, beyond the temporary use of Reserves include:

- 'Bringing forward' Earnback funding from the period beyond 2025;
- Potential additional funding that could be generated from other local funding sources; and
- Additional Government, or other, funding over the period to March 2025 (and particularly in 2024/25) beyond the current Covid support and beyond the £94.8 million BSIP allocation.

## **Delivery Mechanisms**

3.15 To deliver the fare reduction proposals certain other Local Transport Authorities are seeking to do this through an Enhanced Partnership. This is not an option for GMCA within the context of the franchising scheme, and timetable, which GMCA are already in the process of implementing.

3.16 The alternative is to use other Powers of Competency held by the Local Transport Authority, combined with consent from the Operators, in a similar way to the basis on which the Our Pass pilot scheme was previously implemented.

3.17 This approach would also use the local concessionary reimbursement scheme to introduce the child maximum fares.

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<sup>4</sup> <https://democracy.greatermanchester-ca.gov.uk/documents/s22177/GMTC%2020220812%20Bus%20Network%20Review.pdf>



## 4 Latest Position and Next Steps

### Engagement with Operators

- 4.1 TfGM has been engaging with the bus operators through both Greater Manchester Travelcards Limited, the company which operates the scheme for multi operator travel products in GM, and directly with bus operators on a bilateral basis to discuss and agree the principles for the implementation of the scheme.
- 4.2 The legal basis on which this scheme is being introduced is that fare capping initiatives such as this, are general rule maximum tariff obligations. Such general rules related to maximum fares are specifically permitted under UK law under Article 3(1) Regulation 1370/2007 EU, as incorporated into UK law.
- 4.3 To meet the requirements of such a general rule, it is necessary that compensation is provided to operators for the net financial effect (positive or negative) on costs incurred and revenues generated in complying with the tariff obligation, to prevent over-compensation. [*Art 3(1) Regulation 1370/2007*]. These requirements effectively require a no-better no-worse outcome in order to put each operator in a position equivalent to that which they would have been in, in the absence of the scheme requirements.
- 4.4 The requirement is that fares are capped at this maximum tariff, so there remains the ability for operators to price under the maximum tariff cap and compete on price.
- 4.5 In order to ensure the scheme meets these legal requirements GMCA/TfGM has agreed a number of key principles with GMTL and with individual operators in order to meet the 'no better, no worse' reimbursement basis, whereby:
  - GMTL / Operators will be reimbursed for 'revenue foregone' for journeys that would have occurred anyway in the absence of the scheme;
  - Where additional costs are incurred as a result of additional journeys these will be reimbursed appropriately by GMCA/TfGM; and
  - The level of fares changes that would have been made in the absence of the scheme ('shadow fares') and which are used as the basis of reimbursement, need to be evidenced, for example, via a published benchmark or other locally available data.
- 4.6 These principles have been developed into a set of proposals whereby:

- For an initial period of up to 6 months, TfGM will reimburse for 100% of revenue foregone against a 'shadow fare', subject to an agreed increase in sales over and above a baseline level, which will be agreed as part of operator data exchange and the implementation arrangements;
- TfGM will work with each operator to establish a baseline patronage against which reimbursement for future periods can be assessed;
- After 6 months, reimbursement will be against this revised baseline, with any changes arising from the revised baseline being factored into subsequent payments on an ongoing basis; and
- The 'shadow fare' will be allowed to increase if the proposed increase can be evidenced, for example, via a published benchmark or other locally available data.

4.7 Whilst, and as noted above, the estimated costs of the fares proposals are very sensitive to a number of factors including future patronage demand and future rates of inflation and the impact of those rates of inflation on fares policy, the current estimates are that the proposals can be delivered within the estimated three year budget of c£68 million.

4.8 However, and as also noted above, the ongoing uncertainty surrounding the public transport market means that GMCA will need to keep these proposals and public transport fares levels under review on an at least annual basis. The review will need to consider:

- the extent to which the fares offer is delivering benefits to existing users, while also attracting people out of cars;
- the extent to which bus and Metrolink services levels are meeting minimum levels of network coverage required to support the foundational economy;
- feedback on the operational performance of the networks, including feedback on franchise operations as they are rolled out;
- feedback from stakeholders including passengers, local authorities and business;
- the requirements for additional local and national funding to support the bus and Metrolink networks (services and fares); and
- the requirements to manage reserves appropriately.

## **Engagement with Government**

- 4.9 The Department for Transport confirmed GM's indicative allocation of BSIP funding in April conditional on agreeing a Delivery Plan for the funding. TfGM submitted the Delivery Plan at the end of June. Final Ministerial confirmation of GM's BSIP allocation is expected to be received in advance of the implementation of the fares proposals on 4<sup>th</sup> September.