

## Financial Implications:

**Please Note:** *This analysis has been provided in advance of any details being released by SYMCA regarding the options for delivering a sustainable franchising model other than scheme development costs. The financial risks/potential asks highlighted in this section are therefore largely generic to the bus franchising model.*

*Clearly a much more extensive risk analysis including a detailed financial review of proposals will need to be undertaken should the Mayor and Leaders move to formally agree to the preparation of a franchising scheme assessment.*

## Assignment of Risk

Under a franchising scheme, the overall accountability and balance of financial risk for bus service delivery will transfer from private sector bus operators to SYMCA.

By association this is considered likely to have significant implications for the constituent SY Local Authorities in terms of, for example, local accountability relating to the continuation of those bus routes that may be commercial unviable but remain locally significant/desirable and accompanying that accountability the need to provide additional resources to support those routes. Transport levy increases to support delivery of the scheme are also considered a likely consequence of bus franchising.

This section of the report seeks to consider the associated financial risks/resource implications that could potentially impact on Council finances, dependent on the shape of any eventual scheme.

## Strategic Context: Current Operational Challenges

The timing of the proposal is clearly not ideal given current market volatilities and the fact that bus patronage along with the financial sustainability of operations has been in decline for several years now. At present bus service provision is facing several significant challenges, including:

- Likely reductions/ending of government support for COVID related revenue shortfalls.
- Lack of confirmation / formalisation from the DfT of CRSTS or BSIP funding allocations.
- Uncertainty re passenger recovery to pre-COVID levels – the expectation that recovery may take several years.
- Significant cost inflation pressures within the bus system (salaries, fuel, fare rises, etc).
- Sustainability pressure on service provision, noting that local operators are currently expressing their intent to begin rationalising existing services.

The recent briefing note to MCA briefing note to the Mayor/SY Leaders acknowledges this, indicating that:

*“These issues will start to impact bus services from early 2022 and will make maintenance of the current level of service provision challenging and constrain the delivery of the ambitious improvements set out in the BSIP.”*

It is considered likely therefore that each above will, to varying degrees, exert additional financial pressures on bus services – services that are presently widely struggling to operate on a sustainable basis. These are issues that clearly need to be factored in when considering not only franchising but also the Enhanced Partnership model and more specifically the future impact on the transport levy paid by the Council.

*It should be noted that currently the Council pays the MCA a transport levy of £9.5m per annum – there is an expectation that regardless of the adoption of a franchising model this will need to increase post-2022/23 to ensure sustainable transport strategies can be adopted.*

### **Key Financial Risks/Asks Linked to the Stages of Bus Franchising Scheme Delivery**

Delivery of the franchising scheme can be split into the following three distinct elements each of which may have potential cost implications for the Council:

1. **Scheme Development costs** – DL Piper have produced an initial desktop estimate of £5m, to be utilised over a 4-year period, for the MCA to develop a franchising scheme.

The report to be tabled at the 24 January 2022 MCA indicates that:

*“Should the Board wish to proceed with the assessment exercise the (est. £5m) costs would, in the first instance, need to be underwritten from reserves. Allocating reserves to the activity would reduce the MCA’s financial resilience in the context of known risks and pressures that are likely to crystallise in the new financial year”.*

***Potential Financial Impact on BMBC:** Whilst initially, the inference from the DL Piper report was that there may be a cost to the Council of supporting scheme development, either directly via a transport levy increase or indirectly via a reduction in the value of gainshare available to support local authority led schemes it now looks like the MCA are proposing the use of reserves to fund development costs – although it is suggested that possibility of a request for funding support from the Council is not entirely ruled out at this stage.*

*Whilst the suggested use of MCA reserves has no direct financial impact on the Council if those reserves are used as the MCA report to be tabled on 24/01/22 indicates “Allocating reserves to the activity would reduce the MCA’s financial resilience in the context of known risks and pressures that are likely to crystallise in the new financial year.” Could this again potentially result in an ask to local authorities to restore the MCA’s financial resilience? Are these funds that could be more usefully and effectively deployed elsewhere?*

2. **Transition Phase** – based TfGM experience this can take several years and is likely to be dependent on existing bus partnerships to deliver benefits via the transition period.

To provide an insight into the components of transition costs attached at Appendix A is a table showing the latest costs estimates for transition from TfGM.

Whilst at this stage details around transition for any future SYMCA scheme have yet to be formed it’s worth noting that transition will likely come with a significant cost i.e., based on the experience of the TfGM. Accepting that not directly comparable in scale to the SYMCA, TfGM **have produced a funding package totalling £134m+** to support their transition activities. This estimate includes a £17.8m contribution from their 10 constituent local authorities. The table below is provided to illustrate the type of funding elements TfGM intends using to support transition activities.

### **TfGM – Estimated Franchising Transition Costs**

- £78.0m of Mayoral earn-back funds (part of TfGM's Devo Agreement)
- £11.0m of precept raised as part of the Mayor's 2019/20 budget for bus reform
- *£17.8m of contributions by local authorities as a proposed one-off increase in the statutory contribution in 2020/21 – to be deferred to the end of the (to approximately 2025/26) in the event the Proposed Franchising Scheme were to be introduced.*
- £5m of existing and forecast business rates pooling receipts held by TfGM.
- £22.7m of mayoral precept required from future years' budgets

**Potential Financial Impact on BMBC:** *Whilst transition costs will clearly be dependent on scheme progression the potential exists for requests for contributions to support transition activities to come to the Council from the MCA – based on the TfGM experience where an average contribution of £1.78m was sought from each of their 10 constituent authorities.*

*It is worth noting that the funding package proposed by TfGM contains funding sources not currently available to the SYMCA (for example business rates pooling receipts and mayoral precept income). Therefore, any decision to move the scheme to a transition stage would likely require a (yet to be determined) very different mix of funding.*

### **3. Ongoing Scheme Delivery**

Issues around local accountability and financial risk in relation to bus franchising comes via the ability of the Scheme to raise sufficient farebox income to support franchised services. The inherently sensitive/variable nature of this income stream introduces a significant element of uncertainty to franchising – as illustrated during the pandemic and the resultant changes (long term/short term?) in customer behaviour.

Under a franchising scheme, shortfalls in farebox income would most likely result in a reduction in the size of the network and/or increase fares or by the MCA seeking to introduce more funding to support the services. The former requiring political consideration locally and the latter creating financial pressure and uncertainty.

Should “more funding” be required, the key question is where would it come from? TfGM in their Assessment of funding options suggested a Mayoral precept, resetting the statutory contribution baseline provided by the local authorities and central government.

**Potential Financial Impact on BMBC:** *The inference above being that LA's may be required increase the amount of funding they contribute via their levy/concessionary fares contributions to cover off shortfalls in farebox income.*

*Any increase in contributions from the Council to support franchising activities would naturally draw finite resources away from other priority areas, causing pressure elsewhere in Council budgets. This is particularly pertinent at a time when there is widespread uncertainty around local government finance and increasing pressures emerging around for example social care provision.*

*It is worth noting that under the TfGM consultation on franchising some of the constituent authorities were clear that, despite being generally supportive of the Proposed Franchising Scheme*

*this support was conditional on there being no further funding requirements from the local authorities.*

*For example, Bolton Council, in its consultation response, made support for the Proposed TfGM Franchising Scheme conditional upon not resulting in extra financial burden on local authorities: “The most significant risk to the scheme will be how it is funded. We appreciate that at this stage that farebox risks are anticipated to sit with TfGM, however we have concerns with regards to shortfalls in funding and ongoing Council Tax precepts on residents.*

*However, it is important to stress and make it conditional that the franchising option must not lead to increasing and ongoing extra financial burden on the ten councils.”*

*It also highlighted that: “... it has to be said that a strongest possible case needs be made to the Government to make good the stark difference that exists between the subsidy towards public transport in Greater London compared to North West; with figures of nearly £2,000 and £500 a head respectively. In other words, Greater Manchester cannot hope to have London style transport without substantial increase in funding from the Government; otherwise, a disproportionate burden would fall on local taxpayers, which is not possible because of other budget pressures. We have real concerns over the level of additional precept on council tax over the coming years and cost for residents at the time of uncertainty as many seek to recover economically in a post- COVID world.”*

*A further point to consider is around **the funding of infrastructure** to support the scheme and the implications that this may have for the Council. Further work will be required to determine infrastructure implications. Interestingly however reference to the TfGM seems to indicate that from their perspective the decision to implement a franchising scheme remains separate to their infrastructure plans, per below.:*

*“Implementing the Proposed Franchising Scheme would not distract attention from developing infrastructure and other measures – this work is ongoing as set out in GMCA’s Five Year Transport Delivery Plan 2021-2026 (Jan-21), which includes, amongst other interventions to support bus, proposals for Quality Bus Transit corridors across GM trips and measures to tackle bus pinch points to improve the reliability of bus journeys, starting with the funding of £22 million from the Transforming Cities Fund announced by GMCA in January 2021 – and would not be advanced by a decision not to implement to Proposed Franchising Scheme.”*

## Appendix A

### TfGM – Estimated Bus Franchising Transition Costs

(Extract taken from GMCA “Covid-19 Impact on bus franchising report)

<https://greatermanchester-ca.gov.uk/media/4016/tfgm-covid-19-impact-on-bus-franchising-report-final-191120-1936-amended-060121.pdf>

FRANCHISING - NOMINAL NET INCOME AND COSTS:	FY 19/20	FY 20/21	FY 21/22	FY 22/23	FY 23/24	FY 24/25	TOTAL
	£ms	£ms	£ms	£ms	£ms	£ms	£ms
<b>Operating Account</b>							
Operating surplus / (deficit)	-	(0.0)	(2.8)	(5.6)	5.0	15.2	11.8
<b>Quantified Risk</b>							
P80 Quantified Risk Allowance	(0.9)	(5.5)	(7.4)	(5.5)	(8.4)	(8.5)	(36.2)
<b>Assets</b>							
Depot repayment and financing costs net of rental income	-	(0.0)	(0.4)	(1.1)	(3.3)	(4.4)	(9.2)
<b>Implementation and technology</b>							
Transition resource costs	(2.0)	(8.0)	(5.9)	(4.1)	(0.6)	-	(20.6)
Incremental resources (Staff, IS and other)	-	(1.5)	(4.8)	(6.7)	(6.9)	(5.7)	(25.6)
Information systems	(0.7)	(8.0)	(7.3)	(1.2)	(1.1)	(1.3)	(19.6)
On bus equipment and branding- Wi-Fi, driver radio, telematics, CCTV	-	-	(2.3)	(2.1)	(3.4)	0.1	(7.7)
Electronic Ticket Machines and AVL (ITS)	-	-	(5.2)	(4.4)	(6.3)	1.0	(14.9)
Subtotal: Implementation costs	(2.7)	(17.5)	(25.5)	(18.5)	(18.3)	(5.9)	(88.4)
<b>NET FUNDING REQUIREMENT</b>	<b>(3.6)</b>	<b>(23.0)</b>	<b>(36.1)</b>	<b>(30.7)</b>	<b>(25.0)</b>	<b>(3.6)</b>	<b>(122.0)</b>

Table excludes a further provision of £12.5m related to escalated concessionary fare costs