

## GMCA Overview and Scrutiny Committee

Date: Wednesday 26<sup>th</sup> July 2023

Subject: Delivering the Bee Network: Annual Review of Capped Bus Fares

Report of: Andy Burnham, Mayor of Greater Manchester, Portfolio Lead for Transport and Eamonn Boylan, Chief Executive Officer, GMCA & TfGM.

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### Purpose of Report

The report summarises the outcome of the annual review of capped bus fares and proposes the continuation of the capped fares at existing prices.

### Recommendations:

The Overview & Scrutiny Committee is requested to:

1. Note and comment on the outcome of the annual review of capped bus fares;
2. Note the recommendation for the continuation of capped single, daily and weekly bus fares at the existing price;
3. Note that GMCA has delegated authority to the Chief Executive of GMCA and TfGM, in consultation with the GM Mayor, to approve the continuation of the capped bus fares scheme, subject to any recommendations made by the GMCA Overview and Scrutiny Committee; and
4. Note that a further annual review of capped bus fares will take place in summer 2024.

### Contact Officers

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## Equalities Impact, Carbon and Sustainability Assessment:

Impacts Questionnaire		
Impact Indicator	Result	Justification/Mitigation
Equality and Inclusion	G	
Health	G	
Resilience and Adaptation		
Housing		
Economy	G	
Mobility and Connectivity	G	
Carbon, Nature and Environment	G	
Consumption and Production		
Contribution to achieving the GM Carbon Neutral 2038 target		
<b>Further Assessment(s):</b>	Equalities Impact Assessment and Carbon Assessment	
 <b>Positive</b> impacts overall, whether long or short term.	 <b>Mix of positive and negative</b> impacts. Trade-offs to consider.	 <b>Mostly negative</b> , with at least one <b>positive</b> aspect. Trade-offs to consider.
		 <b>Negative</b> impacts overall.

The Bee Network is a critical enabler of Greater Manchester’s Net Zero ambitions; a truly integrated transport network across active travel and public transport will provide excellent public transport and active travel choices for all, promoting sustainable travel behavioural change through integrated spatial, digital and transport planning; and supporting the electrification of vehicles and public transport fleets.

### Risk Management

There is a risk that ‘shadow fare’ (the theoretical ‘fare foregone’ by operators under the scheme) increases are higher than forecast if inflation is higher than forecast levels. This risk has been considered in determining the affordability of continuing the capped bus fares scheme at existing prices.

### Legal Considerations

The scheme for setting capped fares is, in legal terms, a general rule specifying a maximum tariff, pursuant to Article 3(2) of Regulation 1370/2007 EU (as now incorporated into UK law). This allows for an authority to specify a general rule public service obligation arrangement that specifies a maximum tariff for a class of person (or all persons) travelling on services in an area. In doing so, the requirement is that operators who are subject to that requirement are compensated for the net financial effects (positive or negative) on

costs incurred and revenues generated in complying with the tariff obligation to prevent over-compensation.

This obligation already applies in respect of the concessionary travel schemes that the GMCA already have in place, which seek to achieve a no better no worse outcome as a result of the scheme.

The Capped Fare Scheme (the Scheme), which was published on 4th September 2022 and revised on 8<sup>th</sup> January 2023, is drafted based upon the principles already applied to concessionary travel. The Scheme complies with the requirements of Regulation 1370/2007 and therefore deals with competition and subsidy control issues, as well as avoiding procurement issues.

### **Financial Consequences – Revenue**

See Section 3.

### **Financial Consequences – Capital**

N/A

**Number of attachments to the report:** None

### **Background Papers**

GMCA Report - Towards the Bee Network - Network Review, Market Renewal and Bus Service Improvement Plan, 24<sup>th</sup> June 2022.

GMCA Report - Delivering the Bee Network: Bus Fares, Zero Emission Buses, Bus Depots and CRSTS, 29<sup>th</sup> July 2022.

GMCA Report – Delivering the Bee Network: Multimodal Fares and Products, 30<sup>th</sup> June 2023.

### **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. The report requests delegation to the Mayor and the CEO of GMCA and TfGM to approve the continuation of the capped single, daily and weekly bus fares at existing prices, subject to the subsequent approval by the GMCA Overview and Scrutiny Committee at this meeting.

### **Bee Network Committee**

N/A

# 1. 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', high patronage, low fare, transport system, which will transform the way people travel across the city region.
- 1.2 The locally funded programme to transition to franchising is being supplemented by government funds, including capital funds via the City Region Sustainable Transport Settlement (CRSTS) and revenue funding from the Bus Service Improvement Plan (BSIP).
- 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 4th April 2022, 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 2022. The SoS set 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 and hence drive patronage and revenues and also to reduce bus service operating costs. Following approval at GMCA on 24th June 2022,

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

a draft final BSIP Delivery Plan covering the indicative £94.8m of funding was submitted by TfGM to DfT on 30th June 2022, covering:

- Fares support: Delivery of £2 adult/ £1 child and £5 adult/ £2.50 child 'bus all day' capped / maximum fares across GM, at a then forecast cost of £68m over the period to March 2025;
- Services: Network Sustainability: Contribution to network sustainability of £5.8m; and
- Customer Offer: Integrated ticketing and information measures (revenue support for capital measures set out in CRSTS) at a then forecast cost of £21m over the period to March 2025

1.5 Following discussions on the draft BSIP Delivery Plan with government officials, on 5th September 2022 GMCA received confirmation of the funding allocation of £94.8m, and the notification of the release of the first-year allocation. The funding confirmation set a condition to produce a business case to cover the £68m allocated to lower fares, which has subsequently been submitted to DfT and approved.

1.6 The initial GM BSIP included an intention to deliver lower fares via franchising powers, and so the scheme would be rolled out across GM as part of the three-tranche plan. However, to help to mitigate the cost-of-living crisis, a proposal was developed to deliver fares reductions as soon as possible, which meant the introduction of capped / maximum bus fares was 15 months earlier than that anticipated in the BSIP submission.

1.7 From 4th September 2022, the scheme introduced maximum £2 single fares (maximum £1 for children) across GM wide, with a maximum £5 all operator day ticket (maximum £2.50 for children), on an initial one-year basis, subject to an Annual Review.

1.8 To introduce these fares proposals in advance of franchising, GMCA has had to:

- enter commercial arrangements via a new Scheme<sup>2</sup> with local bus operators to develop the compensation mechanism in such a way that:

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<sup>2</sup> [Capped Fare Scheme\\_080123\\_Final\\_for\\_publication.pdf\(ctfassets.net\)](#)

- GMCA can demonstrate that it has made a rational decision, defined as having information of sufficient quality to assure itself that the scheme delivers on objectives in a way that is affordable and value for money; and
  - a 'no better no worse' outcome is achieved for operators.
- Used the existing concession scheme to introduce the maximum £1 child fare element of the scheme.

1.9 Following a report to GMCA in December 2022, the maximum fares offer was extended to weekly tickets in January 2023, via the introduction of a cap of £21 adults (£10.50 for children) on the weekly all-operator ticket that was agreed with GMTL on the same basis as the all-operator day ticket, and the Scheme was subsequently revised to include this. That report noted that, to the extent that the cost of the weekly cap is not covered by further Government funding and / or the £68 million of BSIP funding cannot also accommodate the costs of the capped weekly fares, the extension could, subject to the agreed annual review and the agreement of GMCA, be funded from a combination of Reserves that are specifically allocated for Bus, including the Concessionary Fares Reserve.

1.10 Since March 2020, Greater Manchester's public transport network has been supported by emergency funding provision from central Government, which has been subject to several short-term extensions. At the time the lower fares policy was approved by GMCA in August 2022 this emergency funding was due to expire in early October 2022. The scheme was therefore introduced on an initial one-year basis, from September 2022 to August 2023, with a commitment to an Annual Review in summer 2023.

1.11 This report presents the outcome of the Annual Review and makes recommendations regarding the future of the scheme.

## **2. Annual Review**

2.1 The aim of the Annual Review was to determine whether the lower fares policy was achieving its objectives and whether it would be affordable for GMCA to continue to hold the maximum fares at the current levels.

2.2 The inputs to the review have been:

- Evaluation research on the impacts of the lower fares;
- Assessment of the financial compensation payable to bus operators; and
- A review of the wider policy context, including the DfT national scheme.

### **Evaluation Research**

2.3 The passenger response to the lower fares has been evaluated in two waves, with surveying being undertaken between September – December 2022<sup>3</sup> and then March – April 2023. These evaluations present a consistent positive customer sentiment since the scheme launched in September 2022.

2.4 Key findings of the evaluation research are that:

- the introduction of the maximum bus fares has reduced the average cost of travel for bus users by almost 20%.
- the maximum bus fares offer has contributed to an increase of bus patronage of 12%<sup>4</sup>.
- The residents continue to feel the new fares save them money (76%) and that they have been helpful to combat the cost of living crisis (72%).
- Issues with the stability of bus service provision and with service reliability (driven in part by driver availability) continue to deter potential customers.

2.5 Bus users who switch to the new maximum fares in effect receive a direct cash benefit, which TfGM estimates to be equivalent to an overall average fare reduction of approximately 17%. Some passengers will likely however have saved as much as 50% on routes that were most expensive prior to the introduction of the maximum fares.

2.6 There has also been a positive impact on travel horizons, as two thirds of those responding to the survey agree that the new fares mean that they can travel more often, to more places and as often as they want. 55% of respondents that have used

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[https://assets.ctfassets.net/nv7y93idf4jq/4bvY846dOvayHQgWPIZAKx/bb39f35da506c5dfa86214de05641895/Evaluation\\_of\\_GMs\\_lower\\_bus\\_fares\\_first\\_3\\_months\\_March2023.pdf](https://assets.ctfassets.net/nv7y93idf4jq/4bvY846dOvayHQgWPIZAKx/bb39f35da506c5dfa86214de05641895/Evaluation_of_GMs_lower_bus_fares_first_3_months_March2023.pdf)

<sup>4</sup> A 12% increase for Sep-22 to Apr-23 compared with Sep-21 to Apr-22.

one of the new maximum fare products say that the offers have meant they have travelled by bus more.

- 2.7 Analysis of ticket sales data estimates that there has been a 12% increase in bus trips since the new bus fares were introduced, predominantly by those travelling 5 or more days a week. As with the initial wave of research, there are however confounding factors which make it difficult to directly attribute this change to the fares, including but not limited to the ongoing return of public patronage post-pandemic and bus reliability issues due to driver availability.
- 2.8 While lower fares attract less frequent users, there is a risk that for those less frequent users, unreliability, or a lack of frequent services may have overridden the attraction of a lower fare. Social media monitoring has picked up many residents trying the bus for the first time as a result of the maximum fares offer and expressing frustration at the quality of service. Positivity towards travelling by bus in GM experienced a spike in the wake of the initial introduction of the capped bus fares; however, that sentiment has reduced, largely from those using the £2 single and travelling 2-3 days a week. This is further evidence that the full benefit of lower fares will only be realised once franchising is introduced and services, reliability and standards are improved.

### **National £2 Single Fare**

- 2.9 As the GM lower bus fares scheme launched in September 2022, DfT announced that it was introducing a similar scheme for capped £2 single fares from January 2023 in England outside of London and outside the three areas that were promoting local BSIP schemes i.e. Greater Manchester, West Yorkshire and Merseyside. This is a voluntary scheme, which most bus operators have joined, with the aim of supporting people who were struggling with the rising cost of living and to encourage more people back onto bus.
- 2.10 In February 2023, DfT announced that the £2 single fares scheme would be extended to 30th June 2023, and then more recently the scheme has been extended to 31st October 2023, after which the cap will increase to £2.50 through to 30th November 2024.
- 2.11 In addition to the local evaluation research, the Government have published an [evaluation of the first month of the national £2 fare scheme](#) (which launched in

January 2023). Similar to Greater Manchester, early evidence suggests a positive impact on patronage. The key findings from the national scheme evaluation are:

- Awareness was good with around 7 in 10 respondents reporting an awareness of the scheme.
- 10% of respondents had made more journeys by bus since the introduction of the £2 national bus fare cap.
- Of the respondents to the survey who had purchased at least one capped £2 bus fare, 35% reported that they had taken more bus journeys since the introduction of the initiative.
- Around 30% of survey respondents said that the £2 bus fare cap has had a positive impact on their disposable income and income for other expenses.

### **3. Costs and Affordability**

#### **Operator Compensation**

3.1 To introduce the GM maximum fares proposals in advance of franchising, as noted above, GMCA/TfGM have had to enter into arrangements with local bus operators via the Scheme to develop the compensation mechanism in such a way that:

- GMCA can make a rational decision, defined as having information of sufficient quality to assure itself that the scheme delivers on objectives in a way that is affordability and value for money; and
- a 'no better no worse' outcome is achieved for operators.

3.2 On implementation of the scheme, it was agreed with operators that they would be reimbursed' for all journeys made for the first six months of the scheme, following which there would be a review of reimbursement to date and arrangements would be put in place to reflect an appropriate level of reimbursement on an ongoing basis.

3.3 The actual costs for the year ended 31 March 2023 were £14.9 million, with the forecast costs for the first year to 31 August 2023 currently in line with the original estimate of c. £25 million for the first 12 months of the scheme including the addition of the weekly cap.

3.4 The total forecast costs for the scheme, including the weekly cap, for the period to March 2025 are dependent upon a number of factors, including usage; and

particularly levels of inflation which is a key factor in determining the amount of reimbursement payable to operators. The shadow fare is in effect the theoretical 'fare foregone' for each journey made under the Scheme and is the mechanism by which the reimbursement rate per journey is calculated. Ongoing high levels of inflation would therefore increase the overall forecast costs as the shadow fares are increasing in line with inflation whilst the caps / maximum fares remain at the same cash level.

### **Affordability**

- 3.5 Uncertainty remains in relation to long term funding for the bus industry, including Bus Recovery, BSIP and BSOG funding and so TfGM has been in discussions with DfT officials with a view to securing a continuation of financial support for both the bus and tram networks for the next two financial years (2023/24 and 2024/25). Some of this additional financial support will be provided through the new bus funding package announced by DfT on 17th May 2023, and a further £18m will be provided via the 'extraordinary' funding, to be provided to GM that was announced by DfT on 8th June 2023.
- 3.6 In parallel, TfGM has committed to a Financial Sustainability Plan (FSP). The FSP outlines a set of initiatives that, alongside continuing government financial support as discussed above, are targeted at ensuring the financial sustainability of the transport network, including a fully franchised bus network.
- 3.7 There is sufficient total funding available to continue the capped fare offer at the existing prices to March 2025, however, it is proposed that a further Annual Review be undertaken in summer 2024. Subsequent reviews will include input from the proposed Bee Network Committee which will be responsible for reviewing fares and making recommendations to GMCA.
- 3.8 Subject to agreement of the proposals to continue to price the maximum / capped bus fares at existing levels, bus only users travelling on any bus in Greater Manchester, including franchised and non-franchised services, will be able to continue to purchase single, one day and 7 day AnyBus tickets at the current maximum / capped prices. The 28 day product AnyBus will also continue to be available, this product is currently priced at £80.