



## North East Leadership Board

Tuesday 21st October, 2014 at 2.00 pm

Meeting to be held: Newcastle Civic Centre, Newcastle upon Tyne, NE1 8QH

[www.northeastca.gov.uk](http://www.northeastca.gov.uk)

---

## AGENDA

---

Page No

1. **Apologies for Absence**

2. **Declarations of Interest**

Please remember to declare any personal interest where appropriate both verbally and by recording it on the relevant form (to be handed to the Democratic Services Officer).

Please also remember to leave the meeting where any personal interest requires this.

3. **Minutes of the Previous Meeting held on 15 July 2014**

1 - 8

4. **Minutes of Extraordinary Meetings**

(a) **Minutes of the Extraordinary Meeting held on 15 July 2014**

9 - 10

(b) **Minutes of the Extraordinary Meeting held on 16 September 2014 on Loan Agreement**

11 - 12

(c) **Minutes of the Extraordinary Meeting held on 16 September 2014 on Annual Report and Accounts 2013/14**

13 - 14

(d) **Minutes of the Extraordinary Meeting held on 16 September 2014 on 2015/16 Budget Process and Timetable**

15 - 16

(e) **Minutes of the Extraordinary Meeting held on 16 September 2014 on Rail North**

17 - 18

5.	<b>Improving Local Bus Services *</b>	<b>19 - 40</b>
	Improving Local Bus Services - Bus Strategy Delivery Project Update	
	* Members are requested to note that an exempt annex to this report is included at item 12 below.	
	(a) <b>Annex 1 - Nexus' Report</b>	41 - 942
	(b) <b>Annex 2 - Counsel's opinions on (a) Consultation and Process; and (b) on the Public Interest Test and Proportionality</b>	943 - 982
6.	<b>North East Combined Authority Budget 2015/16</b>	<b>983 - 1014</b>
7.	<b>Updates from Thematic Leads</b>	
	(a) <b>Thematic Lead Update Report - Economic Development and Regeneration **</b>	
	(b) <b>Thematic Lead Update Report - Transport **</b>	
	(c) <b>Mental Health and Employment Integration Trailblazer</b>	1015 - 1026
8.	<b>Consultation response - Northern Futures **</b>	
9.	<b>Date and Time of Next Meeting</b>	
	20 January 2015 at 2pm at North Tyneside.	
10.	<b>Exclusion of Press and Public</b>	
	Under section 100A and Schedule 12A Local Government Act 1972 because exempt information is likely to be disclosed and the public interest test against disclosure is satisfied.	
11.	<b>Confidential Minutes of Extraordinary Meetings</b>	
	(a) <b>Confidential Minutes of the Extraordinary Meeting held on 15 July 2014</b>	1027 - 1028
	(b) <b>Confidential Minutes of the Extraordinary Meeting held on 16 September 2014 on Loan Agreement</b>	1029 - 1030
12.	<b>Improving Local Bus Services - Annex 3 - QCS Public Interest Test Report</b>	
	A copy of this annex is being delivered separately by hand to each Member.	
13.	<b>Advertising Agreement</b>	<b>1031 - 1040</b>

\*\* Members are requested to note the intention to circulate the above report on a supplemental agenda in accordance with the provisions of the Local Government (Access to Information) Act 1985.

Contact Officer: Victoria Miller Tel: 0191 211 5118 E-mail: [victoria.miller@newcastle.gov.uk](mailto:victoria.miller@newcastle.gov.uk)

**To All Members**

This page is intentionally left blank

## North East Combined Authority

### North East Leadership Board

15 July 2014

Meeting held: Committee Room, Civic Centre, Newcastle upon Tyne, NE1 8QH

#### **Present:**

Councillor Henig (Chair)

Councillors Davey, Henry, Kerr, McCarty and Trueman, Mayor Redfearn and Ms Hall

#### **16 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Forbes, Malcolm and Watson and Mr Woolston.

#### **17 DECLARATIONS OF INTEREST**

Councillor McCarty declared a non-participation interest in agenda item 12 – The North East Local Enterprise Partnership (NELEP) – Funding Agreements due to being the Deputy Leader of Newcastle City Council and Newcastle City Council having a financial interest in one of the funding agreements, and left the room during the consideration of the relevant part of the item.

Mayor Redfearn declared a non-participation interest in agenda item 12 - The North East Local Enterprise Partnership (NELEP) – Funding Agreements due to being the Elected Mayor of North Tyneside Council and North Tyneside Council having a financial interest in one of the funding agreements, and left the room during the consideration of the relevant part of the item.

#### **18 MINUTES OF PREVIOUS MEETING**

The minutes of the previous meeting held on 29 April 2014 were approved as a correct record and signed by the Chair.

#### **19 POLICY UPDATE**

##### **(a) Transport Policy Update**

Submitted:

- (i) A joint report of the Thematic Lead for Transport and a representative of the Economic Directors Group (previously circulated and copy attached to Official Minutes);
- (ii) A supplemental joint report of the Thematic Lead for Transport and a representative of the Economic Director's Group (previously circulated and copy attached to Official Minutes); and

- (iii) North East Rail Statement (with the Chair's permission, due to the timetables involved circulated at the meeting and copy attached to Official Minutes).

Members considered the report which provided information on various strategic and policy matters in relation to transport that were within the remit of the Combined Authority. The report also sought Members' permission to develop a transport strategy for the Combined Authority and to retain the Assurance Framework for the Local Transport Body. The report also sought the enforcement of the North East Rail Statement and invited the Leadership Board to participate as a full and active partner in Rail North and join the proposed Association of Northern Transport Authorities.

**RESOLVED – That:**

- i. The Leadership Board noted the opportunities provided by the new Combined Authority to improve integrated transport across the region and to enhance influence on national decisions affecting the connectivity of the North East;
- ii. Approval be given to the development of the North East Combined Authority Transport Strategy to provide a high-level strategic overview of the Authority's aspirations for transport improvements across the region;
- iii. Agreement be given to the retention of the Assurance Framework that had been agreed by the seven councils to underpin their previous role in setting transport investment priorities as a Local Transport Body, subject to changes which reflected the new Combined Authority arrangements;
- iv. The North East Rail Statement that had been agreed with partners in the Tees Valley through the Association of North East Councils, as circulated at the meeting, be endorsed;
- v. The Leadership Board accepted that the North East Combined Authority should participate as a full and active partner in Rail North and join the proposed Association of Northern Transport Authorities; and
- vi. Members wishing to suggest additional matters for the inclusion in the future policy updates on transport would contact the Thematic Lead for Transport.

**(b) Economic Development and Regeneration Update**

Submitted: A report of the Thematic Lead for Economic Development and Regeneration (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information on the opportunities provided by the new Combined Authority in relation to economic development and regeneration and the issues arising. The report also invited Members to agree the initial scope of the economic and regeneration thematic lead area. During the

ensuing discussion, a Member highlighted the importance of ensuring that any work on economic development and regeneration linked closely with the Strategic Economic Plan.

**RESOLVED** – That:

- i. The initial scope of the Economic Development and Regeneration Thematic Lead Area be agreed;
- ii. The Leadership Board noted the opportunities provided by the new Combined Authority and the economic development and regeneration issues arising; and
- iii. Members wishing to suggest additional matters for the inclusion in the future policy updates on economic development and regeneration would contact the Thematic Lead for Economic Development and Regeneration.

**(c) Employability, Inclusion and Skills Update**

Submitted: A report of the Thematic Lead for Employability and Inclusion (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information on the opportunities provided by the new Combined Authority and the employability, inclusion and skills issues that were arising.

**RESOLVED** – That:

- i. The Leadership Board noted the opportunities provided by the new Combined Authority and the employability, inclusion and skills issues that were arising; and
- ii. Members wishing to suggest additional matters for the inclusion in the future policy reports on employability, inclusion and skills would contact the Thematic Lead for Employability and Inclusion.

20 **RAIL CAPABILITIES DOCUMENT**

Submitted:

- (i) A joint report of the Chair of the Authority and two representatives of the Economic Directors Group (previously circulated and copy attached to Official Minutes); and
- (ii) “Rail Capabilities – Our contribution to the future of Britain’s railways” (previously circulated on a supplemental agenda for agenda item 4(a) and copy attached to Official Minutes).

Members considered the report which provided information on the potential impact of the planned extension of the High Speed Rail network and the opportunities it could bring for the area's educational establishments and regional supply chain. The report also described the Government's aspiration to establish a High Speed Rail College, and the Combined Authority and the Local Enterprise Partnership's potential to collaborate with the College when it was announced and to contribute to the construction of the High Speed Rail Network as a whole.

**RESOLVED** – That:

- i. The North East Leadership Board noted the opportunity for collaboration with the planned High Speed Rail College; and
- ii. The "Rail Capabilities" document be endorsed as the North East Combined Authority's collaborative offer to both the future High Speed Rail College and to the Government.

21 **NECA RESPONSE TO CONSULTATION ON PROPOSALS TO AMEND LEGISLATION RELATING TO COMBINED AUTHORITIES AND ECONOMIC PROSPERITY BOARDS**

Submitted: A report of the Head of Paid Service (previously circulated and copy attached to Official Minutes).

Members considered the report which informed them of a response that had been prepared and submitted on behalf of the Authority to the Department for Communities and Local Government to the consultation on proposals to amend legislation relating to combined authorities and economic prosperity boards.

**RESOLVED** – That the Leadership Board noted that a response to the consultation on proposals to amend legislation relating to combined authorities and economic prosperity boards had been submitted, and noted the contents of the response as attached at appendix 1 to the report.

22 **EUROPEAN STRUCTURAL AND INVESTMENT FUNDS: SUSTAINABLE URBAN DEVELOPMENT PLAN**

Submitted: A report of the Chief Executive of South Tyneside Council (previously circulated and copy attached to Official Minutes).

Members considered the report which informed them that a response had been prepared and submitted to the Government in response to their invitation for the North East Local Enterprise Partnership (NELEP) to prepare an initial Sustainable Urban Development (SUD) Plan for the area. The report also invited Members to note the benefits of a SUD Plan.

**RESOLVED** – That the Leadership Board noted the benefits of a Sustainable Urban Development Plan and welcomed the submission to the Government of the area's

proposal to prepare a Sustainable Development Plan as part of the European Structural and Investment Funds Strategy.

## 23 **UPDATE ON THE MEMBERSHIP 2014/15**

Submitted: A report of the Monitoring Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which provided an update on the changes to the membership of the committees of the North East Combined Authority and also the joint committees, and also invited the Leadership Board to give delegated authority to the Monitoring Officer to accept in-year changes to the membership of committees, sub-committees and joint committees.

**RESOLVED** – That:

(i) The Leadership Board noted and accepted the changes to the membership of the committees of the North East Combined Authority and the joint committees as set out in paragraph 1.1 of this report subject to the amendment of section 1.1 to reflect that in relation to the Overview and Scrutiny Committee it was Councillor Norma Wright who had replaced Councillor Richard David Tate;

(ii) Mr Paul Woolston be appointed as the North East Local Enterprise Partnership's Member on the North East Combined Authority for the Municipal Year 2014/15;

(iii) Ms Gillian Hall be appointed as the North East Local Enterprise Partnership's Substitute Member on the North East Combined Authority for the Municipal Year 2014/15;

(iv) The Leadership Board noted the position in relation to the appointment of Chairs and Vice-Chairs of the Transport North East Committee, Transport North East (Tyne and Wear) Sub-Committee and Overview and Scrutiny Committee as set out in paragraph 1.3 of the report; and

(v) Delegated authority be given to the Monitoring Officer to accept on behalf of the Leadership Board in-year changes to the membership of committees, sub-committees and joint committees, and these changes be notified in writing to the Monitoring Officer and be effective when receipt of the notification was acknowledged by the Monitoring Officer in writing.

## 24 **APPOINTMENT OF CHIEF FINANCE OFFICER**

Submitted: A report of the Monitoring Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which invited them to appoint Paul Woods as the Chief Finance Officer of the North East Combined Authority on an interim basis.

**RESOLVED** – That:

- (i) Paul Woods be appointed as the Chief Finance Officer for the North East Combined Authority on an interim basis until the Authority's long terms resource requirements, including staffing, have been established; and
- (ii) Thanks to be passed on to Sonia Tognarelli for her work for the Authority.

## 25 **APPOINTMENT OF THE INDEPENDENT PERSON**

Submitted: A report of the Monitoring Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which provided information on the steps taken by the Monitoring Officer to identify an Independent Person for the North East Combined Authority in accordance with the delegation that had been given to her by the Leadership Board on 29 April 2014.

**RESOLVED** – That Stella Gardner be appointed as the Independent Person for the North East Combined Authority for a period of 12 months commencing from the date of her appointment and a fee of £1,000 be paid to her for undertaking that role for that period.

## 26 **THE NORTH EAST LOCAL ENTERPRISE PARTNERSHIP (NE LEP) - ACCOUNTABLE BODY**

Submitted: A report of the Monitoring Officer (previously circulated and copy attached to Official Minutes).

Members considered the report on the arrangements that had been put in place to support the North East Local Enterprise Partnership (NELEP). It was noted that NELEP was still considering the wording of the terms of the NELEP Host Authority and Accountable Body Agreement and, once finalised, it would be considered by the NELEP Board.

**RESOLVED** – That:

- (i) The Leadership Board noted the arrangements in place to provide support to the North East Local Enterprise Partnership as set out in the report;
- (ii) The agreement in principle be given to the NELEP Host Authority and Accountable Body Agreement; and
- (iii) Delegated authority be given to the Monitoring Officer in consultation with the Chair of the Leadership Board, the Head of Paid Service and the Chief Finance Officer to finalise and enter into the NELEP Host Authority and Accountable Body Agreement on behalf of the North East Combined Authority.

27 **THE NORTH EAST LOCAL ENTERPRISE PARTNERSHIP (NELEP) - FUNDING AGREEMENTS**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which sought their approval for the North East Combined Authority to enter into three project funding agreements on behalf of the North East Local Enterprise Partnership (NELEP) in its capacity as the accountable body for NELEP.

The ensuing discussion included a reference to similar Funding Agreements to arise requiring the agreement of the Leadership Board and the potential for dispensations to be sought through the Governance Committee to enable the representatives from the Constituent Authorities affected by such agreements to participate in the associated decision making.

**RESOLVED** – That the Monitoring Officer in consultation with the Head of Paid Service and the Chief Finance Officer be authorised to finalise and enter into the Agreements for the three projects, as set out in the report, on behalf of the North East Combined Authority.

28 **QUARTER 1 2014/15 BUDGET MONITORING REPORT**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which presented a summary of expenditure against the Authority's 2014/15 budget for the first quarter of the year, incorporating the period 15 April 2014 (the date of establishment of the Combined Authority) to 30 June 2014.

**RESOLVED** – That the report be noted.

29 **DATE AND TIME OF NEXT MEETING**

16 September 2014 at 2pm at South Tyneside Council.

This page is intentionally left blank

## North East Combined Authority

### North East Leadership Board

15 July 2014

Extraordinary Meeting

Meeting held: Civic Centre, Newcastle upon Tyne, NE1 8QH

#### **Present:**

Councillor: Henry (Chair)

Councillors Davey, Kerr, McCarty, Napier and Trueman, Mayor Redfearn and Ms Hall

#### 30 **APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Henig, Forbes, Malcolm and Watson and Mr Woolston.

#### 31 **DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### 32 **EXCLUSION OF PRESS AND PUBLIC**

**RESOLVED** – That by virtue of paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 press and public be excluded from the consideration of agenda items 4 – Loan Facility Agreement – Loan Facility and Marketing and Advertising Agreements because it was likely that financial information would be disclosed and the public interest test against the disclosure was satisfied.

This page is intentionally left blank

## North East Combined Authority

### North East Leadership Board

Extraordinary Meeting on Loan Agreement

16 September 2014

Meeting held: Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

#### **Present:**

Councillor: Henig (Chair)

Councillors Forbes, Henry, Kerr and Ledger, Mayor Redfearn and Ms Hall

(Councillor Henig opened the meeting.)

#### **34 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillors Davey, Malcolm and Watson and Mr Woolston.

#### **35 DECLARATIONS OF INTEREST**

Councillor Henig declared a non-participatory interest in agenda item 5 – Loan Agreement – and left the meeting.

(Councillor Henig left the meeting. Councillor Henry took the chair.)

#### **36 DATE AND TIME OF NEXT MEETING**

The next ordinary meeting of the North East Leadership Board would be held on Tuesday 21 October 2014 at 2pm at Northumberland County Hall.

#### **37 EXCLUSION OF PRESS AND PUBLIC**

**RESOLVED** – That by virtue of section 100A and paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972 press and public be excluded from the meeting during the consideration of agenda item 5 – Loan Agreement – because exempt information was likely to be disclosed and the public interest test against the disclosure was satisfied.

This page is intentionally left blank

## North East Combined Authority

### North East Leadership Board

Extraordinary Meeting on the Annual Report and Accounts 2013/14

16 September 2014

Meeting held: Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

#### **Present:**

Councillor Henig (Chair)

Councillors Forbes, Henry, Ledger, Malcolm and Watson, Mayor Redfearn and Ms Hall

#### **39 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Davey and Mr Woolston.

#### **40 DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **41 EXTERNAL AUDITOR'S REPORT TO THE LEADERSHIP BOARD OF THE NORTH EAST COMBINED AUTHORITY**

Submitted: A report of the External Auditor (previously circulated and copy attached to Official Minutes).

Members considered the report. During the ensuing discussion it was noted that the report covered events that had happened in the financial year 2013/14, up to 31 March 2014; any event after that date would be included in the 2014/15 audit. It was confirmed that the only major financial event that had happened in April 2014 was the transfer of a part of the reserves to local authorities. The next year set of accounts would be inclusive of all seven local authorities, including Durham and Northumberland.

**RESOLVED** – That the report be noted.

#### **42 ANNUAL REPORT AND ACCOUNTS 2013/14**

Submitted: A report of the Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the Annual Report and Accounts for the financial year 2014/15. During the ensuing discussion it was noted that the Annual Accounts had been seen by the Governance Committee on 12 September 2014 and whilst there had been many questions asked by the Committee, it had not raised any issues.

The discussion also included the importance of understanding functions, roles, responsibilities and governance of Nexus, particularly including its position within the context of the Combined Authority.

**RESOLVED** – That:

1. the Letter of Representation (Appendix 1) be approved;
2. the Chief Finance Officer be authorised to sign the Letter of Representation on behalf of the Authority;
3. the final ITA and Group Accounts for 2013/14 (Appendix 2) be approved;
4. the Chair and the Chief Finance Officer be authorised to sign the ITA and Group Accounts;
5. the Annual Governance Statement be approved (Appendix 3);
6. the Chair, the Head of Paid Service and the Chief Finance Officer be authorised to sign the Annual Governance Statement; and
7. a report be provided to a future meeting on the functions, roles, responsibilities and governance of Nexus, particularly including its position within the context of the Combined Authority.

## North East Combined Authority

### North East Leadership Board

Extraordinary Meeting on 2015/16 Budget Process and Timetable

16 September 2014

Meeting held: Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

#### **Present:**

Councillor Henig (Chair)

Councillors Forbes, Henry, Ledger, Malcolm and Watson, Mayor Redfearn and Ms Hall

#### **43 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Davey and Mr Woolston.

#### **44 DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **45 2015/16 BUDGET PROCESS AND TIMETABLE**

Submitted: A joint report of the Lead Chief Executive and Chief Finance Officer (previously circulated and copy attached to Official Minutes).

Members considered the report which set out the process and timetable for the preparation, consultation and approval of the 2015/16 Budget and the Medium Term Financial Strategy for consideration and approval by the Board. Members noted the importance of unanimous approval of the budget in January 2015.

#### **RESOLVED – That:**

- i. the report be noted;
- ii. the detailed Budget for 2015/16 be prepared for approval at the Leadership Board's meeting on 20 January 2015;
- iii. a draft high level outline Budget Outline be presented to the Leaders Board meeting on 21st October 2014 as a basis for consultation on the 2015/16 budget;
- iv. a five year Medium Term Financial Strategy be developed that would identify the revenue and capital resources that were needed to support the delivery of the Combined Authority's policy objectives;

- v. the Board noted the intention to develop a longer term infrastructure investment programme for a period of between 15 to 20 years identifying potential major strategic projects and programmes for development and delivery. This was likely to take more time to develop and an update on progress would be included in the Budget report in January, with aim of developing a plan for January 2016; and
- vi. the proposals for consultation and engagement on the development of the Budget for 2015/16 and the associated timetable be referred to Overview and Scrutiny Committee for consideration and that any recommendations received be reported to the Leadership Board's meeting on 21 October 2014.

## North East Combined Authority

### North East Leadership Board

Extraordinary Meeting on Rail North

16 September 2014

Meeting held: Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

#### **Present:**

Councillor Henig (Chair)

Councillors Forbes, Henry, Ledger, Malcolm and Watson, Mayor Redfearn and Ms Hall

#### **46 APOLOGIES FOR ABSENCE**

Apologies for absence were received from Councillor Davey and Mr Woolston.

#### **47 DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **48 RAIL NORTH: INFLUENCING THE FUTURE OF NORTHERN AND TRANSPENNINE RAIL SERVICES**

Submitted: A report of the Lead Chief Executive - Transport (previously circulated and copy attached to Official Minutes).

Members considered the report which set out the proposed governance arrangements for Rail North Ltd and the Association of Northern Transport Authorities, and sought the approval of the Leadership Board to become members of both bodies.

The ensuing discussion included matters such as the voting arrangements of the Leaders' Committee of the Association of Northern Transport Authorities, inclusion of a North East Business Unit in the specification for the new Northern franchise, importance of seeking clarification and developing a more resilient proposal on behalf of the North East Combined Authority (NECA) to avoid a disproportionate impact arising from the franchise on the NECA area, importance of a cautious approach by the NECA before proceeding to ensure all issues had been resolved, a general lack of understanding of the North East, lack of consideration for the North East and also the importance of having a seat on the board of the Association of Rail North partner authorities in order to be part of discussions and have a stronger voice.

**RESOLVED – That:**

- i. the Board noted the proposed governance arrangements for Rail North Ltd (RNL) and the Association of Rail North Partner Authorities (“The Association”);
- ii. Agreement be given in principle that the NECA should become a member of both the RNL and the Association;
- iii. the Monitoring Officer be authorised to make the appropriate arrangements to enable the NECA to be admitted to membership, by entering into the RNL Members Agreement, following consultation with the Chair, Thematic Lead for Transport, Head of Paid Service and Chief Finance Officer;
- iv. the Thematic Lead for Transport be appointed to the Leaders’ Committee of the Association and become a director of RNL;
- v. a designated Vice-Chair of the Transport North East Committee be appointed as substitute member of the Leader’s Committee of the Association and alternate director of RNL; and
- vi. the Board noted that a further report would be presented to the Transport North East Committee when the Heads of Terms for the DFT/RNL Partnership had been finalised.

## North East Combined Authority

### Leadership Board

---

**DATE:** 21 October 2014

**SUBJECT:** Improving Local Bus Services - Bus Strategy Delivery Project Update

**REPORT OF:** Lead Chief Executive for Transport

#### **EXECUTIVE SUMMARY**

Bus services play a vital role in the economic and social life of the North East. The Bus Strategy for Tyne and Wear was adopted in 2012 with the objectives of arresting the decline in bus patronage; maintaining (and preferably growing) accessibility; and delivering better value for public money.

In order to meet these objectives, Nexus (on behalf of the Tyne and Wear ITA and then NECA) were instructed to develop a draft Quality Contracts Scheme (QCS) and also to explore with bus operators the scope for developing a Voluntary Partnership Agreement (VPA).

Following public consultation, an analysis of legal, financial and operational issues, and legal assurance from Counsel, this report concludes that the QCS should be pursued.

#### **RECOMMENDATIONS**

Members are recommended to:

- (1) carefully consider the findings of Nexus (as set out in the accompanying report at Annex 1 and in the confidential Annex 3 to this report), the assessment of those findings by NECA officers as set out in this report and Counsel's opinion at Annex 2;
- (2) agree that the proposed QCS as described in this report (and set out in Appendix B of the Nexus Report at Annex 1) satisfies each of the statutory tests set out in section 124(1) of the Transport Act 2000 (as amended);
- (3) refer the QCS to the QCS Board;
- (4) agree that the VPA as currently proposed should not be progressed further by NECA and Nexus (on NECA's behalf);
- (5) agree that NECA adopt the Cross Boundary Collaboration Protocol in the event that it ultimately makes the QCS ; and
- (6) authorise the Transport Lead Executive Officer and Nexus to continue work on all matters relating to the QCS, including progressing the QCS through the remaining stages of the statutory process.

# North East Combined Authority

## Leadership Board

---

### 1. Introduction

1.1 As Members are aware, NECA and (prior to NECA's creation) the Tyne and Wear ITA have been considering how best to achieve the objectives of the Bus Strategy for Tyne and Wear (which was adopted in 2012), which are to:

- arrest the decline in bus patronage;
- maintain (and preferably grow) accessibility; and
- deliver better value for public money.

1.2 The Bus Strategy Delivery Project ("BSDP") has therefore identified two potential options for improving bus services in Tyne and Wear, namely a Quality Contracts Scheme ("QCS") and a Voluntary Partnership Agreement ("VPA") for more detailed consideration.

1.3 Nexus, on NECA's behalf, have carried out detailed analysis of both of these options. That analysis was reported to the Transport North East Committee and Transport North East (Tyne and Wear) Subcommittee at their respective meetings on 9 October 2014. NECA's constitution makes clear that the decision as to whether to proceed with either option is a matter for the Leadership Board. Both TNEC and TWSC considered and noted the analysis which was presented to them, and TWSC considered that both proposals were sufficiently developed to be considered by the Leadership Board, given that (as noted above) the decision whether to proceed with either option ultimately rests with the Leadership Board itself.

1.4 The analysis carried out by Nexus is contained in their report at Annex 1 ("the Nexus Report") which in turn contains a number of supporting appendices:

- Appendix A: Voluntary Partnership Agreement
- Appendix B: The Quality Contracts Scheme
- Appendix C: QCS Public Interest Test Report
- Appendix D: Cross-Boundary Bus Collaboration Protocol
- Appendix E: QCS Affordability Analysis
- Appendix F: BSDP Consultation Report

1.5 The QCS Public Interest Test Report which is included as Appendix C to the Nexus Report has been redacted to exclude confidential information provided by the bus operators. The unredacted version of that report is included in the confidential Annex 3.

1.6 The present report sets out the assessment which NECA officers have carried out of that analysis and all other matters which the Leadership Board should take into account before deciding whether to proceed with either option. It is supported by two legal opinions, authored jointly by Leading and Junior Counsel, which are attached at Annex 2

# North East Combined Authority

## Leadership Board

---

- 1.7 As set out above, the recommendation of NECA officers is that the Leadership Board should proceed with the QCS. This report explains the process and timetable which will apply if that recommendation is adopted.

### **Background**

- 2.1 At its meeting on 26 July 2013, the Tyne and Wear ITA (“TWITA”) considered a report regarding a proposal for a QCS which had been developed by Nexus on the instructions of TWITA. The report also detailed a VPA proposal which had been brought forward by the North East Bus Operators’ Association (“NEBOA”) as an alternative means of delivering the objectives of the BSDP.
- 2.2 On the basis of the analysis carried out by Nexus (and the assessment of that analysis by TWITA officers), TWITA decided at that meeting to carry out a statutory consultation exercise in respect of the proposed QCS. It authorised Nexus to undertake this exercise on its behalf. At the same time, TWITA also directed Nexus to maintain a constructive dialogue with the bus operators and give due regard to any further proposals for a VPA which they might bring forward during the consultation period.
- 2.3 The statutory consultation exercise began on 30 July 2013 and concluded on 22 November 2013. Following detailed analysis of the consultation responses, Nexus considered that it was appropriate to make a limited number of potential changes to the proposed QCS and that these should be subject to a period of supplemental consultation. This supplemental consultation exercise, which was approved by TWITA at its meeting on 27 March 2014, was carried out by Nexus between 9 April and 4 June 2014. (NB: NECA officers have considered the supplemental consultation document produced by Nexus and the proposals it contained, together with the feedback received in respect of those proposals. NECA officers agree with Nexus' view that certain changes proposed should be adopted as part of the proposed QCS on the basis that such changes will not materially increase the cost or affect the benefits of the QCS, but will help to mitigate adverse effects of the QCS. These changes are reflected in the QCS at Appendix B to the Nexus Report.)
- 2.4 Nexus have produced a detailed consultation report which describes the consultation process, the responses which have been received and how Nexus have taken account of these responses in their analysis and development of the QCS proposal. That consultation report is attached as Appendix F to the Nexus Report and is considered at paragraphs 4.17 to 4.21 of this report.

# North East Combined Authority

## Leadership Board

---

2.5 In accordance with the TWITA decision of 26 July 2013, Nexus also maintained a dialogue with NEBOA as to their proposals for a VPA. NEBOA submitted a revised version of the VPA to Nexus on 13 December 2013 and a series of discussions took place between Nexus and NEBOA which then led to NEBOA submitting a further revised version of the VPA (dated 21 May 2014) which NEBOA confirmed to be their “best and final offer”.

### 3. Statutory requirements

3.1 It may assist Members to recap at this stage on the position in terms of the procedure for making a QCS. The procedure for making a QCS under the Transport Act 2000 (as amended) is informed by statutory guidance published by the Department for Transport in December 2009. Nexus and NECA officers have had regard to this guidance when assessing the proposed QCS.

3.2 Under section 124 of the Transport Act 2000 (as amended) a local transport authority can only make a QCS if it is satisfied that the proposed scheme will meet the following criteria (collectively referred to as “the Public Interest Test criteria”):

- (a) the proposed scheme will result in an increase in the use of bus services in the area to which the proposed scheme relates;
- (b) the proposed scheme will bring benefits to persons using local services in the area to which the proposed scheme relates, by improving the quality of those services;
- (c) the proposed scheme will contribute to the implementation of the local transport policies of the authority or authorities;
- (d) the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective; and
- (e) any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraphs (a) to (d).

3.3 As set out above, NECA (through the actions of its predecessor, TWITA) has commenced the statutory process for making a QCS by undertaking the necessary consultation in accordance with section 126 of the Transport Act 2000. If (in light of the consultation responses) NECA is satisfied that the QCS meets the Public Interest Test criteria and decides to proceed further with the QCS, then the next stage is to refer the consultation responses and the proposed scheme to the QCS Board (an independent expert panel established by the Senior Transport Commissioner).

# North East Combined Authority

## Leadership Board

---

- 3.4 The QCS Board's remit would be to provide an opinion as to whether the Public Interest Test criteria and procedural requirements have been met and, if the Board considered they had not, it may recommend actions that NECA may take to remedy the situation. NECA would need to publish a formal response to the Board's opinion and any recommendations. This could potentially require NECA to make modifications to the proposed scheme and carry out further consultation before it actually made the scheme. Once NECA made the scheme, it could then proceed with the procurement of operators to deliver services under the quality contracts (NB: the decision to make the scheme is subject to a right of appeal to the Transport Tribunal). The current indicative timetable thereafter for implementation of the QCS would be:

Engagement with QCS Board	Oct - Feb 2015  (the precise timetable will be determined by the QCS Board but this provision allows the QCS Board significantly more time than is envisaged in the statutory scheme)
Nexus reports to NECA on the QCS Board decision and any recommendations from the Board	Feb - March 2015
NECA decision as to whether to make the QCS	March 2015
Procurement of quality contracts	March 2015 - Aug 2016
Transition to new arrangements	Sept 2016 - Feb 2017
QCS becomes operational	March 2017

- 3.5 Alternatively, if NECA decided to pursue the VPA proposal, then it would essentially be a matter of NECA, Nexus, the individual local highway authorities and the relevant bus operators finalising the terms of the VPA before completing the legal agreement.

# North East Combined Authority

## Leadership Board

---

### 4. NECA officers' assessment of Nexus' analysis

- 4.1 Whilst TWITA and (as its successor) NECA have commissioned Nexus to undertake the consultation on the proposed QCS and explore the scope to develop a VPA with NEBOA, it must be stressed that the decision as to whether or not to proceed with either proposal is ultimately a decision for NECA. Therefore, NECA must satisfy itself that the analysis is sound before deciding what action to take. Accordingly, NECA officers have reviewed the analysis undertaken by Nexus and discussed these matters with Nexus. Officers have also reviewed the findings of SYSTRA Ltd, who have provided independent quality assurance to Nexus, and have also obtained independent legal advice. In this regard, Counsel have provided legal advice to NECA on a number of issues which is attached at Annex 2 and detailed below.
- 4.2 The Nexus Report (at Annex 1) provides their summary of the analysis which they have undertaken and is supported by the detailed documents which are included as Appendices A to F thereto.
- 4.3 The remaining paragraphs in this section set out the assessment carried out by NECA officers of the key issues identified in the Nexus Report and supporting documents.

#### *The "Do Minimum" Scenario*

- 4.4 As a starting point, Nexus have analysed what is most likely to happen in terms of bus services over the next ten years if no intervention is made, i.e. there is neither a QCS nor a VPA. This is set out briefly in section 3 of the Nexus Report and in more detail in section 1.4 of the QCS Public Interest Test Report at Appendix C to the Nexus Report.
- 4.5 In essence, it is projected that, in this "Do Minimum" scenario, 66 million bus trips will be lost and that there will be service reductions and withdrawals as well as the withdrawal of discretionary concessionary fares. The adverse social and economic impacts are summarised at section 3.6 of the Nexus Report and include:
- a reduction in the ability of some people (particularly, the young, the elderly, the disabled and the economically disadvantaged) to participate as frequently or as easily in employment, education, healthcare, retail and social activity; and
  - a contribution to increased traffic congestion as people switch from bus to car use.

# North East Combined Authority

## Leadership Board

---

- 4.6 Whilst the Nexus Report recognises the underlying trend of increasing car ownership will be a major factor in the reduction in bus usage under any scenario, it also identifies the continuation in the trend of above-inflationary fare increases along with the need to reduce public expenditure whilst continuing to fund the statutory concession scheme (the English National Concessionary Travel Scheme – “ENCTS”) as the main drivers in the Do Minimum scenario.
- 4.7 The assumptions used to model all three scenarios (i.e. the Do Minimum scenario, the VPA scenario and the QCS scenario respectively) were examined and tested in detail.
- 4.8 The key difference in the Do Minimum scenario compared to the other two scenarios is that, without the potential for cost savings and improved value for money of the other two scenarios, Nexus and NECA would need to achieve savings to balance the Tyne and Wear Transport budget earlier once the current level of reserves was exhausted, which would have an adverse impact on services. There is a range of different service reduction decisions that could be made and those chosen by Nexus appear to be reasonable, based on a clear rationale that sought to minimise the impact on the public.
- 4.9 A key assumption is the level of future funding that may be available from Councils through the Tyne and Wear Transport Levy for bus services. In view of the uncertainty over what would happen in terms of implementing Government funding reductions, the model assumes that the current level of funding (as at 2014/15) would be maintained in cash terms over the period for all three options, despite the pressure on Councils’ budgets to implement further reductions in funding. The possibility of a reduction is discussed in section 1.4.6 in the Public Interest Test at Appendix C, but without firm evidence to support a particular assumption about the level of any funding reduction, a standstill funding assumption has been used.
- 4.10 The Do Minimum scenario is therefore considered to be an appropriate and prudent basis on which to assess the merits of the QCS and the VPA. NECA officers consider it unlikely that, in current circumstances, the funding available to support bus services in Tyne and Wear would result in a more favourable outcome than that modelled in the Do Minimum scenario, although in the current circumstances there is a risk that it could be worse.

### *The VPA Proposal*

- 4.11 The current VPA Proposal (which is attached as Appendix A to the Nexus Report) is considered in section 4 of the Nexus Report and in more detail in section 6.5 of the QCS Public Interest Test Report (at Appendix C).

# North East Combined Authority

## Leadership Board

---

- 4.12 Whilst it is noted that the VPA Proposal would need some further technical development before it was in a suitable form to be signed (see para 4.27 of the Nexus Report), this should not be regarded as a major impediment. The key issues are whether the proposed benefits of the VPA are of sufficient magnitude and certainty to justify pursuing this option further (instead of the QCS).
- 4.13 In this respect, NECA officers concur with the conclusions reached by Nexus. It is recognised that the VPA would have some benefits such as providing NECA and the local authorities with:
- a greater degree of involvement in and influence over the operators' decisions as to changes to the bus network and fare increases;
  - the potential scope for savings of up to £1.6m pa (in addition to more certain savings of approximately £0.4m, some of which have already been implemented);
  - an increase of at least 50 new vehicles on the network; and
  - some improvements to fares and ticketing.
- 4.14 However, NECA officers agree with Nexus' concerns regarding the adequacy and certainty of the benefits of the VPA Proposal, particularly with regard to the following:
- operators retain ultimate control over changes to the network and fare increases;
  - the deliverability of the potential savings in full is uncertain;
  - the grounds for termination are so widely-drawn that there must be doubts as to how long the VPA (and the benefits it delivers) would remain in effect; and
  - the redress awarded to NECA and/or the local authorities for any breach by the operators would appear to be limited.
- 4.15 Therefore, NECA officers would agree that the VPA Proposal as it currently stands would seem to be of limited benefit in terms of meeting the objectives of the BSDP. This issue is considered further below in the application of the Public Interest Test criteria. If NECA officers' recommendation to refer the QCS to the QCS Board is accepted, NECA is also asked to resolve that Nexus does not pursue the VPA proposal any further. If a revised VPA proposal were produced by the operators, then this may require consideration on its merits. However, the decision to refer the QCS to the QCS Board would mean that NECA has decided to pursue the QCS and not the VPA as currently proposed as a means of improving bus services in Tyne and Wear, and in those circumstances it is appropriate that Nexus' resources be focussed on supporting the QCS through the next stages of the statutory process.

# North East Combined Authority

## Leadership Board

---

### *The Proposed QCS*

- 4.16 The proposed QCS is attached as Appendix B to the Nexus Report. It is summarised in section 5 of the Nexus Report and section 1.5 of the QCS Public Interest Test Report (Appendix C to the Nexus Report). NECA officers are satisfied that the description of how the QCS would operate is accurate and does not require further comment.

### *Consultation*

- 4.17 As noted in section 2 of this report, the QCS has been subject to consultation in accordance with the formal requirements of the Transport Act 2000 (as amended) and to a significantly wider public information campaign. Nexus have produced a Consultation Report (attached as Appendix F to the Nexus Report) which explains the stages of informal, formal as well as supplementary consultation undertaken by Nexus, and the public information campaign. The report details all the material themes arising from the responses received and how Nexus have analysed and addressed those responses in the context of preparing the Public Interest Test Report. Section 8 of the Consultation Report sets out the number of consultation responses received and the actual responses can be found on the Nexus consultation website ([www.nexus.org.uk/busstrategy](http://www.nexus.org.uk/busstrategy)). NECA officers have read and considered the consultation responses and have considered Nexus' analysis as detailed in the Consultation Report in the light of that review.
- 4.18 NECA officers would draw attention to the fact that James Pereira QC and Jack Connah of Francis Taylor Building ("Counsel"), instructed on behalf of NECA, have undertaken a similar review and that they have advised that, in their view, Nexus have complied with the statutory requirements for consultation (see paras 4.41 to 4.43 below for a summary of Counsel's conclusions in relation to the adequacy of the consultation process).
- 4.19 Based on their own review, NECA officers are satisfied that at all stages the consultation process has complied with the requirements of Section 125 of the Transport Act 2000 (as amended) and that all other legal requirements necessary for the conduct of a lawful consultation have been observed. It follows that NECA officers agree with Nexus' conclusions that:
- (a) The consultation process has been sufficiently robust to engage all the necessary parties;
  - (b) Sufficient and suitable information has been provided to allow the parties to interpret and respond to the consultation; and

# North East Combined Authority

## Leadership Board

---

(c) Nexus have appropriately considered and responded to all relevant points made by respondents to the consultation.

4.20 NECA officers have considered whether, following the conclusion of formal and supplementary consultation, there are any issues which, in their view, would require further formal consultation or that NECA might, whether formally required or not, wish to consider obtaining further feedback on before proceeding further. NECA officers agree with the conclusion reached by Counsel that there is no legal requirement for further consultation and they confirm that they have not identified any issues where further public engagement would potentially be beneficial at this stage.

4.21 Based on their own review, NECA officers consider that the breadth of responses to consultation and the detail of many of those responses mean that NECA members can be satisfied that the consultation process has provided a robust basis on which to make the present decision. NECA officers further consider that Nexus' analysis of the consultation responses, as set out in Section 9 of the Consultation Report, into eleven main themes and then divided into a series of sub themes, provides a useful summary for NECA members of the outputs from the consultation. It also summarises how Nexus have analysed each theme, and then addressed those issues in the QCS Public Interest Test Report (at Appendix C to the Nexus Report), their revisions to the draft QCS and the proposed approach to the procurement of Quality Contracts.

### *Public Interest Test Criteria*

4.22 As noted in section 3 of this report, NECA will only be able to make a QCS if it is satisfied that the statutory Public Interest Test criteria (which are listed in paragraph 3.2 of this report) have been met.

4.23 Nexus have summarised their approach to the Public Interest Test Criteria at sections 5 and 6 of the Nexus Report and it is described in detail in the QCS Public Interest Test Report at Appendix C.

### *Criterion A: the proposed scheme will result in an increase in the use of bus services in the area to which the proposed scheme relates*

4.24 The modelling work undertaken by Nexus forecasts that the implementation of the QCS over the next 10 years will generate an extra 90 million passenger trips more than the "Do Minimum" scenario (which is forecasted to result in a decrease of 66 million), thus producing a net increase in the number of bus trips compared to the present.

# North East Combined Authority

## Leadership Board

---

- 4.25 Having reviewed the approach taken by Nexus and also the assessment of SYSTRA Ltd (who were instructed to carry out quality assurance work on the QCS Public Interest Test Report), NECA officers are satisfied that Nexus' conclusions are reasonable and appropriate, and that this criterion has been satisfied.

*Criterion B: the proposed scheme will bring benefits to persons using local services in the area to which the proposed scheme relates, by improving the quality of those services*

- 4.26 Section 3 of the QCS Public Interest Test Report describes a range of benefits to persons using the services in the area which would arise from improvements to the quality of those services if the QCS were made. Given that these benefits are largely inherent in the operation of the scheme and will be secured contractually as part of the QCS, NECA officers agree with Nexus' finding that this criterion is met.

*Criterion C: the proposed scheme will contribute to the implementation of the local transport policies of the authority or authorities*

- 4.27 Section 4 of the QCS Public Interest Test Report contains a review by Nexus of the local transport policies of NECA. These include those transport policies which were originally adopted by TWITA for Tyne and Wear, such as the Tyne and Wear Local Transport Plan and the Bus Strategy for Tyne and Wear. The QCS would contribute significantly to the implementation of those policies. Section 4 of the QCS Public Interest Test Report also considers the likely impact of a QCS on those parts of NECA's area which would not be subject to the QCS, namely Durham and Northumberland. It concludes that the QCS would not conflict or contravene the policy goals and objectives of the Third Local Transport Plan for Durham (2011 onwards), the Durham Bus Strategy (2009), the Third Local Transport Plan for Northumberland (2011-2026), or the Northumberland Public Transport Strategy (2011-2016, published in 2012).

- 4.28 It is acknowledged that some bus services in Northumberland and Durham would be affected by the QCS, and a Cross-Boundary Collaboration Protocol is proposed to manage the risks that arise from this. The effect of the Cross-Boundary Bus Collaboration Protocol, which would cover services in Northumberland and Durham, would be that, where services were 'out of scope' and were amended or withdrawn as a consequence of QCS procurement, funding may be provided to ensure that the shortfall in accessibility was remedied

# North East Combined Authority

## Leadership Board

---

- 4.29 NECA officers are satisfied that Nexus' assessment of these issues is accurate and therefore that this criterion is satisfied.

*Criterion D: the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective*

- 4.30 Section 5 of the QCS Public Interest Test Report describes the methodology which Nexus adopted in considering this criterion, including how Nexus adapted its methodology in response to the consultation submissions made by the operators. NECA officers consider that the methodology applied to this criterion by Nexus is appropriate, which view is shared by SYSTRA Ltd. Accordingly, NECA officers concur with Nexus that the criterion is satisfied.

*Criterion E: any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraphs (a) to (d)*

- 4.31 This criterion is addressed in detail in section 6 of the QCS Public Interest Test Report and in summary in paras 5.84 to 5.100 of the Nexus Report. In addition to the question of whether this criterion is met, Nexus have also addressed at this juncture the human rights arguments which have been raised by operators to the effect that the making of the QCS would constitute an unlawful infringement of the right of a natural or legal person to the peaceful enjoyment of his or her possessions, contrary to Article 1 of the First Protocol of the European Convention of Human Rights.

- 4.32 In order to support their arguments on these issues, the operators have submitted specific information relating to what they perceive to be the potential adverse financial impacts of making a QCS on their businesses. The operators have submitted this information on the basis that it is treated as strictly confidential. Confidential Annex 3 to this report contains an unredacted version of the QCS Public Interest Test Report which addresses this information. The redacted version is at Appendix 3 to the Nexus Report.

- 4.33 NECA officers recommend to members that, in their review of the papers before them, they pay particular attention to section 6 of the QCS Public Interest Test Report. In this section, Nexus have analysed (drawing as appropriate from the analysis of the other criteria in the statutory test) the adverse impacts on operators from the QCS and the extent to which those adverse impacts can be considered proportionate to the improvements in well-being derived from the QCS across Tyne and Wear. As explained below, this issue is of central importance in determining the legality of the proposed QCS.

# North East Combined Authority

## Leadership Board

---

- 4.34 Where it has not been possible to analyse reliably the impacts on individual operators, Nexus have explained why this is the case. NECA officers consider that, following consultation, Nexus' categorisation of the likely classes of adverse impact listed in Section 6 is robust and, after careful consideration, NECA officers have not identified any other potential adverse impacts that would have warranted further consideration by Nexus.
- 4.35 In accordance with legal advice on this matter (see below), Nexus have, to the extent that it is possible to do so, considered the likely adverse impacts on the operators both individually and collectively. Officers note that Nexus has provided at para 6.3.3 of the QCS Public Interest Test Report (page 187) a table which sets out what Nexus estimates to be the range in terms of the aggregate minimum and maximum values of any adverse impacts.
- 4.36 NECA officers agree with Nexus' view that it is not appropriate for the purposes of assessing proportionality to assess adverse impacts on the basis of the theoretical worst case scenario advanced by operators. Instead, NECA must consider, based on a review of Nexus' assessment, what are the likely realistic range of adverse impacts.
- 4.37 For the reasons set out in Section 6 of the QCS Public Interest Test Report NECA officers accept Nexus' conclusions that, in practice some of the losses claimed by the operators are unlikely to occur, or will only do so to a materially lower extent than that asserted by the operators and that in other cases such impacts are likely to be capable of material mitigation.
- 4.38 NECA officers agree with Nexus' conclusion that it is not possible to predict the precise extent of these impacts with any certainty since they essentially depend on what proportion of the bus network each operator would have under a QCS following the allocation of contracts through the necessary procurement exercises. The worst case scenario predicated by the large operators in their consultation feedback depends on those operators not retaining any business under the QCS. NECA officers agree with Nexus' view that such an extreme outcome is unlikely to occur and it is materially more likely that some or all of the incumbent large operators will retain some of their existing business.

NECA officers also agree with Nexus' assessment that the minimum level of adverse impact is highly unlikely to occur in practice. Nonetheless, the minimum to maximum range set out in the table is important as it allows members to understand that the QCS will inevitably have a significant adverse impact on operators if it is made and to understand the range within which those impacts will occur, based on an assessment of the likelihood of those impacts actually occurring and the weight to be attached to them.

# North East Combined Authority

## Leadership Board

---

NECA officers also agree with Nexus' conclusion that the QCS is likely to have a beneficial impact overall on smaller bus operators. Members should note that one of the smaller bus operators does run a single commercial route which will now be encompassed within a QCS Contract for which that operator will have to compete. However, with that exception, the effect of the QCS is to preserve for such operators the opportunity to operate secured services whereas under the Do Minimum scenario all such business would be lost and under the VPA the bulk if not all of such business would also be lost.

Therefore, whilst it must be recognised by members that there will be significant adverse impacts on operators, there is a range of scenarios with differing severity and this has been extensively and carefully considered by Nexus in section 6. To complete the proportionality analysis Nexus have also considered the benefits to people living or working in the area of the QCS. In undertaking this exercise Nexus have assessed and monetised using generally accepted methodologies those benefits of the QCS that can be monetised. However, Nexus have also identified and explained a range of other significant benefits flowing from the QCS which are not capable of being monetised. In forming a view of the proportionality of the QCS Members should, in the context of the strategic objectives of NECA, determine what weight they attach to such benefits and hence whether in line with the analysis of Nexus, they agree that the benefits to be derived from the QCS outweigh the adverse impacts on the large operators and hence agree that the QCS will be proportionate. Counsel's advice provides support that the approach taken to proportionality by Nexus is lawful.

NECA officers also agree with Nexus' assessment that, for the reasons summarised at paragraphs 4.11 to 4.15 above in this report, the VPA does not represent an appropriate alternative option to the QCS.

- 4.39 NECA officers have reviewed the approach which Nexus have taken and agree with their findings, namely that the likely impacts on the operators are proportionate to the improvement in the well-being of persons living or working in the area to which the proposed QCS relates, and Nexus officers agree that the VPA does not offer an appropriate alternative means for achieving these aims, nor does it prevent the QCS from being proportionate for the purposes of this criterion. In short, it is agreed that this criterion is met.

### *Conclusions on statutory requirements*

- 4.40 As set out above, NECA officers consider that the Public Interest Test Criteria have been satisfied and that the procedural requirements for making a QCS have been complied with. In this regard, NECA is provided with the assurance of advice from Counsel

# North East Combined Authority

## Leadership Board

---

4.41 Nexus have procured two legal opinions from Counsel on behalf of NECA which are at Annex 2 to this report. The first opinion advises NECA on the question of whether Nexus has undertaken a satisfactory consultation process in compliance with all relevant statutory and other legal requirements and addresses the following issues:

- a. Whether the statutory preconditions for taking the step in section 126C(4) Transport Act 2000 (as amended) [“the TA”] – namely, sending a written request to the QCS Board to begin the performance of its statutory functions under section 126D TA – have been complied with;
- b. Whether, as detailed in the Consultation Report, Nexus have undertaken adequate consultation on behalf of the NECA which complies with NECA’s obligations under the TA;
- c. Whether, based on the consultation responses to the formal and supplemental consultation and the revisions to the QCS now recommended by Nexus, there are any matters on which NECA should require Nexus to re-consult before proceeding to consider the QCS; and
- d. Whether, in light of the responses to the above questions, it would be lawful for the NECA to make that request under section 126C(4).

4.42 Counsel's advice concludes that:

- a. Nexus have complied with the statutory preconditions to making a request under section 126C(4) TA;
- b. The consultation carried out by Nexus was adequate, and complied with the requirements of the TA;
- c. There is no requirement for Nexus to re-consult on any matters; and
- d. In light of that advice, it would be lawful for the NECA to make a request under section 126C(4) TA.

4.43 Based on Counsel's advice and the analysis in Nexus' Consultation Report NECA officers consider that, if NELB's members are satisfied with this analysis, it will be appropriate for the NELB to determine that Nexus has complied with the formal requirements for consultation on a QCS.

4.44 In the second opinion, Counsel advises NECA on the legal issues that need to be taken into account in determining whether or not the QCS would satisfy the

# North East Combined Authority

## Leadership Board

---

legal test for proportionality if made by NECA and, in particular, Counsel consider:

- a. Whether the QCS Public Interest Test Report, and in particular its proportionality analysis, represents a lawful analysis on each of the statutory tests under section 124 TA;
- b. Whether, in analysing those matters, Nexus have taken into account all matters that they should properly have taken into account and discounted all of those that it should not;
- c. Whether the QCS would, if made:
  - i. engage the rights of the Operators under Article 1 of the First Protocol of the European Convention on Human Rights ["A1P1"]; and
  - ii. be proportionate for the purposes of A1P1;
- d. Whether the draft QCS, as revised and set out at Appendix B to the Nexus Report, is in a form which could, subject to review by the QCS Board, be lawfully made by the NECA if it so decided; and
- e. Whether, in all the circumstances, the QCS and supporting information in the appendices provide sufficient information to enable NECA to make a lawful decision as to whether or not to refer the QCS to the QCS Board.

4.45 Counsel's advice concludes that:

- a. The QCS Public Interest Test Report represents a lawful analysis of the statutory tests contained within section 124(1) TA;
- b. Nexus have taken into account all, and only, material considerations in reaching their conclusions;
- c. As regards A1P1:
  - i. although it may be that the operators' business goodwill is not a possession under A1P1, NECA should proceed on the basis that the QCS, if made, would engage the rights of operators under A1P1; and
  - ii. Nexus' assessment sets out a justifiable conclusion that interference with those rights would be proportionate;

# North East Combined Authority

## Leadership Board

---

- d. The draft QCS is in a form which could, subject to review by the QCS Board, be lawfully made by NECA if it so decided; and
- e. The QCS and supporting information in the appendices to the Nexus Report provide sufficient information to enable NECA to make a lawful decision as to whether or not to refer the QCS to the QCS Board.

4.46 Based on Counsel's advice and the analysis in the QCS Public Interest Test Report (at Appendix C to the Nexus Report), NECA officers consider that, if Members are satisfied with the analysis in Counsel's opinion and the QCS Public Interest Test Report, then it will be appropriate for Members to determine that, pending review by the QCS Board, the QCS as now configured would be proportionate if made, both in terms of section 124 TA and A1P1.

4.47 On this basis, it is considered that NECA can lawfully proceed to the next stage of the QCS process and refer the QCS and the consultation responses to the QCS Board for consideration. However, before deciding to do so, NECA needs to consider the implications of such a decision in terms of the overall affordability of a QCS and also the risks associated with taking that decision.

### **5. Affordability**

5.1 A key issue is the availability of a constant level of funding for bus services including the costs of concessionary travel over the life of a VPA or a QCS.

5.2 The need to protect funding over the life of a QCS has been discussed with the constituent Councils as the Bus Strategy has developed. The initial Bus Strategy proposals envisaged a cash freeze in the Transport Levy for the first four years, followed by an RPI inflationary uplift in the last six years of the scheme. Some Councils considered that this was unlikely to be affordable, given the level of funding reductions that the Government was proposing and the general uncertainty of funding in future years and this point was made in responses to consultation.

5.3 The QCS scheme assumptions in the model were changed to remove the potential uplift in funding for inflation in the last six years of the scheme. The assumption of a 'levy freeze' has also changed to one of a cash protection in the funding for Bus Services. This will enable savings in other non-bus budgets to be made, with the potential for the benefit of the savings to be passed to districts in the form of a Levy reduction, while protecting funding for bus services in cash terms.

5.4 The proposed Transport Budget and Levy for 2015/16, which is set out in the report on the NECA 2015/16 Budget, incorporates the assumption of a cash protection for funding for bus services, with savings in the budgets within

# North East Combined Authority

## Leadership Board

---

Nexus enabling a reduction in the levy for 2015/16 of £1m, to help Tyne and Wear metropolitan district councils meet the reductions in Government funding.

5.5 The revised affordability assumptions are considered to be realistic and reasonable under the VPA and QCS scenarios.

5.6 The assumptions about the use of reserves under all scenarios have been reviewed and are considered reasonable.

### 6. Risk Assessment

6.1 There are risks in terms of the assumptions about cost, savings and income which need to be managed under each of the bus strategy scenarios. This includes the identification of potential mitigating actions to avoid and minimise their potential impact as well as a financial risk contingency to help meet their financial impact.

6.2 The risks under the VPA and QCS are identified and included in the attached Nexus Report and supporting documentation. The level of potential risk under a QCS is considered to be higher than under the other options, due in particular to transitional risks including the uncertainty over the outcome of the tendering exercise and the potential for legal challenge and the additional ongoing revenue risk being taken by Nexus.

6.3 A risk contingency of £80m has been modelled by Nexus, which, on the basis of the evidence available to NECA officers, appears to be reasonable. Potential risks have been identified and provision made within the contingency, with transitional costs being able to be covered by existing levels of reserves.

6.4 While the independent assessment of risks by SYSTRA Ltd has commented favourably on the level of the contingency, there is always a level of uncertainty in assessing the financial impact of risk. The Nexus Report recognises this and section 5.49 draws attention to the fact that:

“... In the event that all financial risks crystallised to the extent that the risk contingency was not sufficient, and because Nexus would be restricted to fare increases at no more than RPI, in establishing the QCS, the NECA would need to accept these financial risks but in doing so, would be in a position to manage them.”

This would be a risk that would fall on the Tyne and Wear Transport Budget and the Transport Levy on the Tyne and Wear districts. It could be managed by making choices about alternative cost savings within the transport budget (which could impact on transport services in Tyne and Wear) or through an increase in the Tyne and Wear Transport Levy or a combination of both.

6.5 The report also notes that any surplus left in the risk contingency, would be released in future years. This would be something that would be reflected in

# North East Combined Authority

## Leadership Board

---

the decisions about the Transport Budget and Levy for Tyne and Wear in future years.

- 6.6 As noted above, it is expected that a number of the major bus operators will oppose the case for the making of the QCS when the matter comes before the QCS Board. They may also seek to challenge any decisions made by NECA at any stage of the process. As set out above, Counsel's opinion provides re-assurance as to the lawfulness of the course of action recommended in this report but Members will appreciate that this is the first time that a local transport authority has referred a proposed QCS to a QCS Board.

### 7. **Next Steps**

- 7.1 If the recommendations in this report are adopted, then the QCS and the consultation responses will be referred to the QCS Board as the next stage in the statutory procedure of making the QCS.

### 8 **Potential Impact on Objectives**

As set out in this report, it is anticipated that the QCS will contribute significantly to the delivery of the objectives of NECA's Bus Strategy for Tyne and Wear.

### 9 **Finance and Other Resources**

- 9.1 The Chief Finance Officer of the Combined Authority, who was previously the Treasurer of TWITA, has been fully briefed on and has been involved in reviewing the financial modelling and the evaluation work undertaken by Nexus and their external advisers throughout the process of developing the Bus Strategy.
- 9.2 The views of the Chief Finance Officer have been incorporated in the above sections of this report. It should also be mentioned that TWITA has delivered significant reductions in the Levy costs to Tyne and Wear Districts in recent years to help meet the reductions in Government funding, while protecting transport services. This has been achieved through the delivery of efficiency savings, income generation and the planned use of Nexus reserves, while seeking to protect service outcomes. The use of reserves is a short term measure, while further cost savings are achieved, including improved value for money of bus services.
- 9.3 The financial implications of the QCS will continue to be kept under review and, in the event that the QCS is pursued further, they will be updated to reflect any new information available, including the response from the QCS Board, and will be incorporated into the reports that would be considered by NECA prior to any formal decision to make the QCS.

# North East Combined Authority

## Leadership Board

---

### **10 Legal**

- 10.1 As set out above, NECA officers have had the benefit of Counsel's opinion which is set out at Annex 2 and summarised in the body of this report. The key legal issues are addressed in the body of this report.

### **11 Other Considerations -**

#### **11.1 Consultation/Community Engagement**

The QCS proposal has been subject to extensive consultation and engagement as set out in the Consultation Report at Appendix F to the Nexus Report.

#### **11.2 Human Rights**

These issues are dealt with in section 4 of this report.

#### **11.3 Equalities and Diversity**

There are no implications for equalities and diversity arising directly from this report, but the results of future decisions on bus services may have an impact and so would need to be subject to the appropriate impact assessments being carried out.

#### **11.4 Risk Management**

These issues are dealt with in section 6 of this report.

#### **11.5 Crime and Disorder**

There are no significant crime and disorder implications arising from this report.

#### **11.6 Environment and Sustainability**

Encouraging an increase in bus patronage can help to address climate change by encouraging the use of more sustainable modes of travel, thus reducing the harmful emissions generated by single occupancy private car use.

### **12. Background Documents**

The Bus Strategy for Tyne and Wear

QCS Consultation materials

All background documents are available at  
<http://www.nexus.org.uk/busstrategy>

# North East Combined Authority

## Leadership Board

---

### 13 Links to Plans in the Policy Framework

- 13.1 The Bus Strategy is part of the Local Transport Plan for Tyne and Wear. Improving transport connectivity and reducing carbon emitted by transport are objectives of the Strategic Economic Plan.

### 14 Appendices

Annex 1 Nexus Report, including

Appendix A: Voluntary Partnership Agreement  
Appendix B: The Quality Contracts Scheme  
Appendix C: QCS Public Interest Test Report (redacted)  
Appendix D: Cross-Boundary Bus Collaboration Protocol  
Appendix E: QCS Affordability Analysis  
Appendix F: BSDP Consultation Report

Annex 2 Counsel's opinions on:

- procedure and consultation; and
- proportionality

Annex 3 QCS Public Interest Test Report (unredacted)

### 15 Contact Officers

- 15.1 Andrew Lewis, Assistant Chief Executive, Newcastle city Council and Chair of Transport Officers Group

Tel: 0191 2115681  
[andrew.lewis@newcastle.gov.uk](mailto:andrew.lewis@newcastle.gov.uk)

John Softly, Assistant Director Legal Services, Newcastle City Council  
Tel: 0191 2777047  
[john.softly@newcastle.gov.uk](mailto:john.softly@newcastle.gov.uk)

### 16 Sign off

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

This page is intentionally left blank



**BUS STRATEGY DELIVERY PROJECT**

**REPORT TO THE  
NORTH EAST COMBINED AUTHORITY**

**BY  
TYNE AND WEAR PASSENGER TRANSPORT EXECUTIVE (NEXUS)**

**OCTOBER 2014**

## EXECUTIVE SUMMARY

- a) In this report Nexus provides information, analysis and advice to assist the North East Leadership Board (NELB) in reaching a decision over which option, if any, to progress in seeking to achieve the North East Combined Authority's (NECA's) Bus Strategy for Tyne and Wear. As originally directed by the former TWITA, both a Quality Contracts Scheme (QCS) and a Voluntary Partnership Agreement (VPA) are presented for consideration.
- b) A 'Do Minimum' scenario sets out a forecast of what is likely to happen if no intervention is made, and is used as a comparator against which the benefits of the QCS and VPA can be measured. The Do Minimum scenario projects a continuation of the long-term trend of declining bus patronage, and severe cuts to those bus services and non-statutory discounted fares that are publicly-funded. Both of these factors will have wide-ranging negative impacts on local people, with children and vulnerable people suffering the worst effects.
- c) After extensive dialogue with Nexus and NECA officers, a VPA has been promoted by the 3 larger local bus operators, and provides for a number of benefits including (among other things): reduced multi-operator bus fares; 50 additional buses in the network; improvements to vehicle quality; some reductions in public expenditure on maintaining socially necessary bus services; and a far greater degree of dialogue between bus operators and the NECA. However, Nexus considers the drafting of the document is such that significant further effort would be required to bring it to a position where it could be entered into by the NECA, and it contains many 'triggers' that may cause operators to terminate their participation, leading to a low level of certainty that the benefits would be realised in practice. The VPA if entered into would slow the decline in bus patronage in the Do Minimum scenario but would not avoid the severe cuts to publicly-funded bus services and non-statutory discounted fares and so would not deliver key elements of the Bus Strategy.
- d) Nexus has developed a QCS that provides for (among other things) simplified fares valid on any bus, with overall fare reductions for adults and significant discounts for children and young people; a single smartcard offering a best price guarantee for travellers; a stable bus network that would only be changed through a democratically accountable process; an improved minimum standard of vehicle quality; and transparent performance requirements. The procurement process is designed to maximise competition and therefore value for public money, as well as smoothing the transfer of workers to new employers where this is required. Bus services in

Northumberland and Durham would be affected by the QCS, and a Cross-Boundary Collaboration Protocol is proposed to manage the risks that arise from this. The negative impacts of service cuts in the Do Minimum scenario would be avoided in full, and local public expenditure would be frozen in cash terms for a ten-year period.

- e) Nexus considers that a QCS would avoid the uncertainty of the VPA as it would be delivered through contracts that would be capable of being clearly and effectively enforced. The QCS would, however, introduce significant risks during the transitional phase, and in the operational phase by virtue of the NECA becoming responsible for all bus revenue and costs. Nexus is confident that these risks can be managed through careful and prudent planning. There is also a risk of legal challenge during the process to introduce the QCS, because existing bus operators have already indicated their opposition to it. Whilst the case for a QCS is strong, the NECA will wish to take account of these risks in reaching any decision.
- f) Nexus considers that the QCS meets the statutory criteria set out in the Transport Act 2000 (as amended), although the NELB must reach its own view on this matter before proceeding.
- g) Nexus is of the view that the QCS is the option that would best achieve the NECA's objectives in the Bus Strategy for Tyne and Wear. It would also deliver a wide-ranging set of improvements to the well-being of persons living and working in Tyne and Wear. Again, however, these are matters on which the NECA must form its own view.

# 1 INTRODUCTION

- 1.1 This report has been prepared by Nexus for the North East Combined Authority. Its purpose is to:
- a) summarise the work that we have done to develop options to deliver the Bus Strategy for Tyne and Wear, namely a QCS and a VPA;
  - b) introduce, following the conclusion of the formal and supplemental consultation processes in relation to the QCS and further dialogue with the larger operators on their VPA, our detailed analysis of those options (including recommended revisions to the QCS) as contained in the various appendices to this report, and to make clear our conclusions; and
  - c) provide summary information that may assist members of the North East Leadership Board in their detailed review of the options before them.
- 1.2 The NECA's Constitution, in Part 3.1 B (15), makes it clear that the approval of Quality Contracts Schemes and/or Voluntary Partnership Agreements is a matter that is reserved to the NELB.
- 1.3 Therefore, whilst in this report we make clear our own view that the QCS is the most effective way to achieve the Bus Strategy for Tyne and Wear, and that the QCS satisfies the requirements of section 124 of the Transport Act 2000, we do so in our capacity as the executive body of the NELB in relation to transport functions in Tyne and Wear and in fulfilment of the direction to Nexus from the former TWITA.
- 1.4 Nexus' view is not in any way binding on the NELB, which must, having considered Nexus' reports and the related materials, reach its own decision regarding the most appropriate way to proceed. This report provides information, analysis and advice to assist the NELB in reaching that decision.
- 1.5 The structure of the remainder of this report is as follows:
- Section 2: Context
  - Section 3: The Do Minimum Scenario
  - Section 4: The VPA
  - Section 5: The QCS
  - Section 6: Comparison between QCS and VPA
  - Section 7: Conclusion
  - Section 8: Glossary of Terms

## **Appendices**

- Appendix A: Voluntary Partnership Agreement
- Appendix B: The Quality Contracts Scheme
- Appendix C: QCS Public Interest Test Report
- Appendix D: Cross-Boundary Bus Collaboration Protocol

Appendix E: QCS Affordability Analysis  
Appendix F: BSDP Consultation Report

## 2 Context

2.1 Buses are essential to the economic and social wellbeing of the NECA area. According to the DfT's National Travel Survey, the North East continues to have the lowest levels of car ownership of any English region (except London) and the highest number of bus trips per head of population (also except London)<sup>1</sup>. In 2012/13 there were 172.6 million recorded passenger trips taken by bus in the NECA area (Tyne and Wear: 139.6 million; Durham: 23.8 million; Northumberland: 9.2 million)<sup>2</sup>.

### *National policy*

2.2 In the UK, with the exceptions of Northern Ireland and London, bus services were 'deregulated' under the Transport Act 1985. Subject to certain licensing requirements, safety and quality standards, bus operators decide which services to run, the fares to charge and other such matters, without recourse to the local authority. Local authorities have powers to supplement these services – filling gaps in the commercial network – by inviting tenders for supported services (known as 'secured services'). Local commercial bus service provision in the NECA area is currently provided for the very large part by three operators – Go North East, Stagecoach and Arriva, with a number of smaller operators operating under contract to Nexus, Northumberland Council and Durham County Council on behalf of the NECA to provide tendered services.

2.3 Partnership working between bus operators and local authorities has been around informally since the 1990s when the bus industry began to stabilise, following the 1985 Transport Act, and both sides realised that cooperation could bring mutual benefits. Typically, a local authority agrees to deliver traffic management measures to assist buses while an operator agrees to raise service quality standards. Many partnerships between local authorities and bus operators have been established on this voluntary basis.

2.4 Legislation was introduced in the Transport Act 2000 to provide for a statutory basis for Quality Bus Partnerships, and thus providing greater certainty for all parties that commitments would be honoured. However some concerns continued to exist that a partnership might be deemed to be an unlawful restriction on competition and, therefore, fall foul of UK competition law.

2.5 The Local Transport Act 2008 provided for two statutory partnership arrangements that were intended to address this:

---

<sup>1</sup> <https://www.gov.uk/government/statistical-data-sets/nts99-travel-by-region-and-area-type-of-residence> Table NTS9902

<sup>2</sup> <https://www.gov.uk/government/statistical-data-sets/bus01-local-bus-passenger-journeys> Table BUS0109b

- a) Statutory Quality Partnerships. These can be imposed by a local authority following consultation with bus operators and other interested parties. The local authority typically invests in better infrastructure such as bus lanes and bus companies invest in better buses. Local authorities can also mandate maximum fares and minimum frequencies. Bus companies which do not meet the specified standards are prevented from operating on the relevant routes.
- b) Voluntary Partnership Agreements. These are formal, voluntary arrangements between the local authority and one or more operators. The local authority must be of the opinion that any disbenefit from reduced competition is outweighed by the benefits of better bus services. As with a Quality Partnership Scheme, the local authority provides better facilities and the operator(s) provide better services. Voluntary Partnership Agreements allow operators to provide coordinated services if a competition test is judged to be met.

2.6 The last Labour Government also introduced legislation in the Transport Act 2000 to give powers to local authorities to enter into Quality Contracts for bus services. The Act defines a Quality Contracts Scheme as a scheme under which the authority or authorities determine what local services should be provided in the area to which the scheme relates, the standards to which they should be provided and any additional facilities or services which should be provided in that area.

2.7 In the years following the implementation of the 2000 Act there was a debate as to why no QCS had ever been applied for, let alone implemented. Bus operators argued that this was because the existing system was working and delivering better bus services, thus there was no need for Quality Contracts. Conversely, many local authorities, and Integrated Transport Authorities in particular, argued that the statutory preconditions that had to be satisfied before a QCS could be introduced were too onerous. In its December 2006 policy paper, Putting Passengers First, the Government put forward proposals to make Quality Contracts Schemes a more achievable option, while “ensuring that these schemes can only be brought forward where the benefits are sufficient to justify them, and safeguarding the legitimate interests of bus operators”. Changes were therefore made to Quality Contracts Schemes through the Local Transport Act 2008.

2.8 In March 2012 the Coalition Government published its green paper on the future of the bus industry, ‘Green Light for Better Buses’. It said the following about Quality Contracts Schemes:

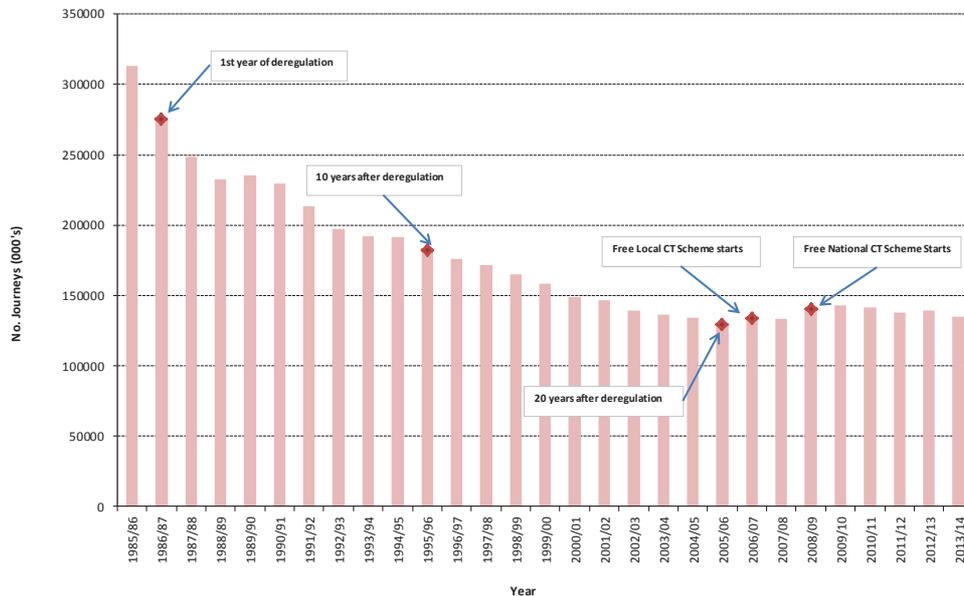
‘Local transport policy must be determined and delivered locally, and so the Government does not intend to remove the flexibility for local

transport authorities to impose this London-style model for bus services, if they decide that is the best way to deliver their public transport policies. We will, however, monitor the development of any schemes with interest'

### *Bus ridership*

2.9 The North East's relatively high use of local buses masks a trend of people switching away from using the bus towards cars. Between 2001 and 2011, the number of people using the bus to travel to work in Tyne and Wear fell by 13% according to the 2011 Census, and over the same time period the number of adult fare-paying journeys on buses fell by 16%<sup>3</sup>. Despite the relatively high utilisation of buses in the North East at 77 trips per head of population in 2011/12, this is down from 84 trips per head in 2004/5, while over the same period car utilisation grew from 371 to 381 trips per head<sup>4</sup>.

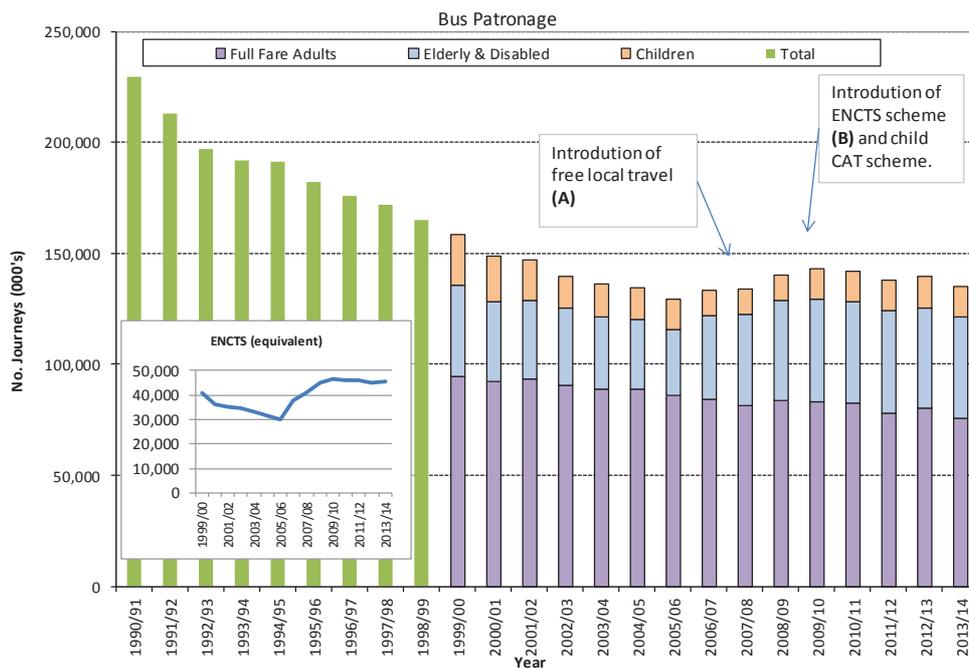
2.10 Bus patronage in Tyne and Wear is in long term decline. After sustained growth during the 1970s and 80s, from the point of deregulation in 1986 the trend became one of decline that lasted until the introduction of free local bus travel for older and disabled people in 2006, followed by free national bus travel under the English National Concessionary Travel Scheme (ENCTS) in 2008. The chart below shows this pattern:



2.11 However it is important to note that this chart masks the underlying trends exhibited by differing types of passenger. As shown by the chart below, the overall patronage trend was significantly flattered by rapid growth in ENCTS passengers between 2006/7 and 2009/10. The numbers of adult fare-paying passengers on the other hand continued to decline in number throughout:

<sup>3</sup> Nexus Continuous Monitoring data

<sup>4</sup> <https://www.gov.uk/government/statistical-data-sets/nts99-travel-by-region-and-area-type-of-residence> Table NTS9903



2.12 According to the North East Strategic Economic Plan published by the North East Local Enterprise Partnership (LEP):

“Whilst aiming to improve transport connectivity, we are also committed at the same time to reducing carbon emitted by transport. A key way of achieving both goals is through the use of shared and sustainable modes of transport alongside reducing carbon emissions from all vehicles and networks. By making sustainable travel easier and more attractive, many short trips can be taken off our local road network, with economic benefits for the area arising out of a reduction in congestion, in addition to wider social and environmental benefits”<sup>5</sup>.

A trend of growing car utilisation and declining bus usage runs counter to that ambition.

2.13 Coupled with this long-term decline in patronage is a trend of reductions in bus service provision and accessibility. The withdrawal of non-profitable routes or sections of routes has contributed to reduced accessibility to local jobs and services over time. The number of vehicle miles operated in the North East reduced from 105 million in 2004/5 to 86 million in 2012/13<sup>6</sup>.

*Performance*

<sup>5</sup> 'More and Better Jobs: A Strategic Economic Plan for the North East', March 2014

<sup>6</sup> <https://www.gov.uk/government/statistical-data-sets/bus02-vehicle-distance-travelled> Table BUS0206

2.14 The day-to-day performance of the local bus system in Tyne and Wear is relatively good: levels of punctuality and reliability are high, and surveys of customers carried out by Passenger Focus record high levels of customer satisfaction with their journey compared to elsewhere in the UK – the last survey showed satisfaction in Tyne and Wear of 90%, and of 85% in Northumberland<sup>7</sup>. It should however be noted that Passenger Focus only surveys passengers who are travelling on the day the survey is undertaken, and so by their very nature they do not take account of the views of people who do not use the bus to travel. The average age of the local bus fleet is 7.7 years (compared to a non-London UK average of 8.3 years, and 5.4 years in London<sup>8</sup>).

#### *Fares and ticketing*

2.15 Customer satisfaction with local bus services' value for money is 62% in Tyne and Wear, and 50% in Northumberland<sup>9</sup> (against a national average of 61% - figures for Durham are not available). Each bus company has its own range of fares valid for travel on its own services, and although Network One provides a separate range of higher-priced multi-modal fares, these are only valid for travel in Tyne and Wear. The ENCTS provides free off-peak travel for older and disabled people (accounting for around a third of bus trips), and in Tyne and Wear children below the age of 16 are entitled to a concessionary fare offering a significant discount compared to commercial child prices. There are no concessionary products for young people aged 16-18 or students, although there are a variety of discounted products for these passengers offered on a commercial basis.

2.16 One of the NECA's objectives is to improve transport integration. This is to be achieved by a number of means, including ticketing and the greater use of technology to benefit passengers. The NESTI Project, in which the NECA is a partner, has developed a smart infrastructure on public transport across North East England. However at this stage the development of a simple range of smart ticketing products to cover public transport across the NECA area has not taken place, in part due to commercial considerations.

#### *Funding for public transport*

2.17 In all, approximately £66.3 million of public funding will be spent this financial year on maintaining the bus network in Tyne and Wear, estimated at approximately 42% of total bus operator income. Nevertheless local bus operations are profitable; it is estimated (based on operators' published

---

<sup>7</sup> Passenger Focus, Bus Passenger Survey 2013 (Note: the survey included survey results for Tyne and Wear and Northumberland, but did not cover Durham)

<sup>8</sup> <https://www.gov.uk/government/statistical-data-sets/bus06-vehicle-stocks-technology-and-equipment> Table BUS0605

<sup>9</sup> Passenger Focus, Bus Passenger Survey 2013

accounts across the last four years) that a 14% EBIT margin is earned on average. A breakdown of the public funding is shown below:

<b>Expenditure</b>	<b>£m</b>
Concessionary Travel - Adult (ENCTS)	36.7
Concessionary Travel - Discretionary (incl child)	3.9
Secured Services	15.6
<b>Total Local Public Support</b>	<b>56.2</b>
BSOG	10.1
<b>Total Public Funding</b>	<b>66.3</b>

2.18 Of this public funding, Nexus provides £56.2m (using funding from the NECA, sourced from the Tyne and Wear levy):

- a) payments for secured bus services (approximately £15.6 million); and
- b) Concessionary travel, which consists of:
  - i. Nexus' statutory obligation to reimburse bus operators for the carriage of elderly and disabled passengers under the ENCTS, pre-0930 travel for ENCTS pass-holders attending hospital, the Companion Pass and travel after 2300 (£36.7 million); and
  - ii. Discretionary child concession scheme (£3.9 million).

2.19 In recent years the government's policy to reduce the national deficit has led to severe financial pressures placed upon local councils in the UK, and in particular in the NECA area. This has inevitably led to reductions in the availability of local funding to support public transport services. As a result, cuts to tendered bus services and discretionary concessions have been applied across the country, including in Durham and Northumberland.

2.20 In Tyne and Wear the strategy has been to maintain services over the medium term. In order to achieve this with reduced funding, Nexus has been expending its reserves since 2011/12, as well as carrying out additional efficiency measures to reduce general expenditure. However the reserves available to Nexus that can be expended on maintaining services are finite and will be fully expended by the end of the financial year 2016/17. From that point onwards the only alternatives are for income to grow, or for local public expenditure to be reduced by approximately £5 million (in the case of local support for bus services), to £51.2 million.

2.21 Although the position in Tyne and Wear has been to maintain services, clearly the option of cutting services in Tyne and Wear in the long term remains available to the NECA, if no alternative approaches can be found. This is discussed in section 3.

- 2.22 Funding for the operation of the Tyne and Wear Metro system is currently sourced from the Metropolitan Rail Grant from DfT (£24.6 million in 2014/15), and income from fares (£39.5 million in 2014/15). It is important to note that none of this funding originates from the NECA or the Tyne and Wear Councils, and there is no expectation that this position will change under the terms of the current DfT funding settlement.
- 2.23 Nexus does however use funding from the Tyne and Wear levy (£4.7 million in 2014/15) to support the provision of the Metro Gold Card, a local discretionary scheme for ENCTS pass-holders that allows off-peak travel on the Metro on Shields Ferry for a £12 annual fee. Given that Metro Gold Card holders are also ENCTS pass holders and are therefore entitled to free bus travel, in the absence of the Metro Gold Card it is highly likely that the vast majority of trips undertaken using it would transfer to bus. The consequence of this would be increased ENCTS reimbursement to bus operators, potentially increasing the level of ENCTS reimbursement by more than the amount currently used to support Metro Gold Card.

*The Bus Strategy and BSDP*

- 2.24 Taking account of the importance of the local bus network and the trends in patronage, accessibility and public expenditure, the former TWITA in 2012 adopted a Bus Strategy for Tyne and Wear with three key objectives:

- Arrest the decline in bus patronage;
- Maintain (and preferably grow) accessibility; and
- Deliver better value for public money.

- 2.25 At its meeting in November 2011, the former TWITA instructed Nexus to:

- a) prepare a draft QCS proposal for Tyne and Wear; and
- b) explore with bus operators and District councils the scope for developing meaningful quality bus partnerships as a possible alternative delivery route for better buses.

These parallel workstreams were taken forward by Nexus through the BSDP.

- 2.26 In July 2013 the TWITA considered both a previous partnership offer put forward by NEBOA, and a QCS Proposal from Nexus. Having weighed up the relative merits of both options, the TWITA resolved to begin formal consultation on the QCS Proposal and issued directions and guidance to Nexus to conduct the consultation on its behalf from 30th July 2013 to 5th November 2013 (this period was extended at the request of consultees to 22nd November 2013). A supplemental consultation exercise was subsequently carried out between 9th April 2014 and 4th June 2014, in respect of some potential changes to the QCS Proposal.

- 2.27 The TWITA also instructed Nexus to maintain dialogue with the bus operators to further develop the VPA. This has been carried out, and a 'best and final offer' of a VPA was presented by NEBOA in May 2014.
- 2.28 On 14<sup>th</sup> April 2014 the NECA was created by Order of the Secretary of State. At the same time, the TWITA was abolished, and its functions, properties, rights and liabilities were transferred to the NECA. As a consequence of this, the Bus Strategy and its objectives became a matter for the NECA to pursue.
- 2.29 In the following three sections of this report, we set out the work that Nexus has done through the BSDP to fulfil the request made by the former TWITA in November 2011:
- **Section 3** considers the 'Do Minimum scenario' which sets out a forecast of what is likely to happen if no intervention is made, and against which the QCS and VPA can be compared to establish the benefits that they deliver.
  - **Section 4** sets out the VPA that has been put forward by NEBOA following discussions between bus operators, Nexus and the NECA officers.
  - **Section 5** describes the QCS that has been prepared by Nexus.

### 3 The Do Minimum Scenario

- 3.1 The Do Minimum scenario is a forecast of what is likely to happen if no intervention is made. This allows assessment of the benefits of the VPA and the QCS. A full description of the Do Minimum scenario is set out in Appendix C, the QCS Public Interest Test Report.
- 3.2 The following summarises the Do Minimum scenario:
- a) A further 66 million bus trips will be lost over the ten-year period, mainly because of:
    - a continuation of the current social trend towards private car ownership and use, without any counter-balancing improvements to the bus system to promote its greater use;
    - sustained increases in bus fares above the rate of inflation; and
    - the withdrawal of secured bus services and discretionary concessionary fares (see next paragraph).
  - b) The need to reduce local public expenditure over the ten-year period is highly likely to lead to service reductions and withdrawals including withdrawal of discretionary concessionary fares. This stems from:
    - a need to eliminate the underlying deficit in Nexus' budget; and
    - the fact that growth in the levels of statutory ENCTS reimbursement, linked to commercial bus fare increases, will steadily consume available resources
- 3.3 Clearly any decisions regarding Nexus' future budget strategy, and any determination of the order in which budget cuts might fall, would require consideration and approval by the NECA before being put into effect. However whatever the order of budget cuts:
- there will be inadequate funding to continue to provide the existing range of secured bus services and discretionary concessionary fares over the ten-year period; and
  - in year nine of the ten-year period an increase in budgetary resources will be required in any event, in order to fund the requirement for statutory ENCTS reimbursement, assuming that the government maintains the ENCTS scheme in its current form.
- 3.4 In order to model the Do Minimum scenario, Nexus has made a number of assumptions regarding the future withdrawal of secured bus services and discretionary concessionary fares. The NELB is not at this point being asked to adopt these as a formal position. In the event that neither a QCS nor a VPA is progressed, it would be a matter for the NELB to determine what service cuts to apply and in what order. The NELB should satisfy itself that the assumptions made by Nexus are, for the reasons set out in the Public Interest

Test Report, credible and provide a realistic basis on which to assess the Do Minimum Scenario.

3.5 The Do Minimum scenario also notes a range of alternative financial scenarios which would need to be taken into account, including the possibility of further cuts to resources in the future.

3.6 Expressed in terms of social consequences, the following will take place under the Do Minimum scenario over the period 2017/18 – 2026/27:

- a) bus fares will increase at a higher rate than inflation, influencing some people to switch from bus to car travel thus contributing to traffic congestion, and preventing others from travelling by bus as frequently as they used to;
- b) the overall number of bus services - both those provided commercially and those that are publicly funded - will decrease, leading to some people having to walk further to access bus services, wait longer for the bus to arrive, interchange at remote locations, and in some cases curtail their activities earlier in the evening;
- c) The increase in bus fares and the reduction in service levels will reduce some peoples' ability to participate as frequently or as easily in employment, education, healthcare, and retail and social activity;
- d) The withdrawal of school buses will make it harder for some children to study at the school of their choosing, leading to increased journey times and in some cases interchange between commercial buses at remote locations. Other children may travel to school by car more frequently, reducing their independence and physical activity, and contributing to peak-hour traffic congestion;
- e) The withdrawal of the discretionary concessionary fare for children will have a detrimental impact on some families' expenditure, with the cheapest single commercial child fare costing significantly more than the concessionary fare (£0.85 on Stagecoach and £0.90 on Go North East, compared to £0.60 for the Under 16 fare).
- f) The continued lack of an affordable multi-modal, multi-operator fare for young people aged 16-18, coupled with the government's recent requirement that all people must stay in some form of education or training until their 18<sup>th</sup> birthday, will have a detrimental impact on some families' expenditure.
- g) The withdrawal of the discretionary Companion Pass will reduce the travel horizons of some disabled people, and the withdrawal of the ability to travel to hospital appointments before 0930 will make it more expensive for some older and disabled people to access healthcare
- h) Local public expenditure on supporting bus services will need to increase from 2025/26 in order to comply with the statutory duty to reimburse bus operators under the ENCTS.

## 4 The VPA

The VPA is attached at Appendix A. It would commence on a date to be agreed between the NECA and NEBOA (assumed at this point to be April 2015), and would last for ten years. The VPA is proposed by NEBOA (although it is termed a 'VMA', meaning a Voluntary Multi-Operator Partnership, which is a VPA made with multiple operators), following extensive discussions with Nexus and officers of the NECA. Nexus also facilitated dialogue between NEBOA and local authorities to discuss the inclusion of highways schemes in the VPA. The summary of the VPA in the paragraphs below is taken directly from an email sent by the Chair of NEBOA to members of the Combined Authority, and is reproduced with paragraph numbers added for reference purposes. Please refer to the section below entitled 'VPA Clarification Process' for Nexus' analysis and commentary.

- 4.1 *A better offering for the travelling public: The VMA contains proposals outlining a range of improved ticketing options (see below). The VMA proposes to introduce a minimum of 50 additional vehicles to strengthen existing services and provide new links (also detailed below). A 'mutual aid' arrangement will mean that in the event of a bus breaking down, passengers will be able to transfer to any other bus, irrespective of operator. Continuing investment will see Tyne and Wear provided with one of the most modern bus fleets in the country, able to take advantage of new developments in bus technology, improved passenger comfort and additional passenger benefits such as next stop announcements, free wifi and at-seat power sockets for mobile devices.*
- 4.2 *Tickets and fares: Bus operators are committed to providing the best possible value for money in their ticketing products. The operators have agreed to provide new 'Bus2Bus' tickets across Tyne and Wear. These will supplement the existing 'Network One' tickets, which provide unlimited travel on buses, Metro, trains and the Ferry, by providing a new, low cost option for people who only need to use the services of more than one bus operator.*
- 4.3 *The operators have also agreed to provide a new range of tickets for 16 to 18 year olds.*
- 4.4 *At the same time, bus operators remain committed to the North East Smart Ticketing Initiative (NESTI), which aims to provide a single, common Oyster-style 'smart card' ticketing option across the region (including the Tees Valley local authorities).*
- 4.5 *The operators have agreed that fares increases shall be limited to no more than once per year for each fare group. Should fares increases beyond RPI (caused, for example, if fuel prices increase beyond our expectations), a full explanation will be provided to the Tyne and Wear Bus Partnership Board.*

- 4.6 *Tyne and Wear bus network: The Partnership proposal aims to maintain the network of bus services as they are today, whilst recognising that there will always be changing circumstances, such as changes in demand, or increasing traffic congestion, which will necessitate changes to the network. Changes to the network will be limited to one fixed change date in each district of Tyne and Wear (services which cross between districts will be allocated to the district they primarily serve, subject to agreement – in any case, all local authorities will be consulted via District Partnership Boards - see the ‘governance’ section).*
- 4.7 *A ‘Service Reconfiguration Study’ will produce proposals that will enable Nexus to make savings in their procurement of secured services amounting to £1.6 million pa in a full year. This study will identify those areas where, through making relatively small adjustments to the commercially-operated services, secured service spending can be reduced at minimum detriment to local people, while maintaining bus services on as many existing secured routes as possible. Based on the existing bus network, we have estimated that the ‘new’ network would be approximately 99.2% of its current size, resulting in almost everyone in Tyne and Wear receiving the same or similar levels of services as they do today.*
- 4.8 *Savings: The bus operators have already agreed to a programme to increase the proportion of services operated commercially, such that will produce a full-year saving to Nexus of £440,770 pa. This would bring the total savings delivered to Nexus to in excess of £2 million pa, with a negligible detriment to the travelling public.*
- 4.9 *Extra vehicles: The bus operators have agreed to provide a minimum of 50 extra buses, to be used on a mix of ‘kickstart’-style services and to reinforce the existing network, on a basis that will be agreed locally in each district. The intention is to improve connectivity by trialling new services and links that can be grown into new, self-sustaining services while improving connectivity across Tyne and Wear.*
- 4.10 *Investment: Bus operators have agreed to maintain their level of investment in their services and facilities, which will see the average age of the Tyne and Wear fleet fall to and be maintained at 8 years. Each operator has its own investment plan that will see the region become one of the main centres for operation of Low Carbon Emission buses (LCEB) and alternative fuel buses. In many cases, the vehicle investments are backed up by significant investment in supporting infrastructure and staff training.*
- 4.11 *Governance: The operators recognise the importance of good relationships with local authorities and councillors, and have suggested that the VMA should be supported by establishing a Bus Partnership Board in each of the*

*five districts in Tyne and Wear, together with a Tyne and Wear Bus Partnership Board. The Tyne and Wear Board would primarily be responsible for 'strategic', county-wide issues relating to the bus network as a whole; local boards would oversee the operation of the network in their areas.*

#### *VPA Clarification Process*

- 4.12 On receipt of the proposed VPA, Nexus and officers of the NECA entered into a clarification process with NEBOA, to better understand the proposal. As a result, members should note the following important caveats in relation to the statements made in the italicised paragraphs above.
- 4.13 The agreement allows operators to terminate the agreement under certain conditions with 6 months' notice if:
- the NECA considers a QCS;
  - a local authority fails to deliver on its committed investment programme in bus infrastructure, if a local authority reduced the hours of operations of bus infrastructure or fails to enforce its proper use;
  - a renegotiation of reimbursement for statutory ENCTS or any discretionary concessionary scheme results in a reduction of reimbursement for an operator net of RPI, and mitigating measures are not agreed to; or
  - the quantum of BSOG paid to an operator by DfT falls below its level as of April 2012, and mitigating measures are not agreed to.
- 4.14 The 'Bus2Bus' tickets referred to in paragraph 4.2 are in effect a new tier of multi-operator multi-trip ticketing, whose prices are likely to be pitched between current operator-only tickets and Network One tickets. They do not cover simple return journeys where the outward operator differs to the return operator, and they do not cover single trips where a change of operator is required on route.
- 4.15 The new range of tickets for 16-18 years olds referred to in paragraph 4.3 are a discounted form of the 'Bus2Bus' tickets, whose prices are likely to be pitched between current operator-only tickets and Network One tickets.
- 4.16 The reference to a 'single, common Oyster-style 'smart card' ticketing option' in paragraph 4.4 refers to operators' existing commitments under NESTI, and to Network One's intention to make its products 'smart'. It does not commit bus operators to any form of smart price capping, nor to introducing any new integrated smart products. As such, use of the term 'Oyster-style' is questionable.
- 4.17 Although paragraph 4.5 refers to the frequency of future fare increases, the VPA does not place any cap or control on the amount by which fares can

increase. The statement that, where fares increase by more than the RPI 'a full explanation will be provided to the Tyne and Wear Bus Partnership Board', refers to a process whereby confidential information will be shared with Nexus officers who will be able to confirm to the Partnership Board that they have reviewed it. They will not be in a position to divulge its contents or control such proposed change.

- 4.18 Although paragraph 4.6 refers to the frequency of future changes to the bus network, the VPA does not require that the agreement of the Partnership Board be sought before the change can be applied. A system of consultation and discussion is proposed that would see most (but not all) network changes discussed at a Partnership Board, but in all cases the operator will be entitled to make the change if it deems appropriate.
- 4.19 The savings of £1.6 million referred to in paragraph 4.7 arising from a 'Service Reconfiguration Study' are speculative, and rely upon an agreement from the bus operators to make adjustments to commercial services that may allow Nexus to withdraw secured services with minimal detriment to the public. Two pilot studies were conducted as part of the clarification process which showed the potential for some savings to be achieved with minimal detriment. However it is not guaranteed that the savings of the scale envisaged by the VPA can be achieved with minimal detriment to accessibility. Nexus proposed legal drafting to the bus operators that would provide confidence that the savings would indeed be achieved at minimal detriment, but this drafting was not accepted. There is therefore some significant doubt that all of the £1.6 million savings could be achieved without detriment to the public.
- 4.20 Paragraph 4.8 refers to savings of £440,770 per annum<sup>10</sup>. The base year for this figure is 2013/14, and in practice approximately £162,552 of this saving has already been realised and is already included in the baseline budget figures.
- 4.21 Paragraph 4.9 refers to the provision of 50 extra buses by the third anniversary of the VPA. These buses are intended to be used for new or enhanced commercial services and will not be used to substitute secured services.
- 4.22 Paragraph 4.11 refers to a system of governance involving a 'Tyne and Wear Bus Partnership Board' and 'District Bus Partnership Boards'. As discussed in 4.17 and 4.18, these Boards will have very limited powers as regards future changes to bus fares and the network, although they would be consulted over most network changes.

---

<sup>10</sup> Revised following detailed analysis of agreed service actions by Nexus in June 2014

### *Benefits of the VPA*

- 4.23 The commitments made in the VPA have been modelled to assess their benefits in terms of patronage growth: the VPA is forecast to generate an additional 44 million bus trips above the Do Minimum scenario. This is in part a result of the introduction of new 'Bus2Bus' fares, and partly because of the 50 extra buses to be added to the network. Cheaper fares will be available for 16-18 year olds through Network One.
- 4.24 The governance arrangements set out in the VPA would allow for far greater dialogue between elected members and bus operators regarding the performance of the bus network and proposals for future change. The VPA also offers a greater degree of transparency in how decisions are made, and would lead to a standard approach to consulting with service users before a change is made.
- 4.25 As noted in paragraph 4.13, the VPA requires the ENCTS reimbursement to be uplifted by RPI each year, but if this uplift is not applied then Operators are entitled to introduce mitigating measures for which agreement cannot be unreasonably withheld. In the first year of the VPA, the additional payments to allow for an RPI uplift would require a commensurate increase in public sector financial support for buses, putting additional pressure on Nexus' budget. Whilst in the long run, Nexus forecasts that increases in ENCTS reimbursement will be marginally lower under the VPA than the 'Do Minimum', the need to keep increasing the level of ENCTS reimbursement by RPI would significantly outweigh the level of savings delivered by the VPA, even if the full £2m of savings is realised (although there is some doubt over this, see paragraphs 4.19 and 4.20 above).
- 4.26 The remainder of the Do Minimum scenario would not be affected by the introduction of the VPA.

### *Risks of the VPA*

- 4.27 Nexus holds the view that many aspects of the VPA are unacceptable or incomplete as currently drafted. Nexus would therefore not recommend that the NECA enters into the VPA in its current form. Nevertheless it may be possible, after a period of concerted effort, for the document to achieve a form that is acceptable in legal terms.
- 4.28 As highlighted in the QCS Public Interest Test Report (Appendix C) there is an inherent conflict between the desire for the VPA to be certain and legally binding and enforceable in a manner similar to most commercial contractual arrangements on the one hand, and the countervailing need for the VPA to be sufficiently flexible so as to avoid the arrangement being legally void on competition law grounds. The VPA has limited enforcement mechanisms to

address operator breach. In essence therefore, if the NELB opts to proceed with this VPA it would need to do so trusting that each of the operators would abide by both the spirit and the letter of the VPA for its term as in practice the scope to enforce the arrangement in a strict legal sense would be minimal.

- 4.29 The fact that bus operators can make future changes to services without the approval of any Partnership Board creates material uncertainty over the stability of the network in future. This may lead to further local links being lost if sufficient commercial returns are not generated.
- 4.30 The VPA requires that public expenditure on BSOG and ENCTS be maintained as described in paragraph 4.13; BSOG is a national funding mechanism that is outside the control of the NECA, and ENCTS places a statutory requirement on authorities to reimburse operators on a 'no better off, no worse off' basis. To the extent that ENCTS patronage may decrease for reasons beyond the NECA's control, it seems an unreasonable burden to require that reimbursement does not fall below current levels (uplifted by RPI) without the threat of instability being introduced into the network by 'mitigating measures'.
- 4.31 There is significant uncertainty regarding the achievement of the £2 million savings, as described above. Regardless of the quantum of savings ultimately achieved, and in order to achieve a balanced budget, this would lead to a need to apply cuts to services from 2017/18. Furthermore there is no certainty that any of the savings could be achieved without causing detriment to local people by the removal of vital local services.

*Affordability of the VPA*

- 4.32 The consequence of paragraphs 4.30 and 4.31 is that the level of local public support for bus services would need to be maintained at the level of £51.2 million referred to in paragraph 2.24 (which includes statutory ENCTS reimbursement as well as general bus service support) throughout the life of the VPA.

## 5 The QCS

The QCS is attached at Appendix B. Its intended introduction date is 1<sup>st</sup> April 2017, and it would initially last for ten years.

### *Consultation*

- 5.1 In line with directions and guidance issued by the former TWITA, a draft of the QCS was formally consulted upon alongside the QCS Proposal during the period 30<sup>th</sup> July to 22<sup>nd</sup> November 2013.
- 5.2 In addition to direct consultation with statutory consultees as defined by the Transport Act 2000, a public information exercise was undertaken and as a result some feedback was received from members of the public.
- 5.3 A supplemental consultation exercise was subsequently carried out between 9th April 2014 and 4th June 2014, in respect of some potential changes to the QCS Proposal.
- 5.4 A Consultation Report summarising responses to formal and supplemental consultation, Nexus' responses to the points made, and a description of how Nexus has used this feedback to guide the development of the QCS is provided in Appendix F.

The following summarises the QCS:

### *Network*

- 5.5 The QCS Network will replicate as closely as possible the deregulated bus network in place at the point that the QCS is adopted. It will cover all regular scheduled local bus services that are wholly within Tyne and Wear, and a number of cross-boundary services that carry large numbers of passengers between points inside Tyne and Wear.
- 5.6 Any future permanent changes to the QCS Network will be approved by the NECA following a process that will involve consultation with local people and other stakeholders (see 'governance' below).
- 5.7 A number of local bus services have been specifically excluded from the QCS, for example special event transport and community bus services. In addition a number of cross-boundary services have been excluded from the QCS, principally where the majority of passengers are not travelling wholly within Tyne and Wear and where the operator agrees to abide by certain conditions.

### *Fares and ticketing*

- 5.8 A simple ticketing structure for adults will be implemented that consists of single trip, all day, weekly, four weekly and annual tickets (including corporate). The ticketing structure and the cost of fares will be exactly the same for all bus services, Metro and other public transport services.
- 5.9 Each type of adult ticket will be available for bus only, Metro only, or multi-mode. Adult ticket pricing will be based on a zonal system consisting of five large zones. The average fare paid by adults will decrease slightly, and the introduction of the zonal system will mean that although many adults will pay the same or less at the start of the QCS, a smaller number of adults will pay more.
- 5.10 Discounted tickets will be available to young people below the age of 19, and students in full-time education. All ticket types for these groups will be multi-modal and available to all within the age category regardless of their home address provided that they have registered for a smart photocard. Student pricing will be based on the zonal system, but pricing for young people below the age of 19 will be a 'flat fare' that will not depend on the distance travelled. The prices for weekly tickets for young people aged 16-18 will be the same as the prices for children under 16.
- 5.11 Customers eligible for free travel under the English National Concessionary Travel Scheme (ENCTS) will continue to be carried free of charge. There will be a new local enhancement to the ENCTS known as the 'Gold Card Plus', permitting all day travel on QCS Bus Services, Metro, the Shields Ferry and Sunderland to Newcastle local rail for an annual fee of £25.00.
- 5.12 Any future changes to ticket structures and prices will be approved by the NECA following a process that will involve consultation with local people and other stakeholders. Any future price increases will take place only once each year and will be capped at the level of the RPI, taken on average across all ticket types, in all but exceptional circumstances.
- 5.13 Smart Ticketing will be available on all buses, Metro and the Shields Ferry and will include fare capping, providing customers with a 'best price guarantee'. This means that where they pay single fares as they travel, the daily fare is price capped to the cost of the equivalent day ticket.
- 5.14 Certain types of excluded services – mainly those that serve local communities in Tyne and Wear, or those that run in parallel to QCS Bus Services – will be required to accept all pre-paid day, weekly, four weekly and annual bus tickets. A mechanism will be established to reimburse the operators of such services.

- 5.15 Quality Contracts will be procured in two rounds over an 18-month period, and will be managed by Nexus on the NECA's behalf. All Quality Contracts will commence simultaneously and last for a 7 year fixed period, after which an extension of up to 3 years may be granted.
- 5.16 The first round of procurement of quality contracts will be by far the largest, covering 86% of the vehicle requirement. It will cover 11 quality contracts each comprising of between 39 and 128 vehicles and contracts will be awarded on the basis of the most economically advantageous tender following a period of negotiation. Although all 11 quality contracts will be advertised at the same time, the contract awards will take place over 3 phases, allowing bidders the opportunity to take into account the results of the previous phase before finalising their bids for the next phase.
- 5.17 The second procurement round will cover 83 smaller contracts, including scholars' and taxibus services. These quality contracts will be tendered and awarded simultaneously to the lowest priced bid that complies with the specification.
- 5.18 Operators will be required, by the third year of the QCS, to have a fleet that is fully at Euro V (or greater) engine emission standard. A dispensation will allow a maximum of 40% of buses to be at a lower emission standard for the first two years of the scheme only, to allow operators to use their existing buses whilst newer vehicles are procured. Bidders will be encouraged to introduce Low Carbon Emission Buses by the awarding of additional points to such proposals in the procurement process. All buses will be required to be fitted with smart electronic ticket machines and AVL, the system used to transmit bus location information to feed real-time information displays.
- 5.19 Operators will be required to maintain a fleet of buses which is, on average, no more than 7 years old for the duration of each contract, and no bus will be permitted to be older than 15 years. A dispensation will allow an average fleet age of 8 years for the first two years of the scheme, so as to allow operators to use their existing buses whilst newer vehicles are procured. Where a contract is extended at the end of the initial seven year period (for up to three years), the fleet age requirements will be relaxed for that contract only, so as to allow the operator to continue the use of its existing vehicles.
- 5.20 Performance standards will include reliability, punctuality and customer satisfaction. A bus Performance Management System (PMS) will be included in each quality contract to incentivise operators to deliver a high quality, high value for money service.

*Employees*

- 5.21 Existing employees engaged in providing bus services that are covered by the QCS will automatically transfer to the new operator of those services on their existing terms and conditions of employment, in line with the Quality Contracts Schemes (Application of TUPE) Regulations 2009. In addition the Quality Contracts Schemes (Pension Protection) Regulations 2009 protect transferring employees who are members of an occupational pension scheme such that any new employer is obliged to provide the same or broadly comparable pension rights.
- 5.22 Allocation Arrangements have been prepared in consultation with trades unions and employers, to determine which employees would transfer to which quality contract. In order to support the Allocation Arrangements, a requirement will be placed on bidders that no employees engaged on quality contract services shall be made compulsorily redundant for a two-year period after the start date of the contract.
- 5.23 Operators under quality contracts will be encouraged to adopt high-quality employment standards such as a minimum hourly rate for driving staff and the living wage for non-driving staff. Although it is not possible to make such standards a mandatory requirement on bidders, they will be encouraged to consider them when bidding.

#### *Customer information and branding*

- 5.24 A customer charter will set out the service commitments and performance standards that customers can expect from QCS Bus Services and will provide information on how to contact Nexus should customers be dissatisfied.
- 5.25 The identity for buses will use the already established red “Buses” brand across all customer facing marketing and information provision. The brand will also be displayed prominently on buses, but the exact livery and colour scheme will be a matter for the NECA to consider at a later stage.

#### *Governance*

- 5.26 The NECA (through the TWSC) will be responsible for overseeing the operation and development of the QCS local bus network within the budgets and policies set by the NELB.
- 5.27 Local Bus Boards will be established in each Tyne and Wear council area to monitor the operation of QCS bus services in their local area, and to advise the TWSC regarding their development.
- 5.28 A Tyne and Wear User Consultative Forum will be established for the purposes of facilitating dialogue between Nexus, passenger representatives, local business, stakeholders and the general public in relation to the QCS.

- 5.29 Nexus will produce an annual report to the NECA, Local Bus Boards, and the Tyne and Wear User Consultative Forum describing the financial and operational performance of the QCS Bus Network.
- 5.30 The TWSC will manage an Annual Development Cycle to consider proposed changes to the QCS Bus Network, consulting with Local Bus Boards, the Tyne and Wear User Consultative Forum, Durham, Northumberland and other stakeholders as it does so. All proposed changes will be made available on the Nexus website, and detailed public consultation will take place where appropriate.
- 5.31 A procedure for emergency timetable and scheme variation outside the Annual Development Cycle will allow Nexus to respond to exceptional or extraordinary events in order to continue delivering the QCS bus services within available resources. Such changes will be reviewed by the TWSC.

#### *Northumberland and Durham*

- 5.32 A number of QCS Bus Services also serve places and communities in Durham and Northumberland. Nexus, working with officers from Durham County Council and Northumberland County Council have developed 'NECA Bus Collaboration Protocols' that set out a series of commitments between TWSC and Durham, and between TWSC and Northumberland to ensure that those risks are managed fairly and equitably wherever possible. Please see Appendix D for the proposed text of the NECA Cross-Boundary Bus Collaboration Protocol.
- 5.33 In the event that the NELB determines to proceed with the QCS, Nexus recommends that NELB additionally approves the NECA Cross-Boundary Bus Collaboration Protocol attached at Appendix D, to apply between Nexus and Durham County Council, and between Nexus and Northumberland County Council. The discharge of the NECA Cross-Boundary Bus Collaboration Protocols would be overseen by the TNEC

#### *Benefits of the QCS*

- 5.34 Nexus believes that the Do Minimum scenario would be avoided in its entirety if the QCS were to be introduced. Whilst demographic changes are forecast to continue to affect bus patronage negatively, they would be largely counter-balanced by a number of quality improvements introduced by the QCS.
- 5.35 The receipt by Nexus of all revenues from bus operations under the quality contracts combined with a reduction in some operators' EBIT margins would make funding available to cover both the increased costs that the QCS would

cause over today's operating costs, as well as resolving the underlying deficit in Nexus' budget over the ten-year period of the QCS.

- 5.36 Reimbursement for ENCTS to external operators would not be required in relation to QCS services, thus removing this mounting pressure on Nexus' resources. Nevertheless it would be sensible for the NECA to monitor and account for the cost of complying with the statutory duty to provide free travel under the ENCTS by budgeting for a notional reimbursement using government guidance to establish the formula. The effect of capping future fare increases at the RPI would be to dampen growth in the level of ENCTS reimbursement such that it would remain within currently available resources over the entire ten-year period. However as reimbursement to external operators would in practice not be required, there is no risk to the affordability of the QCS if ENCTS patronage were to grow. In the event that changes to the ENCTS were made by a future government, Nexus would manage its effects by recommending to the NECA that any associated reductions in government grant would be recovered by charging fares to ENCTS passengers. Given that reimbursement is already on a basis of 'no better, no worse off', there would be no overall impact on the funding of the QCS.
- 5.37 The sustainable budgetary position described above will mean that no cuts will be required to services, thus avoiding the social consequences set out in paragraph 3.6. All existing secured services will become part of the QCS Network, and all existing discretionary concessions will be absorbed into the QCS fares and ticketing offer. Any future changes to these services will be determined by the NECA through the Annual Development Cycle and with the full involvement of passengers, local councillors and other stakeholders;
- 5.38 The RPI cap on average fare increases will make bus fares more affordable for passengers through time, and will help to make bus travel more attractive when compared to car use.
- 5.39 The introduction of a multi-modal smart ticket, where the best price for the travel undertaken is automatically calculated as a customer travels, will promote accessibility and mobility. It will improve access to employment and will make public transport easier to use for irregular customers and visitors to the area.
- 5.40 The introduction of weekly tickets for 16-18 that are priced at the same level as under 16s will make travel for young people much easier. It will help them to access education and training at the schools and colleges most suited to their needs, without being deterred or disadvantaged by distance-based travel costs. Student ticketing will become simpler and easier to access, and the 'Gold Card Plus' product will help older and disabled people to access training, employment, healthcare and social activities by reducing the cost of travel before 0930 on weekdays.

- 5.41 A simplified system of fares and a customer charter will make the bus system easier to use and will attract new customers. The requirement for all buses to be Euro V standard or better by the second year of the QCS will improve air quality in congested areas, and the vehicle age requirements, performance standards and introduction of real-time information will improve journey quality for passengers.
- 5.42 The bus network will be stable and permanent changes will only take place after consideration by elected members and engagement with travellers and the wider public. This will create a greater certainty amongst bus users and will contribute towards greater patronage.
- 5.43 Democracy, transparency and accountability will be improved through the management and development of the bus network by the TWSC and the need to consult over changes. Community and local involvement will be promoted by the development of Local Bus Boards, and a greater say for bus passengers will be encouraged through the introduction of the Tyne and Wear User Consultative Forum.
- 5.44 A far greater level of information will be made available to the NECA, local authorities and the public than today. Demand data and operational performance information will help the management and development of the bus network and local highways, and will contribute towards the development of business cases for public transport improvements. Ticket and passenger trip data will help to inform the development of strategies to improve customer service and fare offerings, and to help calculate the costs of concessionary travel more accurately.

#### *Risks of the QCS*

- 5.45 There are significant risks in developing a QCS. These fall into three categories: legal risk, transitional risk, and revenue risk.
- 5.46 Legal risks arise primarily from the development and making, as opposed to the operation, of a QCS and flow from the fact that the development or making of a QCS may be challenged by those who oppose it (some bus operators have made it clear that they intend to challenge). The NECA would be the first local transport authority to promote a QCS, and would therefore also be the first to come before the QCS Board and any subsequent appeals process. There may be additional challenges under the Human Rights Act or by judicial review. Independent counsel has provided legal advice regarding the robustness of the QCS and the processes followed to develop it. This advice has been provided to NELB. However, clearly the lack of precedent and the fact that the QCS Board will have to determine its own approach and procedures for its review give rise to some degree of uncertainty.

- 5.47 Any legal challenges brought against the NECA through its actions to introduce a QCS would incur external costs from defending those challenges; Nexus has, on a precautionary basis, earmarked funding from its budget to meet those costs. However, there is also the potential for legal challenge to result in delay to the NECA's ability to make and introduce the QCS. This delay could lead to issues regarding the availability of funding to continue the support for bus services pending the start of the QCS.
- 5.48 Transitional risks arise from the significant change to the local market that would take place at the point of a QCS being introduced. Some bus companies may exit the market and may adopt commercial strategies that maximise their returns as they exit – this could affect fares, routes and the availability of depot and bus assets to incoming operators. The process of transferring staff and potentially depot and bus assets to new operators may present challenges, and new operators will need time to establish bases for operations. Finally, the commencement of QCS services will require customers and operators to adjust rapidly to a new environment, including new ticket types and fares, different smartcards, changes to information, and driver route familiarisation. Funding to cover all of these risks has been included in the affordability model and Nexus has established a dedicated team to develop clear plans under the title of 'transformation', but the scale of the exercise cannot be under-stated.
- 5.49 A further risk arises from changes in the local market in the run-up to a QCS being introduced. Operators may implement commercial strategies that result in significant changes to the costs and revenues of the local bus market. Nexus is aware that bus patronage fell over the financial year 2013/14 compared to the previous year, although it does not yet have any information regarding bus operator revenues or profits for this financial period. This and other factors may impact on the costs and revenues of the QCS when it is introduced. In order to manage the associated financial risks a higher level of financial contingency has been set aside to cover risks that may arise during the first two years of the QCS than for the remainder.
- 5.50 Revenue risk is discussed in the paragraphs that follow, covering affordability.

#### *Affordability of the QCS*

- 5.51 A document setting out the case for the affordability of the QCS in full is attached at Appendix E. Nexus has established that the benefits provided by the QCS can be delivered within current resources. In addition the scenario of cuts described in section 5 above would be avoided over the period 2017/18 to 2026/27 without the need for additional public financial support.

- 5.52 However in order for Nexus to be able to enter into quality contracts on behalf of the NECA, the level of local public support for bus services would need to be maintained at up to the level of £51.2 million referred to in paragraph 2.24 (which includes statutory ENCTS reimbursement as well as general bus service support) throughout the period 2017/18 to 2026/27. It should be noted that the £51.2 million does not represent the full value of the Nexus element of the Tyne and Wear levy which currently stands at £64.9 million. The levy itself is a matter for the NELB when considering its annual budget.
- 5.53 In assessing the affordability of the QCS, Nexus has set aside significant contingencies of £80 million over the ten-year period to cover the risk of key assumptions (for example inflation, transition costs, and revenue growth) being inaccurate. Although an independent assessment has commented favourably in regard to the size and appropriateness of the risk contingency, in the event that all financial risks crystallised to the extent that the risk contingency was not sufficient, and because Nexus would be restricted to fares increases at no more than RPI, in establishing the QCS, the NECA would need to accept these financial risks but in so doing, would be in a position to manage them.
- 5.54 However it should also be noted that should these risk contingencies not be required in whole or in part, money would be released back into the core funding of the QCS, providing the NECA with future options that could include reducing financial support and making further improvements to the local bus system.
- 5.55 The average EBIT margin of bus operators in Tyne and Wear, before one-off adjustments, is calculated as being approximately 14%. This has been calculated based on operators' published accounts, and validated using assumed costs and estimated revenues. It is assumed that competitive pressures will lead to operators bidding for quality contracts at significantly lower margins. For the purposes of assessing affordability a margin of 8% has been used, based on margins earned on bus contracts in London and elsewhere in Europe. However it is not possible to second-guess operators' bidding strategies and it is likely that the actual figure may be higher or lower and will differ for each contract. In the unlikely event that the winning bids are collectively unaffordable even after negotiation, the procurement process would be paused and further advice sought from the NELB regarding modifications that may be made to the contracts to be let, while best maintaining the proposed benefits of the QCS as set out in the Public Interest Test Report.

#### *The Public Interest Tests*

- 5.56 Under the Transport Act 2000 (as amended), a LTA making a QCS must be satisfied that five 'public interest' criteria are met. The detailed analysis of

these criteria is discussed in the Public Interest Test Report attached at Appendix C, and the NELB should consider this analysis carefully before determining whether or not to progress the QCS. The following summarises the public interest criteria:

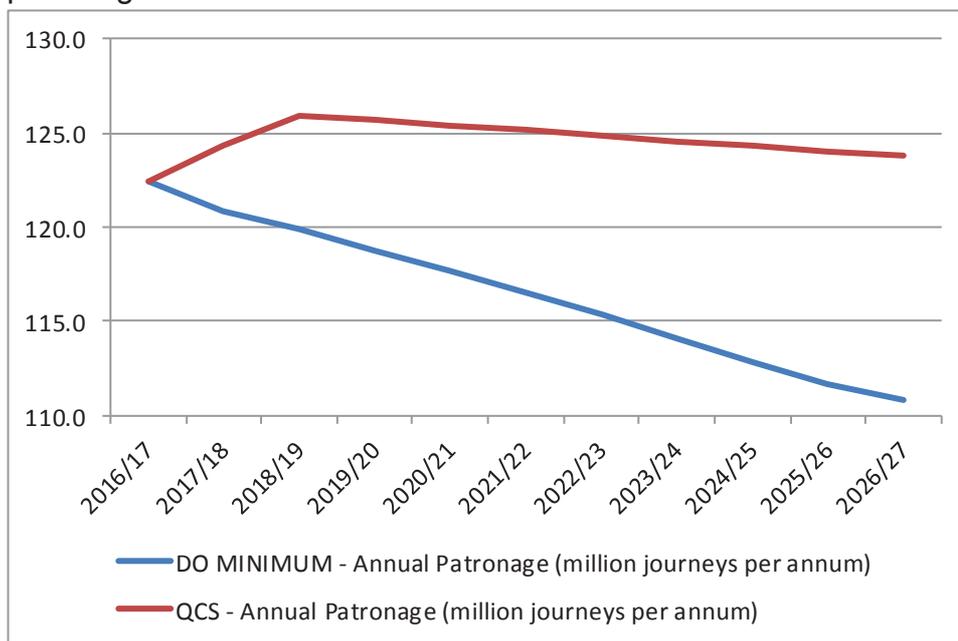
*Criterion a: the proposed QCS will result in an increase in the use of bus services in the area to which the proposed QCS relates*

- 5.57 To estimate the effect of the QCS on bus patronage, Nexus has developed a locally-specific bus patronage forecasting model based on the principles contained in the National Bus Model (NBM), an existing tool that uses established 'elasticities' to forecast changes in demand. Elasticities are the relationship between the demand for bus services and changes in the frequency, journey time or fares for those services.
- 5.58 The elasticities have been taken from the 'Black Book'<sup>11</sup>, they are based on observed passenger behaviour and are used by the DfT and the wider transport industry to plan bus network strategies and interventions at national and regional levels.
- 5.59 The factors that affect demand can generally be summarised as: population; employment; car ownership; GDP growth; fares and ticketing; customer and service standards; and the size and availability of the bus network (routes, distance, times of day and frequency). Some of these factors are outside the direct control of the NECA and the bus industry (e.g. population characteristics, car ownership). However in the current deregulated environment other factors are within the sphere of influence of operators (fare changes, ticketing and size of the network); the QCS would have the effect of moving influence over these factors to the NECA. Decisions about the routes and funding that determine the supply of Secured Bus Services are already within the NECA's control.
- 5.60 If things are left as they are and current trends continue into the future, what Nexus called the 'Do Minimum Scenario' is forecast to occur. Under this scenario, demand for bus services is projected to fall by 66 million passenger trips over the ten-year period covered by the QCS (2017-2027). This arises mainly from increases in car ownership and use, above-inflationary fare increases, and the withdrawal of Secured Bus Services that will cease to be affordable due to the growing cost of ENCTS reimbursement (although not all patronage on Secured Bus Services would be lost, some is forecast to move to commercial services).

---

<sup>11</sup> <http://www.demandforpublictransport.co.uk/TRL593.pdf>

5.61 Under the QCS, demand for bus services is projected to increase by 90 million passenger trips more than the Do Minimum scenario, over the ten-year period covered by the QCS (2017-2027). This not only avoids the loss of demand seen in the Do Minimum scenario, but it also represents an increase compared to the base-line position. This arises from a range of improvements introduced by the QCS, particularly the retention of secured bus services, the introduction of simplified ticketing and cheaper fares that only rise with inflation - initially the majority of travel will see cheaper fares than will be paid in the Do Minimum scenario and after a few years the QCS will offer cheaper fares for practically every journey. However the negative effects of rising car ownership will remain an on-going factor that will negatively affect bus patronage.



5.62 Criterion (a) requires that the QCS will result in an increase in the use of bus services in the area to which it relates. Nexus considers that this requirement has been satisfied.

*Criterion b: the proposed QCS will bring benefits to persons using local services in the area to which the proposed QCS relates, by improving the quality of those services*

5.63 The assessment of benefits considers the key features of bus networks in the Do Minimum scenario, how the key features would be different in the QCS environment and the consequential qualitative benefits that can be attributed to the QCS.

5.64 The Bus Network: the QCS provides a stable network that is more comprehensive than in the Do Minimum scenario, retaining existing levels of accessibility and providing future opportunities to enhance it. Future network

changes will be planned centrally in an integrated manner that ensures all bus services and all public transport modes work together to benefit passengers.

- 5.65 Fares and Ticketing: the QCS provides a simpler fare structure that applies to all public transport services across Tyne and Wear, regardless of operator and public transport mode. A single smartcard will offer season tickets and 'Pay As You Go' travel with a smart fare cap, so no one will ever pay more than the cost of a daily travel ticket in any given day. As well as the on-going statutory ENCTS, discretionary add-ons to it (Companion pass, pre-0930 travel to hospital appointments, travel after 2300) will be retained and enhanced by the introduction of 'Gold Card Plus' which will allow for all-day travel for ENCTS cardholders on all public transport for a £25 annual payment. The Under 16 discounted fare scheme will be retained, and a new range of significantly discounted fares for 16-18 year olds will be introduced. Student fares will be simplified and enhanced.
- 5.66 Standards for buses and bus drivers: the QCS provides a newer, more modern, lower emission fleet of buses compared to the Do Minimum position, and these benefits will be spread across all services, not just those that are most profitable. The vehicles will have a common livery, will be cleaned and maintained to a high standard and will include a range of safety, journey quality and information features such as CCTV, automatic vehicle location, external electronic displays and on-board information notices. Some vehicles may enjoy quality standards such as free customer WiFi, electric power sockets, audio-visual 'next stop' announcements and the display of on-board CCTV images. Operators will be required to offer a good standard of driver training, and incentivised to improve training standards.
- 5.67 Customer Experience: a single customer charter will be set by the NECA and adhered to by all QCS services, which benefits passengers by providing a consistent and high quality set of commitments regarding the quality of their services, and the courses of action they can take when those commitments are not delivered. Passengers will also benefit from a single point of reference to submit complaints, make suggestions and report lost property.
- 5.68 Journey Information: the QCS will ensure that passengers are provided with clear and accurate information produced under a common brand. This will cover printed materials, at-stop materials, online information and mobile device apps and will replace the numerous sources and formats of information currently available to passengers, thus encouraging bus use. Real-time journey information will be produced in a variety of formats, covering all buses.
- 5.69 Governance of Bus Services: Future decisions to change the bus network (including routes, timetables and fares) will be taken in a democratic and transparent manner by the NECA, in the interests of passengers and local

people rather than to achieve commercial gain. Passengers will benefit from a stable bus network that is changed only once a year at most, except in exceptional circumstances. Local Bus Boards and a passenger forum will be established to increase public involvement. Bus service performance will be widely reported giving passengers access to information about how their services are performing and provides the chance to take informed views on how they wish to see services develop.

- 5.70 Criterion (b) requires that the QCS must bring benefits to passengers by improving service quality. Nexus considers that that this requirement is met.

*Criterion c: the proposed QCS will contribute to the implementation of the local transport policies of the LTA;*

- 5.71 Nexus considers this test should be primarily considered with reference to the Bus Strategy for Tyne and Wear which is part of the current Local Transport Plan (LTP) for Tyne and Wear. Article 11(3) of the Combined Authority Order operates so that the transport policies of the former TWITA have effect as if they were made by the NECA, and so the LTP and the Bus Strategy remain relevant transport policies for the NECA.
- 5.72 It is also appropriate to consider other relevant transport policies for which the NECA is responsible. Whilst the QCS is not specifically designed to achieve Durham or Northumberland's transport policies and strategies, Nexus has assessed those that are relevant and considers that the QCS does not conflict with or contravene them, and often contributes to their achievement.
- 5.73 The first objective of the Bus Strategy for Tyne and Wear is to arrest patronage decline. This objective is achieved as described in criterion (a) above. To help meet this objective the QCS will see the introduction of a fully integrated, multi modal Tyne and Wear public transport network, built around a high frequency core strategic network. This will be achieved by simplifying fares and ticketing, and by placing responsibility for the governance and development of the public transport network with a single body, ensuring a consistent and managed approach to network change and development. A unified and consistent customer offer and high standards of customer service will be achieved through the implementation of a single 'Customer Charter'. Bus users will be fully consulted prior to network changes, and infrastructure will remain safe, accessible and of a high standard.
- 5.74 The second Bus Strategy objective is to maintain (or grow) accessibility. By adopting the existing network at the start of the QCS, the QCS will initially maintain accessibility standards. When considering future development of the QCS Network the NECA will consider the bus network as a whole to ensure the most effective distribution of resources to both meet demand and satisfy local accessibility requirements. In the Do Minimum scenario, as Nexus'

funding declines, so will accessibility. Improvements in integration of the public transport network, branding, and vehicle quality will also help to achieve this objective.

- 5.75 The third objective of the Bus Strategy is to improve value for money. In terms of the national and local taxpayer, value for money is achieved through the competitive tendering of the bus network which will allow the NECA to introduce the benefits of the QCS and maintain the bus network, whilst initially reducing local authority expenditure on bus services and then freezing it in cash terms for the 10-year duration of the QCS. Value for money for passengers will be achieved by simplifying adult fares, by introducing new reductions for 16-18 year olds and by maintaining existing discretionary fare schemes, none of which would feature in the Do Minimum scenario.
- 5.76 In addition to helping achieve the Bus Strategy, the QCS makes an important contribution to the achievement of the LTP's goals of supporting economic development and regeneration, addressing climate change, and supporting safe and sustainable communities.
- 5.77 Criterion (c) requires that the proposed QCS will contribute to the implementation of the local transport policies of the LTA. Nexus considers that that this requirement has been satisfied.

*Criterion d: the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective;*

- 5.78 Economy, efficiency and effectiveness, when considered collectively, are closely associated with the concept of public sector value for money (VFM). In this context value for money is a measure of the justification for investment, such that the benefits from a scheme exceed the costs of delivering it. Whilst Nexus considers each measure separately, the '3Es' must be taken together in order to reach a conclusion.
- 5.79 Economy is defined by the National Audit Office (NAO) as "minimising the cost of resources used or required". Economy does not take account of the benefits of a proposed action, but it does allow for comparison to be made with other schemes that have different costs. The costs of operating the QCS that have been considered include: the costs of implementing and managing the QCS, including the retention of Secured Bus Services that would otherwise be withdrawn; the costs of transition from a deregulated to the QCS environment; and the additional costs to QCS operators associated with achieving the minimum standards set by the QCS. The value of costs of the QCS over ten years is £100 million. Efficiency is defined by the NAO as "the relationship between the output from goods or services and the resources used to produce them". Nexus has therefore calculated an 'Efficiency Ratio' by looking at the relationship between the benefits of the QCS against the

costs of delivery. The monetised benefits of the Scheme have been calculated at £373 million over ten years and the cost of delivering them of £100 million. The efficiency ratio for the QCS is therefore calculated at 3.73. This is very high for a scheme of only ten years' life.

- 5.80 In order to fully assess value for money, Nexus has established a 'Net Present Value' (NPV) for the QCS which simply deducts the costs described in paragraph 5.798 above from the monetised benefits and revenues of the QCS detailed in paragraph 5.798 above. Because the NPV is expressed as a financial value, it measures the scale of the overall impact of the QCS, although some benefits cannot be monetised. The central case NPV for the QCS is £272 million over the ten years of the scheme (the declared figure is slightly affected by rounding in the models).
- 5.81 Effectiveness is defined by the NAO as "the relationship between the intended and actual results of public spending". Nexus considers that this relates closely to the monetised benefits of the scheme (the results) and the likelihood of those results occurring in a range of different scenarios. Whilst a 'central case' figure of £373 million is established for the QCS benefits, effectiveness is measured by looking at a range of possible benefits, taking account of all of the possible risks that could occur and calculating the different benefits that would result. The range derived from this assessment is between £247 million and £514 million for 90% of outcomes. Even when the extremes are taken into account the benefits, and the value for money measure NPV, always remain substantially positive.
- 5.82 The central case forecast analysis undertaken by Nexus demonstrates that the QCS is capable of delivering significant benefits at a manageable cost, thereby delivering a QCS that is efficient (with an efficiency ratio of 3.73) and is able to deliver Value for Money (a net benefit of £272 million over ten years).
- 5.83 These benefits are secure in all risk outcomes, including very extreme and unlikely risk scenarios.
- 5.84 Criterion (d) requires that the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective. Nexus considers that that this requirement has been satisfied.

*Criterion e: Any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the wellbeing of the persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraphs (a) to (d).*

- 5.85 In order to assess proportionality, Nexus has analysed the potential adverse effects on operators, the well-being of persons living or working in the area,

and the potential for a VPA to provide an alternative scheme that may deliver the outcomes being sought. Nexus has then explained its conclusion that the adverse effects of the QCS are, in its judgment, proportionate to the relevant benefits.

- 5.86 Nexus notes that the proportionality test under section 124(1)(e) of the Act is closely aligned with, but not identical to, the proportionality analysis required under Article 1 of the First Protocol of the European Convention on Human Rights (known as 'A1P1'). Specifically, while section 124(1)(e) appears to focus on the proportionality of the benefits against impacts on operators as a whole, it is clear that A1P1 requires proportionality to be assessed in respect of the impacts on individual operators. Therefore Nexus has sought, insofar as it has been able to do so, to identify and quantify both overall and individual operator impacts as it considers that this approach satisfies both section 124(1)(e) and A1P1.

*Adverse effects on operators*

- 5.87 Nexus acknowledges that the impacts on existing operators brought about by the introduction of a QCS in Tyne and Wear will be wide ranging, and will affect their operations and profitability. Nexus has considered all of the impacts that it is aware of as well as those that were identified in Consultation, and although it has not been able to precisely quantify all of them, Nexus accepts that they may be substantial. They will however vary in scale between the large and small operators and within each of those groups. They will also vary significantly depending on how many existing operators win Quality Contracts covering their existing business.
- 5.88 It is clear to Nexus that Stagecoach, as the most profitable operator, has the most to lose as it currently has the most profitable business in Tyne and Wear. By contrast, it is possible that in the case of Arriva the anticipated profit margins under the QCS Contracts could lead to it making a gain, not a loss, if it retains its existing network. Note however that although existing operators may win new Quality Contracts covering business that they do not currently operate, this is not considered to be a benefit of the QCS and so cannot be used to offset the potential value of adverse effects.
- 5.89 For the maximum adverse effect to occur (assessed by Nexus to be £226.7 million over the ten-year period of the QCS), the scenario would have to arise that no existing operator wins any of the Quality Contracts that cover the routes that they currently operate. Nexus considers it unlikely that all incumbent operators, when participating in the procurement process, will fail to win contracts covering any of their existing business. It follows therefore that Nexus considers it unlikely that all three incumbents will lose the entirety of their existing business.

- 5.90 Further, for the maximum adverse effect to occur, the scenario would have to arise that all existing operators fail to successfully mitigate the consequential adverse impacts, for example by disposing of their depot(s) and redeploying vehicles as opposed to writing off their value. Therefore, Nexus believes that whilst this maximum adverse effect is a possibility, it is unlikely provided that existing operators behave in a commercially rational manner.
- 5.91 Similarly, Nexus considers it unlikely that the minimum adverse effect (assessed by Nexus at £85.3 million) will occur, as this would require each existing operator of services included in the QCS to successfully win all the relevant Quality Contracts that cover its existing business.
- 5.92 Having considered the adverse effects identified in response to Consultation alongside its own analysis of adverse effects, Nexus concludes that the quantifiable adverse effects will be in the range of £85.3m to £226.7m. Nexus considers it is unlikely that either of these extremes of the range will occur. Nexus notes that the adverse effects are entirely dependent upon the outcome of the procurement process for the Quality Contracts and the subsequent mitigations that operators may put in place, and is therefore unable to assess the likelihood of this adverse effect occurring in respect of individual operators for the services they currently operate.

*Improvements in the well-being of people living and working in the QCS Area*

- 5.93 Nexus considers that the benefits of the QCS and the certainty of their delivery are high - these benefits arise from improved bus networks, simpler and cheaper fares, better vehicles, better customer care and more inclusive decision making that involves local people. The resulting improvements in well-being will apply to a very wide range of people who live and work in Tyne and Wear.
- 5.94 Nexus has also considered negative impacts on well-being, because some people may pay higher fares for a time or travel on an older vehicle, and some bus company employees not involved in the QCS may lose some job security. Nexus has given serious consideration to these negative impacts and where possible has put measures in place to mitigate these effects. Nexus concludes that these impacts are limited in nature and scale, and do not significantly reduce the net benefits identified.
- 5.95 Nexus therefore considers that there are considerable well-being benefits to persons living and working in the QCS Area, and that the likelihood of these benefits arising is high. Nexus therefore attaches significant weight to the improvement in well-being to persons living and working in the QCS Area.

*VPA as an alternative*

- 5.96 In assessing the VPA, Nexus has considered the nature, likelihood and scale of the benefits the VPA has the potential to bring about so as to inform its assessment of whether the VPA could be used without unacceptably compromising the objectives to be delivered by the QCS. The analysis shows that the VPA could offer some benefits, which if delivered in full could achieve some Bus Strategy objectives to a lesser extent than the QCS. However there is considerable doubt, based on the VPA put forward by operators, about whether many of those benefits will transpire.
- 5.97 Nexus has concluded that adopting the VPA rather than the QCS would unacceptably compromise achievement of the Bus Strategy objectives. It follows that, in Nexus' opinion, the VPA option does not constitute the least intrusive means for acceptably attaining the objectives sought, and the existence of the VPA does not prevent the QCS being proportionate under the terms of criterion (e).

#### *Proportionality assessment*

- 5.98 Nexus has considered carefully the responses to Consultation and carried out its own assessment of the merits of the QCS against the relevant statutory criteria. Where appropriate it has sought external advice to assist it in its analysis. It has sought and followed legal advice on the approach to be taken to proportionality.
- 5.99 While it acknowledges that there will be adverse impacts on operators, the extent of which will depend upon the outcome of the procurement process and commercial decisions made by the operators themselves, it considers that the well-being benefits delivered by the QCS are sufficiently important to justify those adverse effects. It acknowledges that the VPA is also intended to deliver benefits, without the adverse impacts that the QCS will cause. However, for reasons already explained, Nexus does not consider that the VPA is a viable alternative to the QCS because it would not be likely to sufficiently secure the objectives which the QCS is intended to achieve, and which the QCS has a very high likelihood of achieving. There are considerable disadvantages to the VPA as set out in this report.
- 5.100 Having regard to all the potential impacts and benefits of the QCS, and taking into account the VPA, Nexus considers that a fair balance has been struck between the rights of the operators (both individually and taken as a group) and the interests of the community.
- 5.101 Nexus is therefore of the view that any adverse effects of the proposed QCS on operators will be outweighed by the improvement in well-being of persons living or working in the area to which the QCS relates and, in particular, to the achievement of the objectives mentioned in criteria (a) to (d). Nexus therefore considers that implementation of the QCS is proportionate and criterion (e) is

satisfied. It also considers that the requirements of Article 1 of the First Protocol to the European Convention on Human Rights are met.

*Further steps in developing the QCS*

- 5.102 If the NECA decides to progress the QCS, the next step will be to refer it to the QCS Board for review on the terms provided for under the Transport Act 2000. The QCS Board will consider the proposed Scheme and form an opinion as to whether the relevant public interest criteria are met, and whether the statutory notice and consultation requirements have also been met.
- 5.103 The Statutory Guidance expects that the QCS Board should ordinarily publish its opinion no more than eight weeks after the date on which the QCS Board receives copies of the consultation responses and other documents from the LTA. However Nexus anticipates that the complexity of the QCS Proposal may lead to that timeframe being extended. This will be a matter for the discretion of the QCS Board following submissions from relevant parties.
- 5.104 The NELB would then be required to consider the QCS Board's opinion and publish a response explaining how it intends to proceed and why. Where the QCS Board's opinion was unfavourable, there is an option (but not a requirement) for the NELB to submit a modified proposal to the QCS Board for a further review.

## 6 Comparison between QCS and VPA

6.1 A detailed comparison between the QCS and the VPA is contained in the analysis of public interest criterion (e), contained in the Public Interest Test Report in Appendix C. The comparison can be summarised as follows:

- The QCS will generate an additional 90 million bus trips compared to the Do Minimum Scenario, whereas the VPA will generate an additional 44 million bus trips.
- Provided that local public support for bus services remains at the level of £51.2 million per annum, the QCS will avoid cuts to in secured bus services and discretionary concessionary fares until at least 2026/27. As discussed above the VPA will still lead to significant cuts in secured services and discretionary concessions from 2017/18, even if local public support for bus services remains at the level of £51.2 million per annum.
- Under the QCS future fare increases would be capped at the RPI on average, whereas under the VPA there would be no capping mechanism although information on bus operator costs will be shared with Nexus officers.
- Under the QCS adult fares will be simplified and will be the same regardless of operator. Under the VPA the existing system of fares would be retained and augmented by new multi-operator multi-trip 'Bus2Bus' fares.
- Under the QCS a new weekly ticket for young people aged 16-18 would be introduced at the same price as for under 16s. Under the VPA a new 'Bus2Bus' ticket for 16-18 year olds would be introduced, whose pricing is currently unknown.
- Under the QCS a multi-modal smart ticket will be introduced where the best price for the travel undertaken is automatically calculated as a customer travels. Under the VPA existing Network One products will be made smart, along with the new 'Bus2Bus' ticket.
- Under a QCS the bus network would grow under the guidance of the NECA if sufficient funding was available. Under the VPA the bus operators have committed to an extra 50 buses being added to the network to grow commercial services.
- The bus network under a QCS would be governed by the NECA, and permanent changes would only be introduced after consultation with

passengers, local communities and passengers. Under the VPA a far greater degree of engagement would take place than today, but the ultimate decision to change services would lie with the bus operators.

- Under the QCS 60% of the local bus fleet will be fully compliant with Euro V emission standards by April 2017 and 100% by April 2019, compared to the VPA offering 68% of the local bus fleet meeting Euro V standards, for particulate matter emissions only, by March 2017.
- Under the QCS the NECA, local authorities and the public would have access to a significant amount of planning and performance data. Under the VPA a data-sharing agreement sets out what information can be used and for what purposes, but generally restricts its use.

6.2 Significant risks affect the certainty of the introduction of the QCS, but once the scheme is made the likelihood of its benefits being achieved is high. If the VPA were to be progressed by the NELB, its introduction is likely to be more straightforward than the QCS, although a significant amount of work is required to create a legal document that would be acceptable to the NECA. However the number of ways in which the VPA can be terminated, and the consequent need to rely on the goodwill and best endeavours of the operators means that there is little confidence or certainty that its benefits will be delivered over the ten-year period it covers.

## 7 Conclusion

- 7.1 Having taken due account of all the consultation responses it has received and having recommended revisions to the QCS, Nexus has analysed the relative merits of both the QCS and the VPA, and is of the view that the QCS is the option that would best achieve the NECA's objectives in the Bus Strategy for Tyne and Wear of: arresting the decline in bus patronage, maintaining accessibility, and delivering better value for public money.
- 7.2 In addition to achieving the NECA's objectives for buses, the QCS would deliver a wide-ranging set of improvements to the well-being of persons living and working in Tyne and Wear. Those improvements relate both to improvements for bus and other public transport users, as well to benefits to the wider community and the local economy. If the Scheme is made the likelihood of its benefits being achieved is high. This is in contrast to the VPA which could offer some benefits compared to the Do Minimum scenario but in Nexus' view its current structure does not provide sufficient certainty of delivery.
- 7.3 By introducing a QCS, Nexus considers that the NECA would avoid the damaging consequences of the Do Minimum scenario in full. Whilst the VPA does provide for some benefits to bus users, many of the factors that give rise to the Do Minimum scenario would be unaffected by its introduction. Therefore extensive cuts in discretionary services and increases in fares would, in Nexus' assessment, be likely to follow shortly after the introduction of a VPA. Furthermore the way in which the VPA is currently drafted leads to very limited confidence that the benefits it would provide would be achieved in practice.
- 7.4 The larger operators have requested an opportunity to meet directly with members of NELB to present directly to them on their view of the merits of a VPA. This meeting occurred on 1st October 2014. NELB should take due account of such representations in making its decision.
- 7.5 It is inevitable that the introduction of the QCS will bring about significant adverse effects upon existing operators in the Tyne and Wear area. Through the consultation process and its own analysis Nexus has sought to identify both the nature and the likely extent of those adverse effects. Nexus has also sought to identify the nature and extent of the improvements in the well-being of people living and working in the QCS Area that would be delivered by either a QCS or VPA. Having completed that analysis Nexus is of the view that the vital importance of the improvements that would be achieved in the well-being of people living and working in the area under a QCS (particularly when set against the ill-effects that are likely to occur under either the Do Minimum scenario or the VPA if the QCS is not introduced) materially outweigh the likely adverse effects on operators. However, NELB should note that those

operators who would suffer adverse effects have previously indicated that they would be minded to challenge the introduction of the QCS.

- 7.6 Nexus considers that the statutory criteria set out in section 124 of the Transport Act 2000 (as amended) are met, as described in the Public Interest Test Report in Appendix C. Nexus also considers that the introduction of the proposed QCS would be proportionate for the purposes of Article 1 Protocol 1 of the European Convention on Human Rights. Leading counsel has provided an independent opinion to the NELB which confirms the basis on which NELB can satisfy itself as to the proportionality of the QCS.
- 7.7 If, following due consideration, the NELB agrees with Nexus' analysis and recommendations then it can proceed to the next step (of referring the QCS to the QCS Board for review) if it determines that to be the most appropriate course of action.

## 8 Glossary of terms

BSDP	Bus Strategy Delivery Project
BSOG	Bus Service Operators Grant
Bus Strategy	The Bus Strategy for Tyne and Wear, 2012
DfT	Department for Transport
EBIT	Earnings Before Interest & Tax, an indicator of a company's profitability, calculated as revenue minus expenses, excluding tax and interest. EBIT is also referred to as "operating earnings", "operating profit" and "operating income",
EBIT margin	A profitability measure equal to EBIT divided by net revenue. This value is useful when comparing multiple companies, especially within a given industry, and also helps evaluate how a company has grown over time.
ENCTS	English National Concessionary Travel Scheme
LTA	Local Transport Authority
Metro	Tyne and Wear Metro
NEBOA	North East Bus Operators Association
NECA	The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority, known as the 'North East Combined Authority'
NELB	North East Leadership Board
NESTI	North East Smart Ticketing Initiative, a collaboration between local authorities and transport operators to implement smart ticketing infrastructure across the NECA area the and Tees Valley
Network One	The trading name of Network Ticketing Ltd, the independent company that provides multi-modal ticketing in Tyne and Wear.
Nexus	The trading name of the Tyne and Wear Passenger Transport Executive
Passenger Focus	The government-appointed body representing rail, bus, coach and tram passengers
QCS	The Quality Contracts Scheme proposed by

## Nexus

QCS Area	the geographical area comprising the councils of Gateshead, Newcastle, North Tyneside, South Tyneside and Sunderland
QCS Board	An independent board, chaired by a Traffic Commissioner, which must to form an opinion as to whether the relevant public interest criteria are met and whether the statutory notice and consultation requirements have been met by an LTA proposing to make a QCS
QCS Bus Services	Bus services that have been procured by the NECA using quality contracts
QCS Network	The QCS Bus Services that together form a network of services using the same system of fares and operating to the same quality standards.
QCS Proposal	The description of the original QCS Proposal and how it was envisaged to work, as was set out during formal consultation from July-November 2013
Secured service	A bus service procured by a local transport authority using public funds, to fill gaps in the commercial network
TNEC	Transport North East Committee
TUPE	The Transfer of Undertakings (Protection of Employment) Regulations 2006
TWITA	Tyne and Wear Integrated Transport Authority
TWSC	Transport North East (Tyne and Wear) Sub-committee
VFM	Value For Money
VMA	Voluntary Multi-operator Agreement, a VPA entered into by more than one bus operator
VPA	The Voluntary Partnership Agreement proposed by NEBOA,

**Appendix A: Voluntary Partnership Agreement**

..... 2014

- (1) **THE DURHAM, GATESHEAD, NEWCASTLE UPON TYNE,  
NORTH TYNESIDE, NORTHUMBERLAND, SOUTH TYNESIDE  
AND SUNDERLAND COMBINED AUTHORITY**  
and
- (2) **TYNE AND WEAR PASSENGER TRANSPORT EXECUTIVE**  
and
- (3) **GATESHEAD COUNCIL**  
and
- (4) **NEWCASTLE CITY COUNCIL**  
and
- (5) **NORTH TYNESIDE COUNCIL**  
and
- (6) **SOUTH TYNESIDE COUNCIL**  
and
- (7) **SUNDERLAND CITY COUNCIL**  
and
- (8) **ARRIVA NORTHUMBRIA LTD**  
and
- (9) **BUSWAYS TRAVEL SERVICES LTD**  
and
- (10) **GO NORTH EAST LTD**

---

**VOLUNTARY MULTILATERAL PARTNERSHIP  
AGREEMENT**

in relation to bus services in Tyne and Wear

---

TABLE OF CONTENTS

Clause	Headings	Page
1.	DEFINITIONS AND INTERPRETATION .....	5
2.	TERM AND PURPOSE .....	11
3.	GOVERNANCE.....	11
4.	NETWORK AND SERVICE CHANGE PROCEDURE.....	16
5.	INVESTMENTS.....	23
6.	TICKETING AND FARES.....	28
7.	MARKETING & INFORMATION.....	29
8.	PERFORMANCE ASSESSMENT AND REPORTING .....	30
9.	DATA SHARING .....	32
10.	CUSTOMER CHARTER .....	32
11.	PARTIES' REPRESENTATIVE .....	32
12.	AID FOR PASSENGERS .....	32
13.	CONFIDENTIALITY .....	33
14.	INFORMATION EXCHANGE .....	34
15.	DATA PROTECTION .....	34
16.	PUBLICATION .....	34
17.	FREEDOM OF INFORMATION .....	34
18.	COMPETITION AND PROCUREMENT LAW .....	35
19.	LIMITATION OF LIABILITY.....	35
20.	FORCE MAJEURE .....	36
21.	TERMINATION .....	37
22.	SURVIVAL .....	40
23.	DISPUTE RESOLUTION .....	40
24.	GOVERNING LAW .....	41
25.	MISCELLANEOUS PROVISIONS.....	41
	SCHEDULE 1 NETWORK AND SERVICES .....	46
	SCHEDULE 2 INVESTMENT.....	49
	SCHEDULE 3 FARES AND TICKETING .....	52
	SCHEDULE 4 CUSTOMER CHARTER.....	53
	SCHEDULE 5 SERVICE REQUIREMENTS AND KPI .....	60
	SCHEDULE 6 DATA SHARING AGREEMENT.....	63
	ANNEX A OPERATOR DATA AND NEXUS' PERMITTED USE OF OPERATOR DATA.....	67
	ANNEX B NEXUS DATA AND THE OPERATOR'S PERMITTED USE OF NEXUS DATA .....	68
	SCHEDULE 7 THE VPA BUS STRATEGY AND CHANGE CRITERIA.....	69

SCHEDULE 8 SCHEDULED MEETINGS ..... 71  
SCHEDULE 9 INFORMATION PROTOCOL ..... 72  
SCHEDULE 10 BOARD CONSTITUTIONS ..... 75

DRAFT

**THIS AGREEMENT** is made on the \_\_\_\_\_ day of \_\_\_\_\_ [2014]

**BETWEEN:**

- (1) **THE DURHAM, GATESHEAD, NEWCASTLE UPON TYNE, NORTH TYNESIDE, NORTHUMBERLAND, SOUTH TYNESIDE AND SUNDERLAND COMBINED AUTHORITY** of [•] (the "**CA**");
- (2) **TYNE AND WEAR PASSENGER TRANSPORT EXECUTIVE** of Nexus House, St James' Boulevard, Newcastle upon Tyne NE1 4AX ("**Nexus**");
- (3) **GATESHEAD COUNCIL** of Civic Centre, Regent Street, Gateshead NE8 1HH ("**GC**");
- (4) **NEWCASTLE CITY COUNCIL** of Civic Centre, Barras Bridge, Newcastle upon Tyne NE99 1RD ("**NCC**");
- (5) **NORTH TYNESIDE COUNCIL** of Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside NE27 0BY ("**NTC**");
- (6) **SOUTH TYNESIDE COUNCIL** of Town Hall & Civic Offices, Westoe Road, South Shields, Tyne and Wear NE33 2RL ("**STC**");
- (7) **SUNDERLAND CITY COUNCIL** of Civic Centre, Burdon Road, Sunderland SR2 7DN ("**SCC**");
- (8) **ARRIVA NORTHUMBRIA LTD** of Admiral Way, Doxford International Business Park, SR3 3XP ("**Arriva**");
- (9) **BUSWAYS TRAVEL SERVICES LTD** of Daw Bank, Stockport SK3 0DU ("**Stagecoach**");
- (10) **GO NORTH EAST LTD** of 3<sup>rd</sup> Floor, 41-51 Grey Street, Newcastle-upon-Tyne NE1 6EE ("**Go North East**"); and

each, individually, being a "**Party**" and any two or more of them being "**Parties**".

**WHEREAS**

- (A) Nexus is the passenger transport executive for Tyne and Wear and the CA is the Tyne and Wear Integrated Transport Authority.
- (B) The Operators are companies providing local bus services in the Partnership Area.
- (C) The Parties wish to formalise their agreement by entering into this voluntary multilateral partnership agreement (as described in section 46 of the Local Transport Act 2008, amending section 153(2) of the Transport Act 2000) in relation to bus services in Tyne and Wear (the "**Agreement**").
- (D) The Parties have considered and applied the Part 2 Competition Test and have agreed that the Agreement is an exempt voluntary multilateral partnership agreement within the meaning of paragraph 22(1) of Schedule 10, Part 2 of the Transport Act, and accordingly the prohibition at paragraph 20 of Schedule 10, Part 2 of the Transport Act should not apply.
- (E) The Parties wish to enter into the Agreement for the purpose of achieving the Bus Improvement Objectives and in furthering the VPA Bus Strategy, in so far as it relates to the provision of the Services and the Network (the "**Purpose**").
- (F) The Parties acknowledge that it is their shared responsibility to contribute to delivering the VPA Bus Strategy in accordance with the terms of this Agreement.

**NOW IT IS AGREED** as follows:

**1. DEFINITIONS AND INTERPRETATION**

**1.1 Definitions**

In this Agreement (including the Recitals, Schedules and Annexures hereto), unless the context otherwise requires, the following words and expressions shall have the following meanings:

**"Accessibility"** means the ability of people to reach destinations by public passenger transport as defined in the Nexus Accessibility Model;

**"Agreed Service Actions"** shall have the meaning given to it in Clause 5.11.8;

**"Agreement"** shall have the meaning given to it in Recital C;

**"Affected Party"** means a Party who is the subject of a Force Majeure Event;

**"Bank Holiday"** means a weekday on which banks in England and Wales are not open for business;

**"Baseline Secured Services Spending"** means the amount spent by Nexus on Secured Services in the twelve (12) month period prior to the Reference Date;

**"Board"** means any of the Tyne and Wear Bus Partnership Board, a District Bus Partnership Board or the Dispute Board and **"Boards"** means any two or more of them, in each case as the context requires;

**"Bus Improvement Objectives"** means those objectives stated as being the bus improvement objectives in the Part 2 Competition Test;

**"Chair"** means, as the context requires,

- (a) the person appointed as chairperson of the Tyne and Wear Bus Partnership Board in accordance with Clause 3.2.5; or
- (b) the person appointed as chairperson of a District Bus Partnership Board in accordance with Clause 3.6.6;

**"Change"** means a TWBPB Decision Change Proposal, TWBPB Discussion Change Proposal or a District Discussion Change Proposal;

**"Change Criteria"** means the criteria set out in column (b) of the table in Schedule 7 that are to be applied to assess whether a Change proposal will deliver the VPA Bus Strategy;

**"Change Procedure"** means the process in Clause 4.2 by which the evaluation of a Change is carried out;

**"Claim"** means a claim in contract, tort or otherwise, including any claim for negligence, breach of contract, misrepresentation or indemnification, or pursuant to any common law or statutory rights, covenants, or undertaking arising under or in connection with any provision of this Agreement;

**"Confidential Information"** means, in relation to a Disclosing Party:

- (a) information of whatever nature concerning the business, assets, liabilities, dealings, transactions, policies or affairs of the Disclosing Party including all trade secrets, financial, marketing and technical information, ideas, concepts, technology, processes, knowledge and know-how, together with all details of a Disclosing Party's, customers, suppliers, prices, discounts, margins, information relating to research and development, current trading performance and future policy or business strategy and all other information of a like nature; and
- (b) any information which is expressly indicated to be confidential or commercially sensitive or which, due to the nature and circumstances of its disclosure or its

content might reasonably be considered to be confidential (whether or not marked as such),

in each case in whatever form or medium (including written, electronic, visual and oral) such information is recorded or kept and whether or not created for the purpose of entering into this Agreement or otherwise;

**"Contract Year"** means a period of twelve (12) months commencing on the Effective Date or an anniversary of the Effective Date save that the last Contract Year shall be the shorter period between the relevant anniversary of the Effective Date and the date on which this Agreement terminates;

**"Constitution"** means in respect of a Board the constitution of that Board which sets out, amongst other things, its objectives, powers, rights of interested members, officers, meetings, notice of meetings and quorum for meetings, copies of which are attached to this Agreement in Schedule 10;

**"CPT"** means the Confederation of Passenger Transport UK;

**"Customer Charter"** means the Customer Charter set out in Schedule 4;

**"Data"** means such operational and performance data as is required by Nexus to measure and report on the performance of each Operator against the KPIs;

**"Data Sharing Agreement"** means the agreement to be entered into between Nexus and each Operator substantially in the form set out in Schedule 6;

**"DBPB Large Operator Representative"** has the meaning given to it in Clause 3.6.2(B);

**"DBPB Representative"** has the meaning given to it in Clause 3.6.2;

**"DBPB Small Operators Representative"** has the meaning given to it in Clause 3.6.2(C);

**"De-Minimis Contract"** means a bus service contract directly awarded to a bus operator by Nexus in accordance with the Service Subsidy Agreements (Tendering) Regulations 2002 (as amended);

**"Defaulting Party"** has the meaning given to it in Clause 21.1.1;

**"Direct Losses"** means all losses, damages, liabilities, properly incurred costs (including without limitation reasonable third party legal and professional adviser's fees), charges, reasonable expenses, actions, proceedings, claims and demands, directly resulting from any default under this Agreement but excluding Excluded Losses;

**"Disclosed Information"** means any information disclosed by the Parties in respect of the implementation and operation of this Agreement and which may or may not be Confidential Information;

**"Disclosing Party"** means a Party that discloses Confidential Information to one or more Receiving Parties under this Agreement;

**"Dispute"** means a dispute or difference arising out of or in connection with this Agreement or any such matter which a Party deems (acting reasonably) to constitute a dispute;

**"Dispute Board"** means the dispute board established to resolve Disputes in accordance with Clause 23.2;

**"District"** means the geographical area for which a Local Authority has responsibility;

**"District Bus Miles"** has the meaning given to it in Clause 3.6.2(B);

**"District Bus Partnership Board"** means a District bus partnership board comprised of Local Authority representatives and Operator representatives for the purpose of evaluating issues arising in connection with this Agreement, the Services and the Network which are relevant to its District;

**"District Discussion Change Proposal"** means a change proposed by a Promoter that relates to;

- (a) changes to commercial Service timing or operating hours in the relevant District;
- (b) changes to Secured Service timing or operating hours in the relevant District; or
- (c) capital investment by Operators, the local Highway Authority or Nexus in the relevant District;

**"Effective Date"** means the date first above written;

**"ENCTS"** means the English National Concessionary Travel Scheme as operated by travel concession authorities under the Transport Act 2000 (as modified by the Concessionary Bus Travel Act 2007);

**"Excluded Losses"** means any and any combination of:

- (a) loss of profits;
- (b) loss of contract, loss of goodwill, loss of opportunity, loss of anticipated savings; and
- (c) any indirect or consequential loss of any nature whatsoever;

in each case, howsoever arising, including pursuant to a contract, by virtue of any trust or fiduciary duty, in tort (including negligence), or as a consequence of a breach of any duty (statutory or otherwise). For the avoidance of doubt, the losses referred to in paragraphs (a) and (b) above may include both direct and indirect losses, but shall not include any payments or liquidated sums specified under this Agreement (including any payments required into a Party's Service Improvement Account);

**"Fare Group"** means in relation to bus ticket fares:

- (a) a One Day Traveller Ticket; and
- (b) a Regular Traveller Ticket;

**"Force Majeure Event"** means any event or occurrence (including fire, flood, violent storm, pestilence, explosion, malicious damage, any industrial action by the workforce of the Affected Party or by the workforce of a critical or key supplier, armed conflict, acts of terrorism, nuclear, biological or chemical warfare, or any other disaster, natural or man-made) which materially adversely affects the ability of a Party to perform its obligations (in whole or in part) under this Agreement, and which is outside the reasonable control of the Affected Party and is not attributable to any act or failure to take reasonable preventative action by the Affected Party;

**"Highway Authority"** means a body which is responsible for the maintenance of public highways, as defined in the Highways Act 1980;

**"Information Protocol"** means the information protocol set out in Schedule 9;

**"Initiatives"** means measures taken by any Local Authority aimed at reducing bus journey times and/or their availability as set out in Schedule 2;

**"Initial Assessment"** has the meaning given to it in Clause 4.2.2;

**"Investments"** means the investments each Operator has committed to undertake as set out in Schedule 2;

**"Joint Marketing Plan"** means a marketing plan to be developed and implemented jointly by the Parties in accordance with Clause 7.3.2;

**"KPIs"** has the meaning given to it in Clause 8.1.1;

**"Lead Transport Officer"** means the lead member for transport of the CA;

**"Local Authority"** means any of GC, NCC, NTC, STC and SCC and **"Local Authorities"** means any two or more of them, in each case as the context requires;

**"Local Transport Act"** means the Local Transport Act 2008;

**"Network"** means the collective aggregation of the Services operated (or to be operated) by each Operator as set out Schedule 1 and as amended from time to time in accordance with this Agreement;

**"Network Accessibility"** means in respect of the Network:

- (a) the direct connectivity between the stops served by each Route on the Network and the key destinations served by such Route;
- (b) the hours of the day when Services operate on each Route to provide such connectivity;
- (c) the frequency of operation of the Services on each Route during the period of operation;

**"Network Bus Miles"** has the meaning given to it in Clause 3.2.1(B);

**"Network Review"** means any review of the Network or any part thereof carried out by the Parties in accordance with Clause 4.3;

**"Network Ticketing Ltd"** or **"NTL"** means Network Ticketing Ltd. Stagecoach Depot, Shields Road, Walkergate, Newcastle upon Tyne, NE6 2BZ;

**"Nexus Accessibility Model"** means the public transport accessibility model developed by Nexus;

**"non-Defaulting Party"** has the meaning given to it in Clause 21.1.1;

**"One Day Traveller Ticket"** means a single, return or daily bus ticket;

**"Operator"** means Arriva, Go North East or Stagecoach or any operator who accedes to this Agreement and **"Operators"** shall mean any two or more of them, in each case as the context requires;

**"Partnership Area"** means the integrated transport area for Tyne and Wear (as defined in the Local Transport Act 2008);

**"Partnership Operators' Representative"** has the meaning given to it in Clause 3.2.4;

**"Part 2 Competition Test"** means the test for certain agreements, decisions and practices as set out in Schedule 10, Part 2 to the Transport Act as amended by the Local Transport Act;

**"Payment Threshold"** has the meaning given to it in Clause 8.1.2;

**"Personal Data"** shall have the meaning given to it in the Data Protection Act 1998;

**"Process"** shall have the meaning given to it in the Data Protection Act 1998;

**"Promoter"** means any Party or any third party with a bona fide interest in Network operations, delivery of the Services or this Agreement;

**"Protocols"** means the operational arrangements and methods of working detailed in Schedule 1 to Schedule 5 of this Agreement;

**"PTEG"** means the Passenger Transport Executive Group;

**"Purpose"** has the meaning given to it in Recital E;

**"Qualifying Agreement"** means an agreement as defined in paragraph 17(4)(a) of Schedule 10, Part 2 to the Transport Act;

**"Qualitative Criteria"** means the qualitative criteria set out in column (c) of the table in Schedule 7 that are to be applied to assess whether a Change proposal complies with the applicable Change Criteria;

**"Quality Contract"** means a quality contract as defined in the Transport Act;

**"Quantitative Criteria"** means the criteria set out in column (d) of the table in Schedule 7 that are to be applied to assess whether a Change proposal complies with the applicable Change Criteria;

**"Quarter"** means a three-month period ending on 31 March, 30 June, 30 September or 31 December in any Contract Year;

**"Receiving Party"** means a Party which receives Confidential Information from a Disclosing Party and **"Receiving Parties"** shall be construed accordingly;

**"Reference Date"** means 1 March 2013;

**"Regular Traveller Ticket"** means a weekly, monthly, yearly or longer period bus ticket;

**"Reimbursement Arrangements"** means the arrangements between Nexus and each Operator in respect of concessionary fares reimbursement in place as at the date of this Agreement;

**"Relevant Board"** means either (i) the Tyne and Wear Bus Partnership Board; or (ii) the relevant District Bus Partnership Board as the context requires having regard to:

- (a) the objective of such Board(s) as set out in the applicable Constitution;
- (b) whether the relevant Change proposal is a TWBPB Decision Change Proposal, a TWBPB Discussion Change Proposal or a District Discussion Change Proposal; and
- (c) the geographical scope and impact of a SIF Proposal;

**"Route"** means a route, series of routes and/or sections of routes or corridors operated by an Operator forming part of the Network as set out in Schedule 1;

**"RPI"** means the Retail Prices Index (all items) published monthly in the United Kingdom by the Office for National Statistics or any official publication substituted for it;

**"Scheduled Meeting(s)"** means the meeting or meetings described in Schedule 8;

**"Secured Services"** means those Services which are provided by the Operators under a subsidy agreement with Nexus;

**"Secured Services Spend Reduction"** shall have the meaning given to it in Clause 5.11.11;

**"Service"** means, a local bus service operated by an Operator along a Route and

**"Services"** means any two or more of them, as the context requires;

**"Service Improvement Account"** means a notional account maintained by a Party: (i) for the purpose of managing its obligations to make payments which arise as a result of its failure to meet an applicable Payment Threshold; and (ii) from which to fund its contributions to the Service Improvement Fund;

**"Service Improvement Fund"** means a notional fund maintained by Nexus in accordance with Clause 4.9.2 for the purpose of funding SIF Proposals that are adopted by the Tyne and Wear Bus Partnership Board;

**"Service Reconfiguration Change"** shall have the meaning given to it in Clause 5.11.9;

**"Service Registration Date"** means the date by which an Operator is required to register a change to a local bus service to the Traffic Commissioner and the Vehicle and Operator Services Agency;

**"SIF Proposal"** has the meaning given to it in Clause 4.9.3;

**"Spend Reduction Target"** means a reduction of £2,000,000 in Nexus spending on Secured Services compared against the Baseline Secured Services Spending;

**"Tendered Services"** means subsidised transport services for which there is an obligation to invite tenders under section 89 of the Transport Act 1985;

**"Term"** shall have the meaning given to it in Clause 2.1;

**"Tertiary Services"** means those Services listed as such in Schedule 1;

**"Traffic Commissioner"** means the non-departmental public body responsible for the licensing and regulation of vehicles (including buses and coaches) and the registration of local bus services in the United Kingdom;

**"Transport Act"** means the Transport Act 2000;

**"TWBPB Decision Change Proposal"** means a change proposed by a Promoter that relates to:

- (a) joint marketing and information initiatives; and
- (b) external funding bids (capital and revenue support);

**"TWBPB Discussion Change Proposal"** means a change proposed by a Promoter that relates to:

- (a) changes to commercial Service routes or minimum frequency;
- (b) changes to Secured Service routes or minimum frequency;
- (c) any changes which would fall within the definition of District Discussion Change Proposal save that they impact more than one District;
- (d) changes to fares and ticketing;
- (e) Operators' own marketing and information initiatives; and
- (f) strategic capital investment by Operators, local highway authorities and Nexus;

**"TWBPB Large Operator Representative"** has the meaning given to it in Clause 3.2.1(B);

**"TWBPB Representative"** has meaning given to it in Clause 3.2.1;

**"TWBPB Small Operators Representative"** has the meaning given to it in Clause 3.2.1(C);

**"Tyne and Wear Bus Partnership Board"** means the Tyne and Wear bus partnership board established in accordance with Clause 3;

**"VPA Bus Strategy"** means the bus strategy as set out in Schedule 7; and

**"Working Day"** means any day of the week other than a Saturday, Sunday or Bank Holiday.

1.2 In this Agreement, unless the context otherwise requires:

1.2.1 any references to "this Agreement" includes the Schedules to it, each of which forms part of this Agreement for all purposes, and where any such Schedule conflicts with a provision of this Agreement (excluding the Schedules) the relevant provision of this Agreement (excluding the Schedules) shall apply;

1.2.2 a reference to an enactment, statutory provision or subordinate legislation shall include a reference to that enactment, statutory provision or subordinate legislation as from time to time amended, consolidated, modified, re-enacted or replaced provided that in the case of amendments, consolidations, modifications, re-enactments or replacements made after the date of this Agreement the same shall not have effected a substantial change to that enactment, statutory provision or subordinate legislation;

1.2.3 references in this Agreement to any contract, agreement or other instrument (other than an enactment, statutory provision or subordinate legislation made thereunder) shall be deemed to be a reference to that contract, agreement, instrument as from time to time amended, varied, supplemented or substituted;

- 1.2.4 a reference to a Clause, paragraph, Schedule, (other than to a schedule to a statutory provision) or Annex shall be a reference to a Clause, paragraph, Schedule or Annex (as the case may be) to this Agreement;
- 1.2.5 a reference to "includes" or "including" shall be construed as if they were immediately followed by the words "without limitation";
- 1.2.6 a reference to "writing" or "written" shall include any modes of reproducing words in any legible form and shall include email except where expressly stated otherwise;
- 1.2.7 words in the singular, where the context so admits, shall include the plural and vice versa;
- 1.2.8 words importing the masculine include the feminine and the neuter;
- 1.2.9 a reference to a "person" shall include a reference to a firm, a body corporate, an unincorporated association, a partnership or to an individual's executors or administrators;
- 1.2.10 if a period of time is specified as from a given day, or from the day of an act or event, it shall be calculated exclusive of that day, except where expressly stated otherwise; and
- 1.2.11 the contents page and headings in this Agreement are for convenience only and shall not affect its interpretation.
- 1.3 The obligations of the Parties set out herein are several and not joint.
- 1.4 For the avoidance of doubt, it is agreed by the Parties that, where the expression "the Operators shall" appears anywhere in this Agreement, unless the context requires otherwise, such expression shall be interpreted as a requirement on each Operator to perform the obligation in relation to the Services provided by it. Further, the Parties agree that no Operator shall be liable for any breach of this Agreement by another Operator (the "**Defaulting Operator**") and, where the Defaulting Operator is in breach, it will indemnify and keep indemnified the other Operator(s) for all Direct Loss suffered as a result thereof.
- 1.5 Where rights or obligations of a District Bus Partnership Board are set out in relation to Services then, unless expressly stated to the contrary, such rights and obligations shall be a right or obligation in respect of such Service insofar as that Service operates in the geographical area administered by that District Bus Partnership Board.
- 2. TERM AND PURPOSE**
- 2.1 This Agreement shall commence on the Effective Date and shall continue in force until the tenth (10) anniversary of the Effective Date unless terminated in respect of all the Parties in accordance with Clause 21 (the "**Term**").
- 2.2 During the Term, the Parties shall use all reasonable endeavours to cooperate and collaborate with one another in order to deliver the VPA Bus Strategy and achieve the Purpose.
- 3. GOVERNANCE**
- 3.1 Boards**
- Each Party shall procure that its representatives on the:
- 3.1.1 Tyne and Wear Bus Partnership Board;

- 3.1.2 each District Bus Partnership Board;
- 3.1.3 the Dispute Board; and
- 3.1.4 any ad hoc working group constituted in accordance with Clause 3.5.2 or Clause 3.9.2,

perform their functions at all times having regard to the relevant Constitution (where applicable) and in accordance with the Information Protocol.

### **3.2 Representation on the Tyne and Wear Bus Partnership Board**

- 3.2.1 The representation on the Tyne and Wear Bus Partnership Board shall be as follows:
  - (A) each of the five Local Authorities shall be entitled to nominate one (1) representative;
  - (B) each Operator that operates five percent (5%) or more of the total bus miles on the Network (the "**Network Bus Miles**") shall be entitled to nominate one (1) representative (each a "**TWBPB Large Operator Representative**"); and
  - (C) all of the Operators who each operate less than five percent (5%) of the Network Bus Miles shall collectively be entitled to nominate one (1) representative (the "**TWBPB Small Operators Representative**"),  
  
(each a "**TWBPB Representative**") to represent them on the Tyne and Wear Bus Partnership Board, and the TWBPB Representatives appointed as at the Effective Date are listed in Schedule [●]. Each representative nominated pursuant to this Clause 3.2.1 may be replaced at any time by notice in writing by the relevant appointing Party to the other Parties.
- 3.2.2 A TWBPB Large Operator Representative that ceases to operate five percent (5%) or more of the Network Bus Miles shall:
  - (A) give the other TWBPB representatives written notice thereof as soon as reasonably practicable;
  - (B) cease to have the right to nominate its own representative to the Tyne and Wear Bus Partnership Board; and
  - (C) be represented by the TWBPB Small Operators Representative going forward.
- 3.2.3 If an Operator represented by the TWBPB Small Operators Representative begins operating five percent (5%) or more of the Network Bus Miles, it shall be entitled to nominate a TWBPB Large Operator Representative in accordance with Clause 3.2.1(B) and shall give the other TWBPB Representatives written notice of its nominated representative.
- 3.2.4 If and for so long as the aggregate number of TWBPB Representatives nominated by the Operators in accordance with Clauses 3.2.1(B) and 3.2.1(C) is less than five, then the Operators shall collectively nominate such additional TWBPB Representatives (each a "**Partnership Operators' Representative**") as are necessary to ensure that the number of TWBPB Representatives nominated by the Operators on the one hand, and the TWBPB Representatives nominated by the Local Authorities on the other hand, are at all times equal. Each representative nominated pursuant to this Clause 3.2.4 may be replaced at any time by notice in writing by the Operators to the other Parties.

- 3.2.5 The Tyne and Wear Bus Partnership Board shall nominate a Chairman for the Board in accordance with the Constitution. The Local Authorities shall procure that the Chairman will seek:
- (A) at all times to deliver the VPA Bus Strategy;
  - (B) to ensure that the Board makes sound decisions and recommendations that are consistent with the VPA Bus Strategy;
  - (C) to ensure that all TWBPB Representatives act in a way that complies with the VPA Bus Strategy and the agreed Change Criteria; and
  - (D) reports from stakeholders and other interested parties that have a direct relationship to the delivery of the Board's objectives and the objectives of this Agreement.

**3.3 Meetings of the Tyne and Wear Bus Partnership Board**

Meetings shall be held in accordance with the requirements of the Tyne and Wear Bus Partnership Board Constitution.

**3.4 Decisions of the Tyne and Wear Bus Partnership Board**

- 3.4.1 The Tyne and Wear Bus Partnership Board shall:
- (A) perform the functions set out in its Constitution;
  - (B) make decisions regarding TWBPB Decision Change Proposals and SIF Proposals, which shall be binding on the Parties; and
  - (C) make non-binding recommendations to the Parties regarding TWBPB Discussion Change Proposals.
- 3.4.2 All matters that come before the Tyne and Wear Bus Partnership Board, including decisions on TWBPB Discussion Change Proposals and TWBPB Decision Proposals, shall be decided by a simple majority of the TWBPB Representatives.
- 3.4.3 Each TWBPB Representative shall have one vote.
- 3.4.4 The Chair shall not have a casting vote where the votes of the TWBPB Representatives are tied.
- 3.4.5 If the number of Operator-nominated TWBPB Representatives present and eligible to vote on a matter is less than the number of Local Authority-nominated TWBPB Representatives that are present and eligible to vote on the matter, then each Local Authority-nominated TWBPB Representative's vote shall be adjusted by multiplying it by the result of the following formula:

$$\frac{(\text{Total number of Operator TWBPB Representatives} - \text{Total number of non-voting Operator TWBPB Representatives})}{\text{Total number of Local Authority TWBPB Representatives}}$$

- 3.4.6 If the number of Local Authority-nominated TWBPB Representatives present and eligible to vote on a matter is less than the number of Operator-nominated TWBPB Representatives that are present and eligible to vote on the matter, then each Operator-nominated TWBPB Representative's vote shall be adjusted by multiplying it by the result of the following formula:

$$\frac{(\text{Total number of Local Authority TWBPB Representatives} - \text{Total number of non-voting Local Authority TWBPB Representatives})}{\text{Total number of Operator TWBPB Representatives}}$$

- 3.4.7 If a simple majority in favour is not achieved in a vote by the TWBPB Representatives present and entitled to vote, or the vote is tied, any Operator affected by such decision or the Chair may refer the matter to be settled by the Dispute Board in accordance with Clause 23.2.
- 3.4.8 If the matter is settled or otherwise resolved by the Dispute Board, then the terms of such settlement or resolution shall be treated as a decision of the Tyne and Wear Bus Partnership Board.

3.5 **Advisors to the Tyne and Wear Bus Partnership Board**

- 3.5.1 The TWBPB Representatives shall be entitled in accordance with the Constitution to request that any:
- (A) representative from Nexus;
  - (B) Operator technical staff;
  - (C) passenger representative groups; and
  - (D) any other third party invited by the Chair,
- attend any meeting of the Tyne and Wear Bus Partnership if that person can provide information that will assist the TWBPB Representatives in making decisions and recommendations that are consistent with the Change Criteria and which will contribute to delivery of the VPA Bus Strategy.
- 3.5.2 The TWBPB Representatives may appoint ad hoc working groups on an advisory basis to investigate, evaluate or study any matter which is the subject of a TWBPB Decision Change Proposal or TWBPB Discussion Change Proposal or other issue which affects the Network.

3.6 **Representation on District Bus Partnership Board**

- 3.6.1 There shall be a District Bus Partnership Board for each District and Clauses 3.6 - 3.9 shall apply with respect to each such Board.
- 3.6.2 The representation on a District Bus Partnership Board shall be as follows:
- (A) the relevant Local Authority shall be entitled to nominate one (1) representative;
  - (B) each Operator that operates five percent (5%) or more of the total bus miles in the relevant District (the "**District Bus Miles**") shall be entitled to nominate one (1) representative (each a "**DBPB Large Operator Representative**"); and
  - (C) all of the Operators who each operate less than five percent (5%) of the District Bus Miles shall collectively be entitled to nominate one (1) representative (the "**DBPB Small Operators Representative**"),
- (each a "**DBPB Representative**") to represent them on the District Bus Partnership Board, and the DBPB Representatives appointed as at the Effective Date are listed in Schedule [●]. Each representative nominated pursuant to this Clause 3.6.2 may be replaced at any time by notice in writing by the relevant appointing Party to the other Parties.
- 3.6.3 If and for so long as the aggregate number of DBPB Representatives nominated by the Local Authority in accordance with Clause 3.6.2 is less than the aggregate number of DBPB Representatives nominated by the Operators in accordance with Clause 3.6.2, then the Local Authority shall be entitled to nominate such additional DBPB Representatives as are necessary to ensure that the number of DBPB Representatives nominated by the Operators on the one hand, and the DBPB Representatives nominated by the Local Authorities on the other hand, are

at all times equal. Each representative nominated pursuant to this Clause 3.6.3 may be replaced at any time by notice in writing by the Operators to the other Parties.

3.6.4 A DBPB Large Operator Representative that ceases to operate five percent (5%) or more of the District Bus Miles in a Contract Year shall:

- (A) give the other representatives on the District Bus Partnership Board written notice thereof as soon as reasonably practicable;
- (B) cease to have the right to nominate its own representative to the District Bus Partnership Board; and
- (C) be represented by the DBPB Small Operators Representative going forward.

3.6.5 If an Operator represented by the DBPB Small Operators Representative begins operating five percent (5%) or more of the District Bus Miles in a Contract Year, it shall be entitled to nominate a DBPB Large Operator Representative in accordance with Clause 3.6.2(B) and shall give the other DBPB Representatives written notice of its nominated representative.

3.6.6 The Local Authority shall nominate a Chairman for the District Bus Partnership Board in accordance with the Constitution. The Local Authority shall procure that the Chairman will seek:

- (A) at all times to deliver the VPA Bus Strategy;
- (B) to ensure that the Board makes sound decisions and recommendations that are consistent with the VPA Bus Strategy;
- (C) to ensure that all DBPB Representatives act in a way that complies with the VPA Bus Strategy and the agreed Change Criteria; and
- (D) reports from stakeholders and other interested parties that have a direct relationship to the delivery of this Board's objectives and the objectives of this Agreement.

### **3.7 Meetings of the District Bus Partnership Board**

Meetings shall be held in accordance with the requirements of the District Bus Partnership Board Constitution.

### **3.8 Decisions of the District Bus Partnership Board**

3.8.1 The District Bus Partnership Board shall:

- (A) perform the functions set out in its Constitution;
- (B) make non-binding recommendations regarding SIF Proposals to the Tyne and Wear Board Bus Partnership Board;
- (C) make non-binding recommendations regarding District Discussion Change Proposals to the Tyne and Wear Board Bus Partnership Board where the proposal affects the Network beyond the relevant District; and
- (D) make non-binding recommendations regarding District Discussion Change Proposals to the Operators where the Change proposal only affects the relevant District only.

3.8.2 All matters that come before the District Bus Partnership Board, including decisions on District Discussion Change Proposals, shall be decided by a simple majority of the DBPB Representatives.

3.8.3 Each DBPB Representative shall have one vote.

- 3.8.4 The Chair shall not have a casting vote where the votes of the DBPB Representatives are tied.
- 3.8.5 If the number of Operator-nominated DBPB Representatives present and eligible to vote on a matter is less than the number of Local Authorities-nominated DBPB Representatives that are present and eligible to vote on the matter, then each Local Authority-nominated DBPB Representative's vote shall be adjusted by multiplying it by result of the following formula:

$$\frac{(\text{Total number of Operator DBPB Representatives} - \text{Total number of non-voting Operator DBPB Representatives})}{\text{Total number of Local Authority DBPB Representatives}}$$

- 3.8.6 If the number of Local Authority-nominated DBPB Representatives present and eligible to vote on a matter is less than the number of Operator-nominated DBPB Representatives that are present and eligible to vote on the matter, then each Operator-nominated DBPB Representative's vote shall be adjusted by multiplying it by result of the following formula:

$$\frac{(\text{Total number of Local Authority DBPB Representatives} - \text{Total number of non-voting Local Authority DBPB Representatives})}{\text{Total number of Operator DBPB Representatives}}$$

- 3.8.7 If a simple majority in favour is not achieved in a vote by the DBPB Representatives present and entitled to vote, or the vote is tied, any Operator affected by such decision or the Chair may refer the matter to be settled by the Dispute Board in accordance with Clause 23.2.
- 3.8.8 If the matter is settled or otherwise resolved by the Dispute Board, then the terms of such settlement or resolution shall be treated as a decision of the District Bus Partnership Board.

3.9 **Advisors to the District Bus Partnership Board**

- 3.9.1 The DBPB Representatives shall be entitled in accordance with the Constitution to request that any:
- (A) representative from Nexus;
  - (B) District transport;
  - (C) highways and planning officers;
  - (D) Operator technical staff;
  - (E) passenger representative groups; and
  - (F) any other third party invited by the Chair,
- attend a District Bus Partnership Board meeting if that person can provide information that will assist the DBPB Representatives in making decisions and recommendations that are consistent with the Change Criteria and which will contribute to delivery of the VPA Bus Strategy.
- 3.9.2 The DBPB Representatives may appoint ad hoc working groups on an advisory basis to investigate, evaluate or study any matter which is the subject of a District Discussion Change Proposal or other issue which affects the Services in its District.

4. **NETWORK AND SERVICE CHANGE PROCEDURE**

**4.1 Route Operation**

- 4.1.1 Without prejudice to Clause 4.1.2, where an Operator is identified as being responsible for a Route in Schedule 1, such Operator undertakes to Nexus and the CA to operate such Route for the duration of the Term or, if shorter, the period of its participation under this Agreement, unless otherwise provided in this Agreement or the Operator ceases to operate such Route having followed the Change Procedure.
- 4.1.2 Notwithstanding Clause 4.1.1, other Operators may operate the Route specified in Schedule 1 (subject to the provisions of this Clause 4 and any Qualifying Agreements between Operators which satisfy the criteria of the Part 2 Competition Test), provided that only the Operators identified in Schedule 1 as being responsible for the relevant Route shall be liable to Nexus and the CA under Clause 4.1.1.

**4.2 Change Procedure**

- 4.2.1 The Tyne and Wear Bus Partnership Board and the District Bus Partnership Boards shall, within five (5) Working Days of receiving a proposal from a Promoter that seeks to change the Services, the Network or other operations carried out in connection with this Agreement, determine whether the proposal constitutes a Change proposal and, if it does, then identify the Relevant Board (or Boards) which shall conduct the Initial Assessment.
- 4.2.2 The Relevant Boards shall, within ten (10) Working Days of being identified in accordance with Clause 4.2.1, assess whether or not the Change proposal satisfies the Qualitative Criteria (the "**Initial Assessment**").
- 4.2.3 If the Tyne and Wear Bus Partnership Board assesses (i) a TWBPB Decision Change Proposal or (ii) a TWBPB Discussion Change Proposal other than one consequent on a District TWBPB Recommendation, and finds that it does not satisfy the Qualitative Criteria then it shall reject the Change proposal, and that Change proposal shall not be considered further. If the Tyne and Wear Bus Partnership Board considers that the Change proposal satisfies the Qualitative Criteria then it shall continue to be evaluated in accordance with this Clause 4.2.
- 4.2.4 If a District Bus Partnership Board assesses a District Discussion Change Proposal and finds that it does not satisfy the Qualitative Criteria then it shall reject the Change proposal, and that Change proposal shall not be considered further. If the District Bus Partnership Board considers that the Change proposal satisfies the Qualitative Criteria then it shall continue to be evaluated in accordance with this Clause 4.2. A District Discussion Change Proposal that is assessed by more than one District Bus Partnership Board will continue to be evaluated in accordance with this Clause 4.2 unless it has been unanimously rejected by all the District Bus Partnership Boards required to conduct an Initial Assessment.
- 4.2.5 The Relevant Boards shall notify the Promoter in writing of the results of the Initial Assessment by the end of the period specified in Clause 4.2.2, providing reasonable evidence in support of their conclusions. A copy of the report shall be provided to any Operator whose operations would be affected if the Change proposal were to be implemented.
- 4.2.6 Within thirty (30) Working Days of a Promoter receiving notice under Clause 4.2.5 that its Change proposal has not been rejected:
- (A) any Operator that is not the Promoter shall be entitled to prepare and deliver a report addressed to the Relevant Boards which: (i) considers

what impact implementation of the Change proposal could have on its delivery of the Services and its operations; and (ii) recommends rejecting or implementing the Change proposal;

- (B) Nexus shall assess whether or not the Change proposal satisfies the Quantitative Criteria, and shall deliver a report to the Relevant Boards that sets out its findings; and
- (C) where the Change proposal could have a negative impact on aspects of the Network or the Services, a public consultation on the Change proposal shall be completed in accordance with the requirements of Section 2.9 of the Customer Charter.

4.2.7 Where a District Discussion Change Proposal relates to a single District the Relevant Board shall have [●] (●) Working Days in which to evaluate the Change proposal and the reports delivered pursuant to Clause 4.2.6, and where appropriate amend the Change proposal to take account of feedback in the reports, the Change Criteria and the VPA Bus Strategy. At the end of this period the District Bus Partnership Board shall deliver a written recommendation to the affected Parties to adopt or reject the District Discussion Change Proposal (as amended) ("**District Recommendation**"). A copy of the District Recommendation shall also be provided to the Tyne and Wear Bus Partnership Board.

4.2.8 Where a District Discussion Change Proposal relates to more than one District, the Relevant Boards shall have [●] (●) Working Days in which to evaluate the Change proposal and the reports delivered pursuant to Clause 4.2.6, and where appropriate amend the Change proposal to take account of feedback in the reports, the Change Criteria and the VPA Bus Strategy. At the end of this period each District Bus Partnership Board shall deliver to the Tyne and Wear Bus Partnership Board a written recommendation to adopt or reject the District Discussion Change Proposal (as amended) ("**District TWBPB Recommendation**").

4.2.9 When making a District TWBPB Recommendation each District Bus Partnership Board shall make available to the Tyne and Wear Bus Partnership Board all supporting materials and reports provided to the relevant District Bus Partnership Board under this Clause 4.2.

4.2.10 A District TWBPB Recommendation shall be treated as a TWBPB Discussion Change Proposal for the purposes of this Clause 4.2.

4.2.11 The Tyne and Wear Bus Partnership Board shall have [●] (●) Working Days following receipt of the reports delivered pursuant to Clause 4.2.6 or receipt of a District TWBPB Recommendation (as applicable) to evaluate the relevant Change proposal, and where appropriate amend it to take account of feedback in the reports, any applicable District Bus Partnership Board recommendation, the Change Criteria and the VPA Bus Strategy. At the end of this period the Tyne and Wear Bus Partnership Board shall deliver to the Parties a written notice:

- (A) recommending that the Parties adopt the TWBPB Discussion Change Proposal (as amended); or
- (B) requiring the Parties to adopt the TWBPB Decision Change Proposal (as amended).

4.2.12 Where the Parties receive notice under Clause 4.2.11(A) they shall have reasonable regard to but shall not be required to act in accordance with that recommendation.

4.2.13 Where the Parties receive notice under Clause 4.2.11(B), they shall take all reasonable steps to implement that Change proposal as soon as reasonably practicable, but in no event later than [●] (●) months after receiving the notice.

- 4.2.14 Where a Change proposal requires the disclosure of operationally, commercially or competitively sensitive information by an Operator, subject at all times to the Information Protocol, then:
- (A) the Change proposal containing such operationally, commercially or competitively sensitive information shall only be considered by the Local Authority's Representatives and the relevant Operator's representative on the Relevant Board; and
  - (B) a copy of the Change proposal with the operationally, commercially or competitively sensitive information redacted shall be provided to the representatives of the other Operators' on the Relevant Board by the relevant Operator for their consideration.
- 4.2.15 Any decision or recommendation by a District Bus Partnership Board or the Tyne and Wear Bus Partnership Board under this Clause 4.2 can be referred to the Dispute Board by an Operator.

#### **4.3 Network Review**

- 4.3.1 The Parties shall undertake periodic whole or partial reviews of the Network in order to monitor fulfilment of the Purpose and make proposals for further improvements to the Network which will fulfil the Purpose and achieve such other objectives as the Parties may agree from time to time.
- 4.3.2 Network Reviews shall be conducted annually in each District unless agreed otherwise by all Parties. The outcome of such reviews shall be considered by the Relevant Board and the implementation of any resulting proposals shall be subject to the agreement of the Relevant Board, but a Network Review shall not be subject to the Change Procedure.
- 4.3.3 Network Reviews must be consistent with the Purpose **PROVIDED ALWAYS** that the Operators may only reduce the Network:
- (A) where highway improvements delivered achieve punctuality improvements to Services to justify a change to the Network;
  - (B) if passenger demand reductions are evidenced to the Board;
  - (C) in accordance with Clause 4.2; or
  - (D) where operational, commercial or competitive situations cause the Operators to reduce the network.

#### **4.4 Changes to Services**

- 4.4.1 The Parties shall use all reasonable endeavours to achieve and maintain stability of the Network, however each Party acknowledges that periodic changes may be necessary to Services in certain circumstances.
- 4.4.2 The Parties agree that no material changes shall be made to the Services during the first twelve (12) months of this Agreement.
- 4.4.3 The Operators shall provide written notice of the implementation of any change to a Service as a result of the adoption of a Change proposal to the relevant District Bus Partnership Board and customers no later than the Service Registration Date (which, at the Effective Date, is 8 weeks before any change in Service commences).

- 4.4.4 Each Operator shall ensure that, other than in exceptional circumstances, new bus routes will be run for at least ninety (90) days before they may be cancelled or changed.
- 4.4.5 Each Party shall comply with the provisions of this Clause 4.4 before making, or voting in favour of, any Change proposal relating to a Service.
- 4.4.6 The Tyne and Wear Bus Partnership Board and the District Bus Partnership Boards shall work with Local Authorities to identify and mitigate "pinch points" (a place on the highway where a traffic jam tends to occur), highway maintenance and other issues that impact upon bus reliability and punctuality.
- 4.4.7 Before changing any Service the relevant Operator shall follow the Change Procedure.
- 4.4.8 Where a Change proposal has been implemented, and as a consequence a Service is to be withdrawn, the relevant Operator shall provide notice to the public.
- 4.5 Changes to Cross Boundary Services**
- 4.5.1 The Parties agree that, in respect of those Services indicated in Schedule 1 as being cross boundary services (i.e. to and/or from Tyne and Wear from and/or to Northumberland / Durham or other counties), an Operator may seek a change to a Service to the extent that it relates to:
- (A) an action or actions taken by the Highway Authority for the part of the Route which falls outside the relevant District;
  - (B) an action or actions taken by a utility company or similar body on the part of the Route which falls outside the relevant District; or
  - (C) commercial, social and operational factors affecting Services outside the Partnership Area to the extent that they directly impact on Services in the Partnership Area.
- 4.5.2 The Parties acknowledge and agree that for Services running to and from Northumberland and County Durham the Operators may enter into such partnership arrangements with these local authorities as may be required from time to time, provided that the Operators shall use all reasonable endeavours to ensure that such partnership arrangements and, in particular, the Operators' obligations under such partnership arrangements, do not adversely affect the benefits delivered by this Agreement.
- 4.5.3 The Parties shall use reasonable endeavours to agree a set of common Service Change Dates for such changes to the Services taking into account existing Service Change Dates as well as those agreed with neighbouring local authorities.
- 4.5.4 Any Change proposed by the Operators under this Clause 4.5 shall be in accordance with the Change Procedure set out in Clause 4.2.
- 4.6 Effect of Land Use Changes and Network Development**
- 4.6.1 The Local Authorities shall ensure that Operators are consulted at the earliest opportunity within the consultation process and before Local Authorities make land use and planning decisions which will impact upon provision of the Services.

4.6.2 Land use planning proposals and applications shall be assessed on the basis of their sustainability and ease of access by existing bus services and that these are considered material and relevant factors in planning decisions.

4.6.3 Where such land use changes shall result in increased road traffic, Nexus and the Local Authorities shall seek mitigation actions where the increased traffic is expected to create new or exacerbate existing pinch points.

4.6.4 If new or amended bus services are required, appropriate financial resources (including section 106 contributions or such similar resources) shall be used in order to provide such appropriate assistance to the relevant Operator as may be required to permit them to achieve the necessary service levels for a meaningful period from the earliest appropriate date.

#### **4.7 Qualifying Agreements**

4.7.1 Where Nexus or one or more Operators identifies an instance where a Qualifying Agreement between two or more Operators may be appropriate in order to:

- (A) further the Bus Improvement Objectives; and/or
- (B) give effect to a principle expressed in this Agreement,

then Nexus may enter into discussions with the Operators concerned. Following such discussions, if the CA is satisfied that the Part 2 Competition Test is met, the Operators may enter into an Agreement compliant with the Part 2 Competition Test and the CA shall certify such agreement as a Qualifying Agreement.

#### **4.8 Tendered Services/Journeys**

On the Effective Date, the Network shall include Tendered Services or De-Minimis Contracts which are provided under separate contracts let by Nexus. Nothing in this Agreement shall prevent an Operator from submitting tenders for future Tendered Services or De-Minimis Contracts.

#### **4.9 Service Improvement Fund and Service Improvement Accounts**

4.9.1 Each Party shall:

- (A) maintain its Service Improvement Account throughout the term of the Agreement;
- (B) be responsible for any fees, transaction charges and taxes of any kind relating to its Service Improvement Account;
- (C) maintain complete and accurate records in respect of all:
  - (1) deposits it is required to make into its Service Improvement Account in accordance with Clause 8.1.2; and
  - (2) withdrawals it is required to make from its Service Improvement Account in accordance with Clause 4.9.12;
- (D) provide monthly reports relating to its Service Improvement Account in accordance with Clause 8.1.5.

4.9.2 The Service Improvement Fund shall be a notional account maintained by Nexus which shall have as its balance the aggregate of the closing account balances most recently notified to it in accordance with Clause 8.1.5(E). The Tyne and Wear Bus Partnership Board shall notify the Parties of the balance of the Service

Improvement Fund no later than forty five (45) days following the end of each Quarter.

- 4.9.3 Any Party may submit a proposal to a District Bus Partnership Board for an allocation of funds from the Service Improvement Fund to fund a project in a District or Districts (a "**SIF Proposal**").
- 4.9.4 A SIF Proposal may be made to more than one District Bus Partnership Board if the SIF Proposal relates to more than one District.
- 4.9.5 The Boards of any District to which the SIF Proposal relates shall, within ten (10) Working Days of receiving a SIF Proposal, assess whether:
- (A) it provides a detailed description of a project that is consistent with the Change Criteria and which will contribute to delivery of the VPA Bus Strategy;
  - (B) it identifies the funds required for the project, and whether that funding will be required on a one-off or on-going basis;
  - (C) in a situation where the SIF Proposal is received prior to 30 September in the relevant Contract Year, the funds requested are less than eighty per cent (80%) of the balance most recently notified to the Parties in accordance with Clause 4.9.2 (which requirement shall not apply to any SIF Proposal submitted on or after 30 September);
  - (D) it addresses any consistent failure by the Parties to meet KPIs; and
  - (E) it contributes to the Tyne and Wear Bus Partnership Board's goal of ensuring that the allocation for funds from the Service Improvement Fund between the Districts during any three-year rolling period is broadly equal.
- 4.9.6 If a relevant District Bus Partnership Board assesses a SIF Proposal and finds that it does not, and cannot with reasonable amendments, satisfy the criteria in Clause 4.9.5, then it shall reject the SIF Proposal. If a SIF Proposal is assessed by more than one District Bus Partnership Board, it will only be rejected where it has been unanimously rejected by all the District Bus Partnership Boards assessing the SIF Proposal.
- 4.9.7 A Party whose SIF Proposal is rejected in accordance with Clause 4.9.6 may refer the matter to the Dispute Board. If the matter is settled or otherwise resolved by the Dispute Board, then the terms of such settlement or resolution shall be treated as a decision of the relevant District Bus Partnership Board.
- 4.9.8 If one or more relevant District Bus Partnership Boards consider that the SIF Proposal satisfies the criteria in Clause 4.9.5 then it or they shall deliver to the Tyne and Wear Bus Partnership Board a written recommendation that the SIF Proposal be adopted subject to any reasonable amendments proposed by the District Bus Partnership Board.
- 4.9.9 The Tyne and Wear Bus Partnership Board shall have [●] (●) Working Days following receipt of a recommendation from one or more District Bus Partnership Boards under Clause 4.9.8 to assess whether it considers that a SIF Proposal satisfies, or could satisfy with reasonable amendments, the criteria in Clause 4.9.5. At the end of this period the Tyne and Wear Bus Partnership Board shall notify the Party that put forward the SIF proposal whether it has:
- (A) rejected the SIF Proposal; or
  - (B) adopted the SIF Proposal,

in either case as amended by a relevant District Bus Partnership Board or the Tyne and Wear Bus Partnership Board.

- 4.9.10 A decision by the Tyne and Wear Bus Partnership Board to adopt or reject a SIF Proposal under Clause 4.9.9 shall be final and binding and the decision cannot be referred to the Dispute Board.
- 4.9.11 Where the Tyne and Wear Bus Partnership Board adopts a SIF Proposal in accordance with Clause 4.9.9, it shall also allocate the associated costs on a reasonable and proportionate basis between the Parties who will be required to implement the SIF Proposal.
- 4.9.12 Each Party shall receive written notice of any SIF Proposal that has been adopted by the Tyne and Wear Bus Partnership Board. The notice shall specify the Party's funding obligation (if any) with respect to the adopted SIF Proposal.
- 4.9.13 Where a SIF Proposal requires the disclosure of operationally or commercially or competitively sensitive information by an Operator then, subject at all times to the Information Protocol:
  - (A) a SIF Proposal containing such operationally, commercially or competitively sensitive information shall only be considered by the Local Authority Representatives on the Relevant Board and the relevant Operator's representative on the Relevant Board; and
  - (B) a copy of the SIF Proposal with the operationally, commercially or competitively sensitive information redacted shall be provided to the representatives of the other Operators' on the Relevant Board by the relevant Operator for their consideration.

## 5. INVESTMENTS

- 5.1 Each Party undertakes to deliver the Investments set out in relation to it in this Clause 5 and Schedule 2. The Parties shall review their Investments in accordance with the regular review process set out at Clause 5.3 and may agree further investment commitments, as required.
- 5.2 The Local Authorities undertake to deliver the Initiatives set out in paragraph 3 of Schedule 2. The Local Authorities shall review their Initiatives in accordance with the regular review process set out at Clause 5.3 and may agree further investment commitments, as required.
- 5.3 On or before each anniversary of the Effective Date each Party shall complete a review of its Investment for the previous financial year, and shall list its proposed Investments for the forthcoming Contract Year and seek to agree prioritisation of the same with the Tyne and Wear Bus Partnership Board, taking into account which Investments each Party believes will make buses more attractive to customers (which shall include the Local Authorities introducing measures to speed up bus journeys and improve the environment at bus stops and bus stations). This review shall not be subject to the Change Procedure.
- 5.4 If the regular review process set out in Clause 5.3 identifies a failure or likely failure by any Party to deliver its Investments and/or the Initiatives (the "**Non-Performing Party**"), the Non-Performing Party shall be required to provide, at the next meeting of the Tyne and Wear Bus Partnership Board, a remedial action plan detailing:
  - 5.4.1 progress made to date;
  - 5.4.2 the delivery programme;
  - 5.4.3 detailed reasons for the delay;

- 5.4.4 any mitigation measures; and
- 5.4.5 any other relevant information including an action plan or, in the event that an Investment and/or Initiative can no longer be implemented, the Non-Performing Party's alternative Investment or Initiative proposals, specifying the benefits that it will provide and the timescale for implementation.
- 5.5 The Non-Performing Party and the Tyne and Wear Bus Partnership Board shall use their best endeavours to agree the remedial action plan at the meeting in which the remedial action plan is first presented to the Tyne and Wear Bus Partnership Board or at the next scheduled Tyne and Wear Bus Partnership Board meeting.
- 5.6 If the remedial action plan is not agreed by the Parties in accordance with Clause 5.5, then any Party may declare a Dispute and refer the matter to be settled by the Dispute Board in accordance with Clause 23.2.
- 5.7 In the event that a Non-Performing Party continuously fails to deliver its Investment and /or the Initiatives then participation in this Agreement by all or some of the Parties may be terminated in accordance with Clauses 21.1.1 or 21.1.6 of this Agreement.
- 5.8 On or before the fourth anniversary of the Effective Date the Parties shall meet to discuss what investments may be appropriate for the Parties to make during the remainder of the Term. If the Parties agree that certain investments should be made, then Schedule 2 shall be amended to reflect the additional investments.
- 5.9 **Network Development**
- 5.9.1 During the Term the Operators shall use reasonable endeavours to maintain the overall level of commercial bus operation in Tyne and Wear as of the Effective Date using the resource levels existing as at the Effective Date.
- 5.9.2 For the period commencing on and from the Effective Date and ending on the third anniversary of that date, the initial Operators under this Agreement shall introduce no fewer than fifty (50) vehicles in 'kickstart' style projects (the parameters of each project to be agreed by the relevant Operator on a case by case basis) to increase and enhance additional commercial services in Tyne and Wear and neighbouring local counties. The relevant Operator shall be entitled to determine the basis of the Services which it provides with such vehicles provided that:
- (A) Each Service shall increase and enhance the commercial services provided in the Partnership Area, without prejudice to the initial Operator's right to withdraw any Service forming part of a 'kickstart' style project.
- (B) The number of vehicles to be provided prior to the third anniversary of the Effective Date by each initial Operator shall be no fewer than:
- (1) Stagecoach: twenty two (22) vehicles;
- (2) Go North East: twenty five (25) vehicles; and
- (3) Arriva: three (3) vehicles.
- (C) The Services shall be provided at no cost to Nexus or the CA, and solely at the cost of the relevant Operator. Where such services result in an increase in passengers travelling using the ENCTS scheme or other such concessionary scheme, such increase shall be taken into account at the next review of the ENCTS reimbursement with the Operator concerned.

#### 5.10 Low Carbon Vehicles and New Buses

- 5.10.1 For a period commencing on and from the Effective Date and ending on the third anniversary of that date, Stagecoach, Go North East and Arriva shall collectively provide at least one hundred and twenty five (125) low carbon vehicles in aggregate to operate in the Partnership Area. The number of vehicles to be provided by each Operator shall be no fewer than: (i) Stagecoach: ninety seven (97) vehicles; (ii) Go North East: eighteen (18) vehicles; and (iii) Arriva: ten (10) vehicles.
- 5.10.2 The Operators shall ensure that from 31 December 2015, all new buses introduced as part of their collective fleet in Tyne and Wear satisfy Euro 6 emissions standards.
- 5.10.3 The Operators shall ensure that, as and when required, single-decker buses operating on certain routes are replaced with double-decker buses in order to provide additional seating for existing and new passengers.

#### 5.11 Nexus Funding

- 5.11.1 Each Operator shall implement the:
- (A) Agreed Service Actions; and
  - (B) Service Reconfiguration Changes,
- as applicable to it during the Term. In taking such actions the Parties agree that they are working together to assist Nexus in its aim to achieve the Spend Reduction Target during the Term.
- 5.11.2 No later than one (1) Month after the Effective Date (or the anniversary thereof, pursuant to Clause 5.11.12), Nexus shall procure that a study is carried out of the Network by an independent consultant ("**Service Savings Consultant**") owing an appropriate duty of care to Nexus and the CA, and such study shall:
- (A) identify the Network Accessibility of the existing Network ("**Baseline Accessibility**");
  - (B) map the Network to show:
    - (1) all Services (other than Secured Services) provided by each Operator at that time; and
    - (2) the Secured Services procured by Nexus (identified by an Operator); and
  - (C) identify possible reductions in Secured Services spending which may be made through reconfiguration of the Network and reducing the amount of Secured Services which are required to be procured by Nexus whilst minimising any detrimental impact on Network Accessibility (as compared to the Baseline Accessibility). Such reconfiguration may include a combination of:

- (1) alterations to existing commercial Services (with the aim of maintaining or minimising any detrimental impact on Network Accessibility (as compared to the Baseline Accessibility)) through the operation of alternative or amended Routes; and
  - (2) procurement by Nexus of alternative Secured Services which maintain or minimise any detrimental impacts on Network Accessibility (as compared to the Baseline Accessibility).
- 5.11.3 The study carried out pursuant to paragraph 5.11.2 ("**Service Reconfiguration Study**") shall identify reductions in Secured Services spending which may be made through the reconfiguration of the Network:
  - (A) provided that any such reconfiguration of Services shall maintain or minimise any detrimental impact to Network Accessibility (when compared to Baseline Accessibility); and
  - (B) shall calculate the projected reduction in Secured Services annual spending by Nexus and the CA as a result of the changes proposed by the Service Reconfiguration Study, including any savings from any spend reduction or contract termination of Secured Service contracts. The cost of any new Secured Service contracts required as a direct result of any proposed reconfiguration of the Network shall be deducted from any projected reduction in Secured Services spending.
- 5.11.4 For the purposes of the Service Reconfiguration Study, the Operators and Nexus shall each provide to the Service Savings Consultant such information as may be reasonably requested in respect of the provision of Services (and Secured Services, in the case of Nexus), including, but not limited to:
  - (A) timetables;
  - (B) routes; and
  - (C) frequencies.
- 5.11.5 Where any information requested by the Service Savings Consultant pursuant to clause 5.11.4 is confidential or otherwise commercially sensitive ("**Confidential Service Information**"), Nexus or an Operator shall be entitled to require reasonable confidentiality undertakings (including adherence to the Information Protocol) from the Service Savings Consultant, before providing such Confidential Service Information to the Service Savings Consultant.
- 5.11.6 Following provision of the Service Reconfiguration Study by the Service Savings Consultant, Nexus shall seek to agree with each relevant Operator the implementation of the changes specified in the Service Reconfiguration Study in respect of Services (including Secured Services) provided by that Operator if those changes:
  - (A) can be implemented by the Operator while maintaining or minimising any detrimental impact on Network Accessibility (when compared to Baseline Accessibility); and
  - (B) will contribute a reduction in Secured Services spending by Nexus and the CA.
- 5.11.7 Any Operator may propose an alternative reconfiguration of their Services to that proposed by the Service Configuration Study, provided that the conditions set out in Clause 5.11.6(A) to 5.11.6(B) (inclusive) are satisfied by such alternative reconfiguration. If the Operators or any of them should wish to reach agreement

on a joint proposal for alternative reconfigurations of Services, such agreement shall only be made by way of a Qualifying Agreement.

- 5.11.8 Where a change to a Service (including a Secured Service) agreed under Clause 5.11.6 or proposed under 5.11.7 and such change satisfies the criteria in Clause 5.11.6(A) to 5.11.6(B), then the relevant Parties shall initiate the Change Procedure and the proposal shall be considered a TWBPB Discussion Change Proposal. If the Tyne and Wear Partnership Board gives written notice to the Parties under Clause 4.2.11(B) with regards to the relevant Parties' proposal, and subject always to 4.2.12, such change shall be considered an "**Agreed Service Action**".
- 5.11.9 Where a change to the Network is proposed by the Service Configuration Study, other than those changes which are Agreed Service Actions, Nexus may initiate the Change Procedure, and the proposal shall be considered a TWBPB Discussion Change Proposal. If the Tyne and Wear Partnership Board gives written notice to the Parties under Clause 4.2.11(B) with regards to Nexus' proposal, and subject always to 4.2.12, the proposed change shall be considered a "**Service Reconfiguration Change**".
- 5.11.10 As at the Effective Date the Parties have agreed that the projected reduction in Secured Services spending set out in Table 1 constitutes a projection of the possible reduction in Secured Services spending which may result from the Agreed Service Actions, and that the reduction in Secured Services spending resulting from the Agreed Service Actions shall be taken into account by Nexus when calculating the Secured Services Spend Reduction.

**Table 1 - Agreed Service Actions - Projected Reductions in Secured Services spending**

Contract Year	Incremental projected reduction in Secured Services spending per Contract Year	Cumulative projected reduction in Secured Services spending
13/14	£120,135	£120,135
14/15	£108,079	£228,214
15/16	£165,445	£393,659
16/17	£19,017	£412,676
17/18	£17,791	£430,467
18/19	£10,303	£440,770

- 5.11.11 Nexus shall, once in each Contract Year, calculate the reduction in Secured Services spending by Nexus in each Contract Year as a result of implementation of:
- (A) Agreed Service Actions; and
  - (B) Service Reconfiguration Changes,
- no later than 30 days following the end of the relevant Contract Year by deducting the Nexus actual spending on Secured Services in the relevant Contract Year from the Baseline Secured Services Spending ("**Secured Services Spend Reduction**").
- 5.11.12 Where the Secured Services Spend Reduction in any Contract Year is less than the Spend Reduction Target (the difference being the "**Remaining Savings**") Nexus may seek to achieve the Remaining Savings in the following Contract Year by initiating again the process set out in Clauses 5.11.1 to 5.11.11, and, for the

purpose of repeating that process, the Spend Reduction Target for that Contract Year shall be deemed to be equal to the relevant Remaining Savings.

**6. TICKETING AND FARES**

- 6.1 Subject to the provisions of this Clause 6 each Operator shall be entitled to set its own fare levels in relation to its Services.
- 6.2 Each Operator shall limit implementation of increases in each Fare Group to once per calendar year. Any increase to a Fare Group shall be discussed between the relevant Operator and Nexus.
- 6.3 Where the relevant Operator proposes a fare increase to a Fare Group above RPI (calculated as an average increase on tickets for each Fare Group) then, prior to making any such increase, the Operator shall provide evidence of the reason for such fare increase to Nexus at least eight (8) weeks before such fare increase is implemented. Nexus shall consider such evidence for the purposes of the operation of this Agreement only, and shall not release such information to any other operator of local services, or allow such information to be used for purposes other than in relation to provision of bus services. For the avoidance of doubt any fare increase below RPI shall not require the submission of evidence to Nexus as described above.
- 6.4 The Operators agree to implement multi-modal and bus-to-bus multi-operator products through NTL throughout the Partnership Area.
- 6.5 The Operators recognise the desirability of the CA being represented at meetings of NTL to participate in discussions on multi-modal and bus-to-bus multi-operator ticketing. The Operators shall procure that NTL grants the CA a place on its board to enable the CA to participate fully in discussions regarding fares and products.
- 6.6 The Operators shall use all reasonable endeavours to procure that NTL ensures that the rationale underlying NTL's proposals for changes to multi-operator or multi-modal fares shall be evidenced in a transparent manner (taking into account commercial confidence) to both the Tyne and Wear Bus Partnership Board and the CA to allow them to understand such rationale.
- 6.7 The Operators shall use all reasonable endeavours to procure that NTL provides new fare deals for 16-18 year-olds (inclusive) in accordance with Schedule 3.
- 6.8 The Parties recognise the need for affordable, simple and easy to understand ticketing arrangements for customers and potential customers that offer value for money. The Parties will continue to assess the demand for changes to existing ticketing arrangements and to implement changes in accordance with this Agreement.
- 6.9 The Parties agree that the Network One multi-modal and multi-operator tickets in Tyne and Wear shall be offered on the basis of a daily ticket, with a range of flexible options for customers.
- 6.10 Each Operator agrees that no later than [date] it will provide smart card ticketing media to enable customers to store and use their smart ticketing products and that of NTL on the smart card ticketing media subject to the availability of such products and within the limits of available technology.
- 6.11 No later than December 2014, the Operators shall implement competitively priced smart ticketing products (including weekly and monthly tickets) across at least ninety per cent (90%) in aggregate of their combined bus operations in Tyne and Wear.
- 6.12 Each Operator shall be entitled to introduce fare promotions, fare reductions and new products at any time by consulting with the CA and Nexus only. An Operator shall not be required to give detailed reasons to Nexus or the CA for the introduction of such fare promotions, fare reductions or new products.

- 6.13 All parties shall use reasonable endeavours to agree ticketing qualifying agreements or other ticketing agreement in respect of Routes where both Secured Services and Operator's commercial Services operate at different times of the day or week to enable passengers to make return journeys on such services without having to buy multiple tickets.

**7. MARKETING & INFORMATION**

**7.1 Operator Obligations**

- 7.1.1 Each Operator agrees, for its respective Route(s), to provide a range of Route and/or Service marketing material including, timetable leaflets, website, advertising, social networking, electronic communications, PR, and other techniques as may be appropriate in furtherance of the Purpose.
- 7.1.2 At least fifty six (56) days prior to any Service Change Date, the relevant Operator shall provide to Nexus final full stop specific and accurate timetable and route details in EBSR format and shall provide Transxchange scheduling files (including running board data) once running boards have been finalised by the Operator.
- 7.1.3 At least fourteen (14) days prior to any Service Change Date, the relevant Operator shall provide to Nexus timetables (expressed using the 24-hour clock) in both hard copy and electronic copy. The timetables / materials shall show clearly the effective date of such change to a Service and include a map or diagram of the Route, the main stopping points and contact details for further information, lost property, comments and suggestions. Timetables for all 'part-secured' services shall be produced and, subject to the provisions of this Clause 7.1.3, funded by the commercial operators and include full details of the secured journeys regardless of the contracted Operator. Where changes to 'part-secured' services are instigated by Nexus, Nexus shall fund the production of new timetables.
- 7.1.4 Each Operator shall (at its own cost) provide to Nexus a sufficient quantity of printed timetables, maps and fares information to allow Nexus to distribute such information to Nexus travel shops, local council libraries and customer service centres.
- 7.1.5 Each Operator shall provide to Nexus data on the location of all local service buses in Tyne and Wear to feed the Nexus real time information platform. Such data shall be provided in industry standard format (being (a) Transxchange scheduling files; and (b) SIRI Feeds (with sufficient details to permit cross-trip prediction) or such other formats as Nexus and the Operators may agree in writing in accordance with the RTI/AVL data sharing arrangements that Nexus and the Operators have in place at such time, or as Nexus and the Operators may otherwise agree) and at no cost to Nexus.
- 7.1.6 Each of Stagecoach, Go North East and Arriva shall provide a journey planner on its website and a supporting smart phone application to offer real time 'at stop' information for customers.
- 7.1.7 Each Operator agrees that any vehicle used by it in providing the Services shall carry a partnership logo externally and internally. The Parties agree that the partnership logo will be such that the integrity of any other branding shall not be compromised and such that commercial advertising space shall not be compromised.

- 7.1.8 Each Operator agrees that any vehicle used by it in providing the Services shall carry a Network One promotional advertisement internally that shall promote the availability of Network One multi-modal and multi-operator tickets.
- 7.1.9 Each Operator shall provide or procure the provision of all bus information to customers consisting of timetable leaflets, maps and fare information, other than as set out in Clauses 7.1.3 and 7.2.1.
- 7.1.10 Each Operator shall ensure that new buses which it operates in Tyne and Wear are fitted with free wifi equipment and that such buses operate on appropriate Routes.
- 7.1.11 Each Operator shall provide a single point of contact for customer complaints and lost property. Such details shall be provided in its Customer Charter published in accordance with Clause 10.

## 7.2 Nexus Obligations

- 7.2.1 Nexus agrees to provide a range of Network marketing material, including, but not limited to: an on-line journey planner; bus stop timetable case liners and bus stop plates with service numbers where relevant; all marketing material for wholly Secured Services; good signing to bus services at Metro and rail interchanges; and other techniques as may be appropriate in furtherance of the Purpose. Wherever possible, bus promotional activity shall reflect reasonable requirements relating to delivering the KPIs and growth in public transport use.
- 7.2.2 Nexus shall provide a journey planner on its website and a supporting smart phone accessible mobile web site to offer real time 'at stop' information about Services for customers.

## 7.3 Parties' Obligations

- 7.3.1 All Parties shall work together to identify opportunities for 'interchange nodes' to improve Accessibility and minimise the need for Tertiary Services to run parallel with commercial services.
- 7.3.2 The Parties agree to implement a Joint Marketing Plan to promote modal shift, multi-modal ticketing and bus-only multi-operator ticketing. The Parties shall decide on the ownership of all intellectual property created as part of the Joint Marketing Plan as part of the process of creating the Joint Marketing Plan and such decision shall be recorded in writing and signed by all the Parties.

## 8. PERFORMANCE ASSESSMENT AND REPORTING

### 8.1 KPIs

- 8.1.1 Each Party shall use all reasonable endeavours to meet or exceed the key performance indicator specified in column (b) of the table in Schedule 5 ("KPI") which are applicable to it.
- 8.1.2 If a Party's performance against a KPI falls below the corresponding performance metric specified in column (c) of the table in Schedule 5 (a "**Payment Threshold**") in a Quarter, then that Party shall, as soon as reasonably practicable (and in any event no later than thirty (30) days following the end the relevant Quarter), deposit an amount into its Service Improvement Account that is calculated by reference to column (d) of the table in Schedule 5 for that KPI.
- 8.1.3 A Party shall be entitled to raise a Dispute in respect of the performance of another Party against a KPI, if it reasonably believes that such Party has failed to accurately: (i) monitor and/or report its own performance; or (ii) monitor and/or

report the performance of another Party where it is required to do so by Schedule 5.

- 8.1.4 The sole remedy for a Party's failure to meet KPIs applicable to it shall be the obligation to make deposits into its Service Improvement Account in accordance with this Clause 8.1, and (subject to Clause 19.3) it shall have no other liability to any other Party in respect thereof.
- 8.1.5 No later than 30 days following the end of each Quarter, each Party shall submit to the Tyne and Wear Bus Partnership Board and any relevant District Bus Partnership Board, a written report that:
- (A) describes its performance in the previous Quarter against each KPI applicable to it;
  - (B) where required to do so by Schedule 5 in relation to a KPI applicable to another Party, describes that other Party's performance against that KPI;
  - (C) identifies for each KPI applicable to it, the amounts which have been or will be deposited into that Party's Service Improvement Account in consequence of its performance in the relevant Quarter;
  - (D) identifies interest accrued on, and amounts withdrawn from, that Party's Service Improvement Account in the relevant Quarter; and
  - (E) the closing balance of its Service Improvement Account on the last day of the relevant Quarter.
- 8.1.6 Where a Party fails to meet or exceed (or has reason to believe that it will not meet or exceed) the Payment Threshold for a KPI for two consecutive Quarters, then that Party shall follow the procedure set out in Clause 8.1.7.
- 8.1.7 Without prejudice to Clause 8.1.4, if a Party which fails (or has reason to believe that it will fail) to meet a KPI in two or more consecutive Quarters, at the next meeting of the Tyne and Wear Bus Partnership Board, it shall discuss and seek to agree with the Tyne and Wear Bus Partnership Board a remedial action plan for each KPI that it has not met (or which it reasonably believes it will not meet) detailing:
- (A) the target figure and actual performance from the Effective Date;
  - (B) detailed reasons for failing to meet the relevant KPI;
  - (C) any mitigation or proposed measures to ensure future achievement of the KPI;
  - (D) an action plan for ensuring the KPI will be met in the next and subsequent Quarters; and
  - (E) any payments due into the Service Improvement Account.
- 8.1.8 All such remedial action plans shall be updated for each subsequent meeting of the Tyne and Wear Bus Partnership Board and shall be presented to the Tyne and Wear Bus Partnership Board until such time as the relevant KPI has been achieved.
- 8.1.9 If a Party and the Tyne and Wear Bus Partnership Board fail to agree a remedial action plan in accordance with Clause 8.1.7, then that Party or the Board shall be able to submit the requirement for a remedial action plan to the Dispute Board. If the matter is settled or otherwise resolved by the Dispute Board, the terms of such remedial action plan will be deemed to be the terms of a remedial action plan agreed to by the relevant Party and the Tyne and Wear Bus Partnership Board.

**8.2 Public Reporting**

No later than thirty (30) Working Days following the end of a Quarter, each Party shall provide to Nexus and (provided that each Party complies with this obligation) within forty-five (45) days of the end of a Quarter, Nexus shall publish on its website a report on the performance of each Party against the relevant KPIs in the last relevant Quarter, including the information described in Annex A of Schedule 5. To the extent that operators of Secured Services are not Parties to this Agreement, Nexus shall produce the same reports in respect of such Secured Services at the same intervals.

**8.3 Review of KPIs**

8.3.1 The KPIs shall be reviewed by the Parties at least once in each Contract Year to ensure that they continue to incentivise the Parties to meet the VPA Bus Strategy and the Purpose, and the Parties may agree to modify the KPIs following approval of the Tyne and Wear Bus Partnership Board, and subject to the consent of all Parties (such consent not to be unreasonably withheld).

8.3.2 A Party may request a review of the KPIs which apply to it (in addition to the review provided for in Clause 8.3.1) and such review shall proceed with the agreement of all the Parties (not to be unreasonably withheld).

**9. DATA SHARING**

The Operators shall provide all data required under the provisions of this Agreement to Nexus in accordance with the provisions of the Data Sharing Agreement set out in Schedule 6 and the Information Protocol.

**10. CUSTOMER CHARTER**

10.1 The Operators shall publish and comply with a Customer Charter in substantially the same form as set out in Schedule 4.

**11. PARTIES' REPRESENTATIVE**

Each Party shall nominate an individual within its organisation who shall have primary responsibility for day-to-day contact with the other Parties in connection with this Agreement. A Party may amend the details of its nominated individual at any time on written notice given to the other Parties.

**12. AID FOR PASSENGERS**

12.1 Each Operator agrees that it shall offer to the passengers of each other Operator aid, in accordance with this Clause 12, where it would, acting reasonably, be beneficial to such passengers.

12.2 Such aid shall be offered where:

12.2.1 following a bus breakdown, an Operator is unable to transfer passengers to a replacement bus; or

12.2.2 a Force Majeure Event occurs such that an Operator is unable to meet its obligations under this Agreement.

12.3 The Operators agree that:

12.3.1 where the event specified in Clause 12.2.1 occurs, an Operator shall provide aid to the Operator requiring such aid (the "**Passenger Aid Recipient**") such that passengers of the Passenger Aid Recipient shall be carried by the next available and suitable vehicle of an Operator operating on the relevant Route; and

12.3.2 where the event specified in Clause 12.2.2 occurs, each Operator shall offer such reasonable assistance and aid to the Passenger Aid Recipient that might be of benefit to passengers.

**12.4 Sale of Operators' Business**

In the event that an Operator sells all or part of its operational business and/or goodwill which is the subject of this Agreement, the Operator shall make such sale conditional on the purchaser acceding to this Agreement in accordance with Clause 25.8.3.

**13. CONFIDENTIALITY**

**General**

13.1 The Parties agree that the provisions of this Agreement shall not be treated as Confidential Information and may be disclosed without restriction.

13.2 Each Receiving Party shall:

13.2.1 keep the Disclosing Party's Confidential Information confidential;

13.2.2 use the Confidential Information (or any part thereof) only in connection with performing its obligations under the Agreement; and

13.2.3 subject to Clause 13.3 not disclose the Confidential Information to anyone without the prior written consent of the Disclosing Party.

**Exceptions**

13.3 The consent referred to in Clause 13.2.3 shall not be required for the disclosure by a Receiving Party of any Confidential Information which:

13.3.1 at any time comes into the public domain otherwise than as a result of breach of this Agreement by the Receiving Party;

13.3.2 is disclosed to the Receiving Party's officers, contractors or agents, in each case to the extent required to enable the Receiving Party to carry out its obligations under this Agreement and who shall in each case be made aware by such Receiving Party of its obligations under this Agreement and be required to observe the same restrictions on the use of the relevant information as are contained in Clause 13.2.2;

13.3.3 is disclosed to the Receiving Party's professional advisers who are bound to such Receiving Party by a duty of confidence which applies to any information disclosed;

13.3.4 is received from a third party who is not in breach of any relevant duty of confidence whether express or implied;

13.3.5 is independently developed without access to the Confidential Information; or

13.3.6 is required to be disclosed by any applicable law or regulatory requirement to which the Receiving Party is subject or pursuant to any order of the court or other competent regulatory authority or tribunal.

**Required Disclosure**

13.4 If the Receiving Party becomes required, in circumstances contemplated by Clause 13.3.6 to disclose any Confidential Information, the Receiving Party shall (save to the extent prohibited by law) give to the Disclosing Party such notice as is practical in the circumstances of such disclosure and shall co-operate with the Disclosing Party, having due regard to the Disclosing Parties' views, and take such steps as the Disclosing Party

may reasonably require in order to enable it to mitigate the effects of, or avoid the requirements for, any such disclosure.

**14. INFORMATION EXCHANGE**

In relation to all obligations regarding the provision of, and exchange by, Operators of Confidential Information herein, the Operators shall comply with the Information Protocol set out in Schedule 9.

**15. DATA PROTECTION**

Each Party shall only Process any Personal Data provided to it by another Party (the "**Data Controller**") as is strictly necessary for the performance of that Party's obligations under this Agreement and for no other reason or use. The recipient Party shall not pass any such Personal Data provided by the Data Controller to third parties without the prior written consent of the Data Controller and, at all times when Processing Personal Data provided by the Data Controller, the recipient Party shall comply with all provisions of the Data Protection Act 1998 applicable to it, including the seventh data protection principle. No Party shall transfer Personal Data outside the EEA without the prior written consent of the Data Controller.

**16. PUBLICATION**

Notwithstanding any other term of the Agreement, the Parties give their consent to Nexus to publish to the general public, including on the CPT and/or PTEG website ([www.buspartnership.com](http://www.buspartnership.com)), the contents of this Agreement, including any amendments to this Agreement, together with an up to date list of all the signatories to this Agreement. The Parties shall use reasonable endeavours to assist and cooperate with Nexus to publish the Agreement and the list of signatories as required.

**17. FREEDOM OF INFORMATION**

- 17.1 The Parties shall cooperate to facilitate Nexus, the CA and the Local Authorities (together the "**Public Sector Parties**" and each a "**Public Sector Party**") complying with their respective obligations under the Freedom of Information Act 2000 ("**FOIA**") and the Environmental Information Regulations 2004 ("**EIR**"), together with any guidance and/or codes of practice issued from time to time by the Information Commissioner or the Secretary of State, in the manner provided for in this Clause 17, which shall apply whenever any Public Sector Party receives a request for information which in that Public Sector Party's reasonable opinion is likely to involve the disclosure of any Party's Confidential Information (an "**RFCI**").
- 17.2 As soon as reasonably practicable and in any event within three (3) Working Days of receiving the RFCI, the relevant Public Sector Party shall inform the relevant Party and shall consult in good faith with that Party to ascertain whether disclosure of the Disclosed Information would be likely to prejudice the commercial interests of that Party for the purposes of section 43(2) of FOIA or regulation 12(5)(e) of EIR.
- 17.3 In determining its response to the RFCI, the relevant Public Sector Party shall take into account any representations made by the relevant Party provided that they are received by the relevant Public Sector Party within three (3) Working Days of the notification provided for in Clause 17.1. The relevant Public Sector Party shall then determine its response in its absolute discretion.
- 17.4 The relevant Party shall provide reasonable assistance as is reasonably requested by Public Sector Party to enable that Public Sector Party to respond to a RFCI within the time for compliance set out in section 10 of the FOIA or regulation 5 of the EIR.
- 17.5 In the event of a request from Public Sector Party under Clause 17.4, the relevant Party shall as soon as reasonably practicable and in any event within five (5) Working Days of receipt of the request, inform the Public Sector Party of its estimated costs of complying

with the request to the extent these would be recoverable if incurred by Public Sector Party under section 12(1) of FOIA and the Freedom of Information and Data Protection (Appropriate Limit and Fees) Regulations 2004 (the Fees Regulations).

- 17.6 Where such costs (either on their own or in conjunction with the Public Sector Party's own such costs) exceed the appropriate limit referred to in section 12(1) of FOIA and the Fees Regulations, the Public Sector Party shall inform the relevant Party in writing whether or not it still requires the Party to comply with its request and, where it does require compliance with its request, the period for compliance by the Party shall be extended by such a number of additional days as the Public Sector Party is entitled to under section 10 of the FOIA. In such a case, the Public Sector Party shall notify the Party of such additional days as soon as reasonably practicable and shall reimburse the Party for such costs as the Party incurs in complying with the request.

**18. COMPETITION AND PROCUREMENT LAW**

- 18.1 The Parties have considered:

18.1.1 the application of competition law to this Agreement, in particular the Part 2 Competition Test, and are satisfied (acting reasonably and by reference to the prevailing law at the time of such consideration) that this Agreement meets the Part 2 Competition Test.

18.1.2 the application of procurement law to this Agreement, and are satisfied that this Agreement does not breach the Public Contracts Regulations 2006 or the Utilities Contracts Regulations 2006.

- 18.2 Notwithstanding Clause 18.1, if:

18.2.1 statements by, advice from, or decisions by competent authorities (including, but not limited to, the Competition and Markets Authority) provides additional detail or guidance in relation to the Part 2 Competition Test (or more generally, the applicability of competition law to Voluntary Partnership Agreements (as defined under the Local Transport Act 2008)) which may impact on the position of this Agreement under the Part 2 Competition Test (or competition law more generally),

18.2.2 statements by, advice from, or decisions by competent authorities impact on the position of this Agreement under procurement law,

the Parties agree to (i) meet in good faith and review the impact of such change or other developments on this Agreement; and (ii) make any amendment necessary to ensure that this Agreement complies with applicable competition law or procurement law then in force in the light of such development, whilst taking account of the Parties' commercial intentions as expressed in this Agreement. In the event that the Parties are unable to agree as to the extent and nature of such amendments within one (1) month, any party shall be entitled to refer the decision to the Dispute process in accordance with Clause 23.

**19. LIMITATION OF LIABILITY**

- 19.1 The liability of each Party in respect of their respective obligations under this Agreement is several and not joint and shall only extend to any loss or damages arising out of its own breaches of this Agreement.

- 19.2 Other than as set out in Clause 19.3, no Party shall be liable to any other Party in respect of any Excluded Loss suffered by that other Party howsoever such liability arose.

- 19.3 A Defaulting Party shall be liable to a non-Defaulting Party, and no Defaulting Party shall seek to limit or exclude its liability in respect of losses suffered by the other Party which arise as a result of:
- (A) death or personal injury caused by the negligence of the Defaulting Party;
  - (B) fraud or fraudulent misrepresentation committed by the Defaulting Party; or
  - (C) any other matter for which it would be illegal or unlawful for the Defaulting Party to exclude or attempt to exclude its liability.
- 19.4 The aggregate liability of each Operator, its officers, employees and agents to all other Parties, arising out of any act, omission, event or circumstance or series of acts, omissions, events or circumstances relating to this Agreement or with respect to the matters contemplated herein, and whether arising as a result of breach of contract, breach of statutory duty, tort or otherwise, shall in no circumstances exceed an amount equivalent to:
- $$A \times \frac{B}{C}$$
- Where:
- A = £1,000,000.00 (one million pounds sterling)
- B = the number of peak vehicles operating on the Network by the relevant Operator in Tyne and Wear as at the most recent Review Date preceding the date on which the matter giving rise to the liability arose
- C = the aggregate number of peak vehicles operating on the Network by all Operators in Tyne and Wear as at the most recent Review Date preceding the date on which the matter giving rise to the liability arose.
- 19.5 For the purposes of Clause 19.4 the expression "Review Date" shall mean, in relation to a Contract Year, the later of:
- 19.5.1 the first day of such Contract Year;
  - 19.5.2 where a new operator accedes to this Agreement in a Contract Year, the date of such accession; and
  - 19.5.3 where more than one operator accedes to this Agreement in a Contract Year, the latest date on which a new operator acceded to this Agreement.
- 19.6 **Time Limit**
- Other than in respect of the indemnity granted in Clause 1.4, no Party shall be liable to another Party for any Claim brought under this Agreement unless such Party making a Claim serves such other Party with written notice containing reasonable details of such Claim on or before the date being thirty six (36) months from the date on which the Party became aware (or ought reasonably to have been aware) of such Claim.
20. **FORCE MAJEURE**
- 20.1 No Party shall be liable to any other Party for any delay in, or failure to perform its obligations under this Agreement arising from any Force Majeure Event, provided that the Affected Party shall:
- 20.1.1 as soon as reasonably practicable, send to the other Parties a written notice setting out the circumstances of the event and its anticipated effect; and
  - 20.1.2 use all reasonable endeavours to minimise the effect of any such circumstances.

20.2 If the Affected Party is prevented from materially performing its obligations under this Agreement due to a Force Majeure Event continuing for a period of six (6) months or more, any Party may terminate the Affected Party's participation in this Agreement with immediate effect by serving written notice to the other Parties, **PROVIDED THAT** no such notice shall be served until the Parties have met at the next Scheduled Meeting (or such other meeting which shall be arranged between the Parties for this purpose) in good faith to discuss and seek to agree whether this Agreement should continue in modified form (such agreement not to be unreasonably withheld).

21. **TERMINATION**

21.1 This Agreement, or a Party's participation in this Agreement, may be terminated in accordance with the provisions of this Clause 21.

21.1.1 **Defaulting Party Material Breach**

Any Party (a "**non Defaulting Party**") may by written notice to each of the other Parties terminate its participation in this Agreement where another Party (a "**Defaulting Party**") commits a material breach of its obligations under this Agreement which:

- (A) is not capable of being remedied or is not remedied within ten (10) Working Days (or such other remedial period as is reasonable in the context of the specific breach) of being given written notice to remedy by the non-Defaulting Party;
- (B) was not caused by that non Defaulting Party; or
- (C) has, and continues to, cause the non Defaulting Party harm for which it is not provided adequate relief under the terms of this Agreement or has made it impossible for the non Defaulting Party to perform substantial obligations under this Agreement.

21.1.2 **Insolvency**

Any non-Defaulting Party may by written notice terminate its participation in this Agreement where a Defaulting Party:

- (A) passes a resolution for its winding up or summons a meeting to pass any such resolution (other than for the purpose of and followed by a solvent reconstruction or amalgamation);
- (B) has a petition for a winding-up order presented against it (other than for the purpose of and followed by a solvent reconstruction or amalgamation);
- (C) has an application made to court, or an order made, for the appointment of an administrator or any step is taken to appoint an administrator in respect of the Defaulting Party;
- (D) has a receiver, administrative receiver, receiver and manager or similar officer appointed by any person of all or any part of the Defaulting Party's property, assets or undertaking;
- (E) makes a proposal for a voluntary arrangement as defined in Section 1 of the Insolvency Act 1986;
- (F) enters into any other arrangement with its creditors or any of them;
- (G) takes or suffers any other action in consequence of debt including, without limitation, giving notice to its creditors or any of them that it has suspended or is about to suspend payment; or

- (H) has a proposal or threat to do any of the above acts or things made; or an event analogous to the aforesaid occurs in whatever jurisdiction.

**21.1.3 Continuing Force Majeure**

A Party may terminate its participation in this Agreement in accordance with the provisions of Clause 20.2.

**21.1.4 Termination by agreement of all Parties**

This Agreement or the participation of any Party in this Agreement may be terminated at any time with immediate effect by written consent of all the Parties that it be so terminated.

**21.1.5 Termination by a Party**

Any Operator Party may terminate its participation in this Agreement with immediate effect by written notice served on each of the other Parties if that Party becomes aware that a Quality Contract Scheme is being considered by any of the CA, Nexus, the Local Authorities or if any steps are taken in any area, or part of an area covered by this Agreement (or an area substantially similar to it), to implement a Quality Contract Scheme.

**21.1.6 Termination by an Operator**

An Operator may at any time terminate its participation in this Agreement in relation to a District by serving six (6) months prior written notice on each of the other Parties where a Local Authority:

- (A) reduces or does not implement the relevant Initiatives;
- (B) reduces the hours of operation of such Initiatives; and/or
- (C) reduces its level of enforcement activities in relation to Initiatives where such reduction has a material impact on that Operator's business operations and, for the purposes of this clause 21.1.6 the term "material" means, in the reasonable opinion of the affected Operator, that the income it generates or is likely to generate falls by five per cent (5%) in any six month period following the date of the written notice received by the Local Authority,

as the case may be, **PROVIDED THAT** no such notice shall be served until the Parties have met at the next Scheduled Meeting of the District Bus Partnership Board (or such earlier meeting which shall be arranged between the Parties for this purpose), in good faith to discuss and seek to agree whether the Initiatives (or enforcement thereof) can be replaced by other Initiatives or methods of enforcement by the relevant Local Authority(ies) offering at least a comparable effectiveness (such agreement not to be unreasonably withheld).

**21.1.7 Material Deterioration of Bus Operation Finance**

A material deterioration in bus operation finances shall occur if:

- (1) the quantum of Bus Service Operators Grant ("**BSOG**") paid to the Operator in question is reduced below the level notified by the Department for Transport as at April 2012 (but for the avoidance of doubt a change to the process, method or source of BSOG payment shall not constitute a material deterioration in bus finances);

- (2) a renegotiation of the Reimbursement Arrangements (and any subsequent arrangements) for ENCTS or any other concessionary scheme results in a reduction for an Operator of its then current total reimbursement level (net of Retail Price Index); and/or
- (3) an Operator provides evidence that: (a) a reduction in demand for Services operated by it has occurred in whole or in part; or (b) that an increase in costs in providing the Service has occurred; such that maintenance of such Service(s) is no longer viable **PROVIDED THAT** the Operator discloses to the CA such relevant and non-commercially sensitive information as shall constitute reasonable evidence in the circumstances (and subject to the terms of the relevant Data Sharing Agreement and Information Protocol).

21.1.8 Where a material deterioration in bus operation finances, as described in Clause 21.1.7 above has occurred, all Parties agree that the issue will be considered at the next quarterly Scheduled Meeting. The Party which has suffered the material deterioration in bus operation finances may serve notice of its intention to terminate its involvement in the Agreement if proportionate measures mitigating the detriment to the Party which has served notice cannot be agreed during the quarterly Scheduled Meeting. No Party shall unreasonably withhold agreement to such mitigating measures.

#### 21.1.9 Operator's Tendered Services

Where an Operator's Routes are Tendered Services or De-Minimis Contracts and, during the Term, such Operator ceases to be responsible for the provision of such Tendered Services or De-Minimis Contracts, such Operator's obligations under this Agreement in respect of the Tendered Services or De-Minimis Contracts for which it is no longer responsible shall cease with immediate effect on the date that it ceases to be responsible for their provision.

## 21.2 Effect of Termination

21.2.1 The termination of this Agreement for any reason:

- (A) shall be without prejudice to any rights or obligations which shall have accrued or become due prior to the date of termination; and
- (B) shall not prejudice the rights or remedies which any Party may have in respect of any breach of the terms of this Agreement prior to the date of termination.

21.2.2 The termination of the participation of an Operator in this Agreement (such Operator an "**Exiting Operator**") shall not affect the continuation of this Agreement between the other Parties, and:

- (A) shall be without prejudice to any rights or obligations of the Exiting Operator which shall have accrued or become due prior to the date of termination of its participation in this Agreement; and
- (B) shall not prejudice the rights or remedies which any Party may have in respect of any breach of the terms of this Agreement by the Exiting Operator prior to the date of termination of its participation in this Agreement.

**22. SURVIVAL**

This Clause 22 and the following provisions (and any Clauses/Schedules referred to in them/and or necessary in order to give effect to them) shall survive termination of this Agreement:

Clauses 1(*Definitions and Interpretation*), 13 (*Confidentiality*), 15 (*Data Protection*), 19 (*Limitation of Liability*), 21.2 (*Effect of Termination*), 23 (*Dispute Resolution*), 24 (*Governing Law*) and 25 (*Miscellaneous Provisions*), which shall continue in force after such termination.

**23. DISPUTE RESOLUTION**

**23.1 Referral to the Tyne and Wear Bus Partnership Board**

23.1.1 Where any Dispute arises between one or more Parties out of or in connection with this Agreement, any Party shall be entitled to call a meeting of the Tyne and Wear Bus Partnership Board as soon as reasonably practicable after the Dispute has arisen in order to try and resolve the Dispute.

23.1.2 The Tyne and Wear Bus Partnership Board shall attempt in good faith to negotiate the settlement of such Dispute at such meeting in accordance with its Constitution and any relevant procedures established by the Tyne and Wear Bus Partnership Board in relation to the hearing of Disputes. Where the Dispute is settled or otherwise resolved by the Tyne and Wear Bus Partnership Board, Clause 23.5 shall apply.

23.1.3 During the period starting on and from the commencement of the Dispute and ending on the settlement or determination of such Dispute, the Parties shall continue to comply with their respective obligations under this Agreement.

**23.2 Referral to the Dispute Board**

23.2.1 Without prejudice to any matters referred directly to the Dispute Board pursuant to Clauses 3.4.8, 3.8.8, 4.2.15 or 8.1.9, should a Dispute not be resolved by the Tyne and Wear Bus Partnership Board, within fourteen (14) days of a Dispute being referred to it, any Party shall be entitled to refer the Dispute directly to the Dispute Board.

23.2.2 The members of the Dispute Board shall be:

- (A) a managing director (or equivalent) of each Operator involved in the Dispute who is not a TWBPBD Representative or DBPB Representative; and
- (B) the Lead Transport Officer.

23.2.3 The Dispute Board shall act in accordance with its Constitution and any relevant procedures established from time to time by the Tyne and Wear Bus Partnership Board relating to the process for the hearing of Disputes referred to the Dispute Board.

23.2.4 The Dispute Board shall meet in a timely manner to consider any evidence submitted by the relevant Parties in respect of the Dispute, any applicable Change Criteria and the VPA Bus Strategy, and shall act in good faith and use reasonable endeavours to seek to settle or otherwise resolve the Dispute within fourteen (14) days from the date of the referral of the Dispute to the Dispute Board. The members of the Dispute Board must be unanimous in their decision in order for a Dispute to be considered to be settled or resolved.

23.2.5 The Dispute Board may obtain assistance from Nexus or the Operators' technical staff to assist with its resolution of Disputes in accordance with Clause 23.2.4.

23.2.6 Where the Dispute Board settles or otherwise resolves a Dispute Clause 23.5 shall apply. In the event that the Dispute Board is unable to settle or resolve the Dispute the matter shall proceed in accordance with Clause 23.3.

**23.3 Referral to Mediation**

Should a Dispute not be resolved by the Dispute Board in accordance with Clause 23.2, the Parties shall, in good faith, seek to resolve the Dispute through mediation. The appointment of the mediator and the procedure to be followed during the mediation shall be agreed between the Parties within fourteen (14) days after the mediation has been requested. Where the Parties cannot agree on the appointment of the mediator or the procedure for mediation, then the mediator shall be appointed by the Centre for Effective Dispute Resolution (<http://www.cedr.com/>). The mediator's costs and fees shall be borne equally by the Parties involved.

**23.4 Referral to High Court**

23.4.1 Subject to Clause 23.4.2, in the event that: (i) the Dispute has not been resolved to the satisfaction of all the Parties involved within sixty (60) days after the appointment of the mediator; or (ii) a relevant Party withdraws from the mediation, then the Parties involved may submit the Dispute to be resolved by the Courts of England and Wales.

23.4.2 A Dispute shall not be referred to the Courts of England and Wales in accordance with Clause 23.4.1, unless it relates to a Party's alleged failure to comply with its obligations under this Agreement or other legal cause of action. All other Disputes (including any failure of the Parties to agree any matter which requires agreement under this Agreement) may be resolved solely in accordance with the provisions of Clauses 23.1 to 23.3.

**23.5 Resolution of Dispute**

Any decision, judgement or settlement resulting from a Dispute determined in accordance with Clauses 23.1 to 23.3 shall be recorded in writing, signed by all the Parties involved, and shall be binding on the Parties. Where the Parties have submitted the Dispute to the Courts of England and Wales in accordance with Clauses 23.4, the decision of the Courts of England and Wales shall be binding on the Parties.

**24. GOVERNING LAW**

24.1 This Agreement and any Dispute or Claim arising out of or in connection with it or its subject matter, existence, negotiation, validity, termination or enforceability (including non-contractual disputes or claims) shall be governed by and construed in accordance with English law.

24.2 Subject to the dispute resolution provisions of Clause 23, each Party irrevocably agrees that this Agreement and any Dispute or Claim arising out of or in connection with it or its subject matter, existence, negotiation, validity, termination or enforceability (including non-contractual disputes or claims) shall be subject to the exclusive jurisdiction of the Courts of England and Wales.

**25. MISCELLANEOUS PROVISIONS**

**25.1 Protocols**

The Parties agree to implement, and abide by, the Protocols and will work together in good faith to revise them where necessary or negotiate new protocols as may be necessary.

**25.2 Assignment**

This Agreement is personal to the Parties and may not be assigned (whether absolutely or by way of security and whether in whole or in part), sub-contracted (other than subcontracting of Services or Routes which shall be permitted at the discretion of the relevant Operator), delegated, transferred, mortgaged, charged, declared in trust for a third party, or otherwise disposed of in any manner whatsoever to any third Party (each of the above a "dealing") without the prior written consent of each of the other Parties and any such purported dealing in contravention of this Clause shall be ineffective.

**25.3 Entire Agreement**

Each of the Parties to this Agreement confirms that this Agreement represents the entire understanding, and constitutes the whole agreement, in relation to its subject matter and supersedes any previous agreement between the Parties with respect thereto and, without prejudice to the generality of the foregoing, excludes any warranty, condition or other undertaking implied at law or by custom, usage or course of dealing.

**25.4 Third party rights**

No term of this Agreement is enforceable under the Contracts (Rights of Third Parties) Act 1999 by a person who is not a Party to this Agreement.

**25.5 Partnership**

For the avoidance of doubt this Agreement is not intended to create a legal partnership between the Parties pursuant to the Partnership Act 1890, the Limited Partnerships Act 1907 the Limited Liability Partnership Act 2000 or otherwise.

**25.6 Agency**

Nothing in this Agreement or any document referred to in it shall constitute any of the Parties an agent of another, nor shall the execution, completion and implementation of this Agreement confer on any Party the power to bind the other.

**25.7 Costs**

All Parties shall bear their own costs in relation to the preparation, negotiation and performance of this Agreement.

**25.8 Amendment**

25.8.1 This Agreement may only be amended, modified, varied or supplemented in writing signed by or on behalf of each and all of the Parties to this Agreement.

25.8.2 The Parties shall, as soon as reasonably practicable following the coming into force of any legislation, regulations or statutory instruments (or any amendments to existing legislation, regulations or statutory instruments) which impacts the terms of this Agreement, review and, if necessary, amend the terms of this Agreement to account for such changes.

25.8.3 A new operator may accede to this Agreement upon the written agreement of all the Parties and all Parties shall act in a fair, reasonable and non-discriminatory manner when deciding whether to agree to any such accession.

**25.9 Waiver**

The rights and remedies of the Parties shall not be affected by any failure to exercise or delay in exercising any right or remedy or by the giving of any indulgence by any other Party or by anything whatsoever except a specific waiver or release in writing and any such waiver or release shall not prejudice or affect any other rights or remedies of the Parties. No single or partial exercise of any right or remedy shall prevent any further or other exercise thereof or the exercise of any other right or remedy.

**25.10 Notices**

25.10.1 Any notice (including any approval, consent or other communication) in connection with this Agreement shall be given in writing and shall either be personally left at the address of the addressee or sent by pre-paid first class post or be sent by electronic mail. The address for service of a Party shall be its address as stated in the parties clause above or any other address or electronic mail address notified to the other Parties in accordance with this Clause 25.10.1.

25.10.2 In the absence of evidence of earlier receipt, any notice shall take effect from the time that it is deemed to be received in accordance with Clause 25.10.3.

25.10.3 A notice is deemed to be received:

- (A) in the case of a notice personally left at the address of the addressee during normal working hours, upon delivery at that address or if not during normal working hours the next Working Day; or
- (B) in the case of a posted letter (within the United Kingdom), on the third day after posting; or
- (C) in the case of an email, in the absence of a delivery error message, at the time of sending to the relevant addressee,

and for the purpose of deemed receipt under this Clause 25.10.3, it shall be sufficient to prove that personal delivery was made or that the envelope containing the posted notice was properly addressed or the email contained the correct email address.

**25.11 Further Assurance**

If it shall be necessary and proper after the execution hereof to execute any additional documents or take further action to give effect to this Agreement, the Parties agree to take such action.

**25.12 Severance**

If any provision or part of this Agreement is void or unenforceable due to any applicable law, it shall be deemed to be deleted and the remaining provisions of this Agreement shall continue in full force and effect. If any invalid, unenforceable or illegal provision of this Agreement would be valid, enforceable and legal if some part of it were deleted, the provision shall apply with the minimum deletion necessary to make it valid, legal and enforceable.

**25.13 Counterparts**

This Agreement may be entered into in any number of counterparts and by the Parties on separate counterparts, but shall not be effective until each Party has executed and delivered at least one counterpart to each other Party. Each counterpart, when executed and delivered, shall constitute an original, but all counterparts shall together constitute one

**Subject to Contract**

**Draft for discussion: 21<sup>st</sup> May 2014**

**Strictly Private and Confidential**

and the same instrument. It is agreed that such counterparts may be delivered via email in portable document format (PDF).

**IN WITNESS** whereof this Agreement has been duly executed by the Parties the day and year first above written.

**SIGNED** for and on behalf of **DURHAM, GATESHEAD,** )  
**NEWCASTLE UPON TYNE, NORTH TYNESIDE,** )  
**NORTHUMBERLAND, SOUTH TYNESIDE,** )  
**AND SUNDERLAND COMBINED AUTHORITY** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of the **TYNE** )  
**AND WEAR PASSENGER TRANSPORT** )  
**EXECUTIVE** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of **GATESHEAD** )  
**COUNCIL** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of **NEWCASTLE** )  
**CITY COUNCIL** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of **NORTH TYNESIDE** )

**Subject to Contract**

**Draft for discussion: 21<sup>st</sup> May 2014**

**Strictly Private and Confidential**

**COUNCIL** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of **SOUTH TYNESIDE** )

**COUNCIL** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of **SUNDERLAND** )

**CITY COUNCIL** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of **ARRIVA** )

**NORTHUMBRIA LTD** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of **BUSWAYS** )

**TRAVEL SERVICES LTD** by: )

Authorised Signatory

Printed Name

**SIGNED** for and on behalf of )

GO NORTH EAST LTD by: )

Authorised Signatory

Printed Name

**SCHEDULE 1**  
**NETWORK AND SERVICES**

**1. NETWORK**

- 1.1 As at the date of this Agreement the Network (including the Routes) is as described in the attached spreadsheet at Annex A of this Schedule.
- 1.2 The Parties shall procure that the description of the Network contained in Annex A is updated at least once every Contract Year and as soon as reasonably practicable following:
- 1.2.1 an Operator acceding to this Agreement;
  - 1.2.2 an Operator ceasing to participate in this Agreement; or
  - 1.2.3 an Operator's implementation of a Change proposal which impacts on the accuracy of the description of the Network set out in Annex A.

**2. SERVICE CHANGE DATES**

- 2.1 There shall be one fixed Service Change Date in each District. The proposed Service Change Dates set out below are based on dates previously agreed with Nexus and, for the period following 2019 are subject to negotiation and agreement between the Parties.
- 2.2 The Service Change Dates for the remaining four years of the Term are:

<b>PROPOSED SERVICE CHANGE DATES</b>	
<b>DATE</b>	<b>AREA</b>
30 March 2014	North Tyneside
01 June 2014	Sunderland
27 July 2014	Gateshead
31 August 2014	Newcastle
25 January 2015	South Tyneside

22 March 2015	North Tyneside
31 May 2015	Sunderland
26 July 2015	Gateshead
06 September 2015	Newcastle
24 January 2016	South Tyneside
20 March 2016	North Tyneside
22 May 2016	Sunderland
24 July 2016	Gateshead
04 September 2016	Newcastle
22 January 2017	South Tyneside
19 March 2017	North Tyneside
21 May 2017	Sunderland
23 July 2017	Gateshead
03 September 2017	Newcastle
28 January 2018	South Tyneside
18 March 2018	North Tyneside
20 May 2018	Sunderland
22 July 2018	Gateshead
02 September 2018	Newcastle
27 January 2019	South Tyneside
24 March 2019	North Tyneside
19 May 2019	Sunderland
21 July 2019	Gateshead
01 September 2019	Newcastle

**ANNEX A**  
**NEBOA NETWORK**

*[NEBOA Network spread sheet attached entitled NEBOA Network \_Sep 14.]*

**DRAFT**

Service	Operator	Route Description	Monday to Friday		Saturday		Sunday		Nexus		Notes
			Inter-peak	Evening	Inter-peak	Evening	Inter-peak	Evening	Secured	X-Boundary	
43	Arriva	Newcastle - Cramlington	15	60	15	60	30	60	PART	YES	
44	Arriva	Newcastle - Dinnington/Morpeth	30	60	30	60	60	60	PART	YES	
45	Arriva	Newcastle - Brunswick	30	60	30	60	60	60	NO	NO	
46	Arriva	Newcastle - Brunton	15	60	15	60	60	60	NO	NO	
51	Arriva	Whitley Bay/Benton - Newcastle	60	60	60	60	60	60	PART	NO	
52	Arriva	Cramlington - Killingworth - Newcastle	30	-	30	-	30	-	NO	YES	
53	Arriva	Cramlington - North Shields	30	60	30	60	60	60	PART	YES	
54	Arriva	Newcastle - Killingworth - Whitley Bay	30	60	30	60	60	60	NO	NO	
55	Arriva	Newcastle - Forest Hall	15	60	15	60	60	60	NO	NO	
306	Arriva	Newcastle - Tynemouth/Whitley Bay	15	30	15	30	30	30	NO	NO	
308	Arriva	Newcastle - Whitley Bay - Blyth	15	30	15	30	30	30	NO	YES	
554	Arriva	Regent Centre - Quorum Business Park	8 JNYS/Day	-	-	-	-	-	NO	NO	
X9	Arriva	Newcastle - Cobalt Business Park	8 JNYS/Day	-	-	-	-	-	NO	NO	

Service	Operator	Route Description	Monday to Friday		Saturday		Sunday		Nexus Secured	X-Boundary	Notes
			Inter-peak	Evening	Inter-peak	Evening	Inter-peak	Evening			
1/1A	Go North East	Whitley Bay - Gateshead - Wrekenton/Kibblesworth	15*	30*	15*	30*	20*	30*	PART	0	* M-S day every 30 to Wrekenton, eve & Sun every hour to Wrekenton/Kibblesworth (1A)
2A/2C	Go North East	Sunderland - Washington	JNT 10	60	JNT 10	60	JNT 30	70	N/A	0	
4	Go North East	Heworth - Houghton	10	30*	10	30*	15*/30	30*	N/A	1	* Heworth - Fatfield only
5	Go North East	South Shields - Jarrow	30	60	30	60	60	60	PART	0	
8	Go North East	Sunderland - Stanley	30	-	30	-	-	-	N/A	1	
9/9A	Go North East	Sunderland - North Shields	15*	30	15*	30	30	30	PART	0	* MS day every 15 Sunderland-Jarrow, every 30 to North Shields
10/10A/10B	Go North East	Newcastle - Hexham (10) / Greenside (10A) / Prudhoe (10B)	JNT 10	JNT 20	JNT 10	JNT 20	JNT 15	JNT 20	PART	1	
11/11A	Go North East	Newcastle - Blackhall Mill/Prudhoe	30	-	30	-	-	-	PART	0	11A peak only
17/17A	Go North East	Whitley Bay - Benton ASDA/Cramlington	20/60	30*/30	20/60	30*/30	30*/30	30*/30	PART	1	*17 Holy Cross - Benton ASDA every 30 extending to Cramlington every 60 / 17A every 30 Whitley Bay - Wallsend
19	Go North East	North Shields - Northumberland Park	30*	30	30*	30	30	30	PART	1	* Extending to Ashington every 60
20/20A/X20	Go North East	Sunderland - Durham	JNT 10	30	JNT 10	30	20	60	N/A	1	
21	Go North East	Newcastle - Chester-le-Street/Durham	JNT 7.5	30	JNT 7.5	30	JNT 10	30	N/A	1	
27	Go North East	Newcastle - South Shields	10	30	10	30	20	30	PART	0	
27X	Go North East	Newcastle-Hebburn	60	-	60	-	-	-	PART	0	experimental service
28/28A	Go North East	Newcastle - Chester-le-Street	60/60	60*	60/60	60*	60	60	N/A	1	* Early evening only
29/29A	Go North East	Doxford - Sunderland - Boldon/Heworth	20	30*	20	30*	30*	30*	PART	0	* Operates as 29A Sunderland - Heworth
31	Go North East	Newcastle - Winlaton	30	60	30	60	60	60	PART	0	
32	Go North East	Newcastle - Winlaton	30	60	30	60	60	60	PART	0	
35/35A/35B/35C	Go North East	South Shields - Low Moorsley (35) / Rainton Bridge (35A)	JNT 10	JNT 30	JNT 10	JNT 30	JNT 20	JNT 30	PART	1	
38/38C/238	Go North East	Sunderland - Tunstall Bank Est (38/38C) / Houghton Le Spring (238)	JNT 20*	60	JNT 20*	60	60	60	PART	1	* 238 Extends to Houghton Le Spring every 60 minutes.
39	Go North East	Doxford International - Pennywell	20	30	20	30	30	30	PART	0	
40/41	Go North East	Wallsend - Hadrian Park	10*	30	15*	30	30	30	PART	0	* Every 10 M-F/15 Sat via High Farm and every 30 via Howdon
42	Go North East	Sunderland - Silksworth	10	30	10	30	20	30	PART	0	
43/44/44A	Go North East	Newcastle - Durham	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30*	N/A	1	* Every 60 minutes late evening
45/46	Go North East	Newcastle - Consett	JNT 15	JNT 30*	JNT 15	JNT 30*	JNT 30	60	N/A	1	* Every 60 minutes late evening
47	Go North East	Newcastle - Blackhall Mill	30	60	30	60	30	60	N/A	0	
49/49B/49C	Go North East	Gateshead - Winlaton	JNT 10	JNT 15	JNT 10	JNT 15	JNT 15	JNT 30	PART	0	
50/50A	Go North East	South Shields - Durham/Chester-le-Street	30	60	30	60	60	60	PART	1	
51/51A/52/52A	Go North East	Gateshead - Heworth - Wrekenton - Gateshead	15	30	15	30	30	30	PART	0	
53/54	Go North East	Newcastle - Saltwell Park	10	30	10	30	20	30	N/A	0	

Service	Operator	Route Description	Monday to Friday		Saturday		Sunday		Nexus Secured	X-Boundary	Notes
			Inter-peak	Evening	Inter-peak	Evening	Inter-peak	Evening			
56	Go North East	Newcastle - Sunderland	10	30	10	30	20	30	PART	0	
57	Go North East	Newcastle - Wardley	20	30	20	30	20	30	PART	0	
58	Go North East	Heworth - Newcastle - Hadrian Park	10/20	30	10/20	30	15/30	30	N/A	0	
58X	Go North East	Heworth - Cobalt	*	-	-	-	-	-	N/A	0	* 2 AM Heworth to Cobalt & 2 PM Cobalt to Heworth
60	Go North East	Sunderland - Parkside	10	30	10	30	20	30	N/A	1	
61	Go North East	Sunderland - Murton	15	60	15	60	30	60	N/A	1	
64/64A	Go North East	Gateshead - Dunston	JNT 30	-	JNT 30	-	JNT 30	-	N/A	0	
67	Go North East	Metrocentre - QE Hospital - Wardley	60	60*	60	60*	60*	60*	PART	0	* Metrocentre - QE Hospital only
69/69B	Go North East	Winlaton - Wardley	60	60	60	60	60	60	PART	0	
71	Go North East	Houghton-le-Spring - Chester-le-Street	30	60*	30	60*	-	-	N/A	1	* Early evening only
74/74A	Go North East	Newcastle - Hexham	120	-	120	-	120	-	PART	1	
78/78A	Go North East	Sunderland - Consett	30	60	30	60	30	60	N/A	1	
80	Go North East	Wallsend - North Shields	30	-	30	-	-	-	N/A	0	
88/88A	Go North East	South Shields - Lukes Lane Estate	JNT 15	30	JNT 15	30	30	30	PART	0	
90	Go North East, Gateshead Central Taxis	Winlaton - Team Valley	*	-	-	-	-	-	PART	0	* 5 AM Winlaton to Team Valley & 5 PM Team Valley to Winlaton
91	Go North East	Newcastle - Team Valley	*	-	-	-	-	-	PART	0	* 7 AM Newcastle to Team Valley & 6 PM Team Valley to Newcastle
92	Go North East	Wardley - Team Valley	*	-	-	-	-	-	PART	0	* 5 AM Wardley to Team Valley & 3 PM Team Valley to Wardley
93/93A/94/94A	Go North East	Gateshead - Heworth - Team Valley - Gateshead	15	30	20	30	30	30	PART	0	
95/96/96A	Go North East	Gateshead - Lobley Hill/Metrocentre	10/20	30*	10/20	30*	JNT 30	30*	PART	0	* Lobley Hill to Metrocentre only
97	Go North East	Newcastle - Metrocentre	15	30	15	30	30	30*	PART	0	* Every 45 minutes late Sunday evening
98/98A	Go North East	Newcastle - Whickham	JNT 15	60*	JNT 15	-	60	-	N/A	0	* Early evening only
99	Go North East	Silksworth - Seaburn	60	-	60	-	-	-	PART	0	
307	Go North East	Newcastle - Benton ASDA	*	-	-	-	-	-	N/A	0	* One return peak journey only
309/310/X39	Go North East	Newcastle - Blyth/North Shields	JNT 7.5	JNT 30	JNT 7.5	JNT 30	JNT 15	JNT 30	PART	1	
391/392	Go North East	Longbenton DSS - North Shields/Marden Estate	*	-	-	-	-	-	PART	0	* 1 AM North Shields/Marden Estate - Longbenton DSS & 1 PM Longbenton DSS - North Shields/Marden Estate
M2/M2A/M3	Go North East	Heworth - Birtley	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30	PART	0	
N21	Go North East	Newcastle - Durham	-	*	-	*	-	-	N/A	1	* Every 60 Saturday/Sunday AM only
N56	Go North East	Newcastle - Sunderland	-	*	-	*	-	-	N/A	0	* Every 60 Sunday AM only
S1	Go North East	Metrocentre Shuttle	15	-	15	-	15	-	N/A	0	

Service	Operator	Route Description	Monday to Friday		Saturday		Sunday		Nexus Secured	X-Boundary	Notes
			Inter-peak	Evening	Inter-peak	Evening	Inter-peak	Evening			
W5/W6	Go North East	Concord - Brady Square (W5)/Barmston Court (W6)	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30	PART	0	
X1/X1A	Go North East	Newcastle - Easington Lane	10	30	10	30	30	30*/60	N/A	0	* Washington - Easington Lane only
X25	Go North East	Newcastle - Langley Park	30	60*	30	60*	-	-	N/A	1	* Early evening only
X30/X31/X70/X71	Go North East	Newcastle - Lanchester/Consett	JNT 15	30*	JNT 15	30*	60	-	N/A	1	* Early evening only
X35	Go North East	Sunderland - Hartlepool	30	-	30	-	-	-	N/A	1	
X36	Go North East	Newcastle - Sunderland	30	-	30	-	-	-	N/A	0	
X40/40A	Go North East	Newcastle - Great Park	20	60	20	60	60	60	N/A	0	
X66	Go North East	Gateshead Metro - Metrocentre	7.5	30	7.5	30	7.5	30	N/A	0	
X88	Go North East	Concord - Metrocentre	-	-	60	-	60	-	N/A	0	

Service	OPERATOR	Route Description	Monday to Friday		Saturday		Sunday		Nexus Secured	X-Boundary	Notes
			Inter-peak	Evening	Inter-peak	Evening	Inter-peak	Evening			
1	STAGECOACH	Four Lane Ends - South Benewell/Slatyford	JNT 7.5	15	JNT 7.5	15	15	15	N/A	0	
1/2/3/4	STAGECOACH	South Shields - Biddick Hall - South Shields	10	30	10	30	30	30	N/A	0	
3	STAGECOACH	Farringdon - Hylton Castle	10	30	10	30	20	30	N/A	0	
4	STAGECOACH	Doxford Park - Town End Farm	10	30	10	30	20	30	N/A	0	
5/5A	STAGECOACH	Doxford Park - Sunderland - Docks	30	60*	30	60*	60*	60*	PART	0	*Gilley Law - Sunderland - Docks only
6/7/8	STAGECOACH	Freeman Hospital - Metrocentre/Central Station (8)	JNT 15	30	JNT 15	30	JNT 15	30	N/A	0	
7/8	STAGECOACH	South Shields - Marsden - Harton Nook - South Shields	10	30	10	30	30	30	N/A	0	
8	STAGECOACH	Sunderland - South Hylton	30	-	30	-	-	-	N/A	0	
10/11	STAGECOACH	North Kenton - West Denton Park/West Denton Shops	JNT 10	JNT 20	JNT 10	JNT 20	JNT 20	JNT 20	N/A	0	
10/11	STAGECOACH	Grangetown - Pennywell	JNT 7.5	JNT 15	JNT 7.5	JNT 15	JNT 15	JNT 15	N/A	0	
10/11	STAGECOACH	South Shields - Jarrow	30	60	30	60	30	60	PART	0	
12	STAGECOACH	Sunderland - Silksworth	10	-	10	-	-	-	N/A	0	
12	STAGECOACH	Walker - Fenham	JNT 7.5	20/60	JNT 7.5	20/60	15	20/60	N/A	0	
12/12A	STAGECOACH	Mile End Road - The Lonnen	JNT 30	60	JNT 30	60	30	60	N/A	0	
13	STAGECOACH	Doxford Park - Town End Farm	10	30	10	30	20	30	N/A	0	
15/15A	STAGECOACH	Walker - Kenton Bar/Montagu Estate	30	-	30	-	-	-	PART	0	
16	STAGECOACH	Hastings Hill - Red House	10	30	10	30	20	30	N/A	0	
17	STAGECOACH	South Shields - Whiteleas	10	30	10	30	30	30	N/A	0	
18	STAGECOACH	Wallsend - Forest Hall	30	-	30	-	-	-	PART	0	
18	STAGECOACH	South Shields - Brockley Whins	10	30	10	30	30	30	N/A	0	
18/19	STAGECOACH	Grindon - Southwick - Sunderland - Thorney Close - Grindon	30	-	30	-	-	-	N/A	0	
20	STAGECOACH	Sunderland - Pennywell	10	30	10	30	20	30	N/A	0	
22	STAGECOACH	Wallsend - Throckley	10	20	10	20	20	20	N/A	0	
23	STAGECOACH	Thorney Close - Dene Estate	10	30	10	30	30	30	N/A	0	
30	STAGECOACH	South Shields - Boldon	30	60	30	60	60	60	N/A	0	
30/31	STAGECOACH	Fawdon/Montagu Estate - Fenham	JNT 7.5	JNT 15	JNT 7.5	JNT 15	JNT 15	JNT 15	N/A	0	
32/32A	STAGECOACH	Newcastle - Benwell - Kenton - FLE - Newcastle	30	-	30	-	-	-	PART	0	
35	STAGECOACH	Newcastle - Red House Farm	30	-	30	-	-	-	PART	0	
36	STAGECOACH	Newcastle - Fenham	15	30	15	30	30	30	N/A	0	
38/38A	STAGECOACH	Freeman Hospital - Whickham View	10	20	10	20	20	20	N/A	0	
39/40	STAGECOACH	Walker/Wallsend - Dumpling Hall/Chapel House	JNT 5	JNT 15	JNT 5	JNT 15	JNT 10	JNT 15	N/A	0	
62/63	STAGECOACH	Killingworth - North Walbottle/Chapel House	JNT 7.5	JNT 15	JNT 7.5	JNT 15	JNT 15	JNT 15	N/A	0	

Service	OPERATOR	Route Description	Monday to Friday		Saturday		Sunday		Nexus Secured	X-Boundary	Notes
			Inter-peak	Evening	Inter-peak	Evening	Inter-peak	Evening			
68	STAGECOACH	Four Lane Ends - DSS Tyneview Park	*	-	-	-	-	-	N/A	0	*Monday to Friday peak only
71	STAGECOACH	Newcastle - Throckley	30	30*	30	30*	30*	30*	N/A	0	* Newcastle to Nth Walbottle only
72	STAGECOACH	Newcastle - Chapel House	30	60	30	60	60	60	N/A	0	
87/88	STAGECOACH	Newcastle - Newbiggin Hall	30	60	30	60	60	60	N/A	0	
100	STAGECOACH	Newcastle - Metrocentre	8	30	8	30	12	30	N/A	0	
574	STAGECOACH	Biddick Hall - Whiteleas - Crompton Parkinson	*	-	-	-	-	-	N/A	0	*1 AM journey (peak)
575	STAGECOACH	Horsley Hill - Whiteleas - Bede Industrial Estate	*	-	-	-	-	-	N/A	0	*1 AM journey (peak)
991	STAGECOACH	Blucher - Throckley - DSS Tyneview Park	*	-	-	-	-	-	N/A	0	*1 AM journey (peak)
995	STAGECOACH	Byker - Walker - DSS Tyneview Park	*	-	-	-	-	-	N/A	0	*1 AM journey (peak)
E1	STAGECOACH	South Shields - Sunderland	20	30	20	30	30	30	N/A	0	
E2	STAGECOACH	South Shields - Sunderland	20	30	20	30	30	30	N/A	0	
E6	STAGECOACH	South Shields - Sunderland	20	30	20	30	30	30	N/A	0	
X1	STAGECOACH	Sunderland - Doxford International	*	-	-	-	-	-	N/A	0	*7 AM journeys Sunderland to Doxford International / 8 PM journeys Doxford International to Sunderland
X20	STAGECOACH	South Shields - Fellgate	30	60	30	60	60	60	N/A	0	
X34	STAGECOACH	Newcastle - Horsley Hill Square	30	*	30	*	-	-	N/A	0	*3 early evening journeys provided ex Newcastle
X47	STAGECOACH	Newcastle - Kingston Park	10	20	10	20	15	20	N/A	0	
X63	STAGECOACH	Newcastle - Killingworth	15	-	15	-	-	-	N/A	0	
X77/X78/X79	STAGECOACH	Newcastle - Ponteland/Darras Hall	JNT 30	-	JNT 30	-	-	-	N/A	1	
X82	STAGECOACH	Newcastle - Throckley	20	30	20	30	30	30	N/A	0	
X87/X88	STAGECOACH	Newcastle - Newbiggin Hall	JNT 10	20	JNT 10	20	JNT 15	20	N/A	0	

## SCHEDULE 2

## INVESTMENT

## 1. ON-GOING INVESTMENT PROGRAMME

Arriva, Go North East and Stagecoach have an on-going programme of investment in vehicles, buildings and plant and training. The below table summarises planned Investment by Arriva, Go North East and Stagecoach during the year commencing from the Reference Date:

	Arriva North East	Go North East	Stagecoach	Total
Vehicles	£1.55m	£13.889m	£5m	£20.439m
Buildings & Plant	£2.9m	£7.931m		£10.831m
Training	£0.02m	£0.81m	£0.5m	£1.33m
Totals	£4.47m	£22.63m	£5.5m	£32.6m

## 2. TYNE AND WEAR EURO ENGINE TYPE

*[Drafting Note: The table below has been updated by Nexus to reflect the latest aggregate position confirmed through the provision of data supplied independently by each of the three large Operators by 11 June 2014. Nexus understands that the data provided reflects a commitment by NEBOA members to achieve (as a minimum) the number of vehicles meeting each of the respective Euro engine emission standards for Particulate Matter (PM)]*

		As at 31 March 13		As at 31 March 14		As at 31 March 15		As at 31 March 16		As at 31 March 17		As at 31 March 18		As at 31 March 19	
		No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
<b>NEBOA</b>															
	Euro II	81	8%	17	2%	0	0%	0	0%	0	0%	0	0%	0	0%
	Euro III	107	10%	92	9%	75	7%	75	7%	33	3%	7	1%	4	0%
	Euro IV	445	41%	397	37%	359	34%	359	34%	313	29%	267	25%	197	19%
	Euro V	366	34%	454	43%	454	43%	454	43%	454	43%	456	43%	456	43%
	Euro V LCEB	71	7%	77	7%	77	7%	77	7%	108	10%	108	10%	108	10%
	Euro VI	1	0%	4	0%	76	7%	76	7%	133	13%	203	19%	276	26%
	Euro VI LCEB	0	0%	25	2%	25	2%	25	2%	25	2%	25	2%	25	2%

## EXCLUDES:

Vehicles on Driver Training duties  
Coaches not on local service work

City Sightseeing  
 Services 85/685 (ANE & STG) and X15  
 (ANE)  
 ANE vehicles used on non VPA routes

3. LOCAL AUTHORITY INITIATIVES

*[Drafting Note: Expenditure for 2014/15 and 2015/16 to be populated following discussions with relevant Local Authorities]*

Local Authority	Scheme Description / Location	2013/14 £	2014/15 £	2015/16 £
<b>Gateshead Council</b>	Felling Bypass Traffic Signals	5,000		
	Wrekenton Centre	13,000		
	Durham Road Quality Transport Corridor	30,000		
	Lingey Lane Phase 1	10,000		
	Bus Infrastructure	5,000		
	Lingey Lane Phase 2	700,000		
	Kingsway North Bus lanes	275,000		
	Sunderland Road Quality Transport Corridor	23,000		
	Durham Road Quality Transport Corridor Phase 4 design	10,000		
	<b>Total</b>	<b>1,071,000</b>		
<b>Newcastle City Council</b>	Glasshouse Street - Waiting restrictions	3,000		
	Red Hall Drive - Bus Shelter	9,000		
	Coutts Road - Bus boarders and clearways	10,000		
	Various - stagecoach #1 - waiting restrictions	6,000		
	Shields Road - Waiting restrictions at Walkergate Depot access	3,000		
	Blakelaw Road/Sunnyway - Removal of mini roundabout for improved bus access	6,000		
	Station Road - Bus boarder and limited waiting	6,000		
	Grey Street - improvements to Quaylink stops	10,000		
	Newton Road - proposed bus lane/no car lane (Option 1)	40,000		
	Benfield Road/Coast Road junction - Proposed queue detection to improve bus access	20,000		
	William Armstrong Drive (West)/Scotswood Road - Proposed Bus lane/no car lane	5,000		
	Meldon Terrace/Chillingham Road - Proposed waiting restrictions and traffic signal alterations	3,000		
	Brighton Grove/Westgate Road - Stop line relocation at junction	2,000		

	Various - Bus stop improvement works (locations tba with operators)	66,000		
	<b>Total</b>	<b>189,000</b>		
<b>North Tyneside Council</b>	Station Road/High Street (Wallsend) - improvements to signalised junction	90,000		
	Whitley Road (Whitley Bay) - scheme to improve flows for buses and other users	10,000		
	A189 Salters Lane - extension of bus lane (enforcement cameras)	60,000		
	A189 Salters Lane - extension of bus lane (physical measures)	20,000		
	Four Lane Ends and A188 junction improvements	3,260,000		
	<b>Total</b>	<b>3,440,000</b>		
<b>South Tyneside Council</b>	Harton Nook - Relocation of bus stop/revised parking arrangements	100,000		
	CCTV monitoring of Harton Nook junction	25,000		
	<b>Total</b>	<b>125,000</b>		
<b>Sunderland City Council</b>	Borough Road	660,000		
	Green Terrace	90,000		
	Chester Road Route action Plan	90,000		
	Better Bus Schemes - CCTV coverage at 17 locations	80,000		
	<b>Total</b>	<b>920,000</b>		
<b>Nexus</b>	Replacement Bus Stop Flags	76,500		
	Bus Stop Improvements	15,200		
	Cycle Parking at PT Stations	280,000		
	CCTV in 70 Shelters	92,600		
	CCTV at Park Lane and Heworth Interchanges	57,500		
	Go Smarter to Work - Real Time Information	150,000		
	FLE and GHD Improvements	38,500		
	TMS Phase 3	22,500		
	My Journey Developments	25,500		
	CRM Enhancements	9,300		
	Replacement BIDS system - Business Case	10,000		
	Infrastructure Enhancements (North Shields, Gateshead and Accessibility)	134,100		
	<b>Total</b>	<b>911,700</b>		

**SCHEDULE 3**

**FARES AND TICKETING**

**NETWORK TICKETING LTD**

New Bus2Bus ticketing, and new fares deals for 16-18 year-olds (inclusive) will be provided by NTL as part of its obligations under this Agreement. For completeness, the proposed NTL Bus2Bus offering (fares as at the Effective Date) is summarised here. **[Note: to be updated prior to execution of the agreement, to give an accurate base-line.]**

<b>TYNE AND WEAR DAY ROVER</b>				
	<b>Multi-Modal</b>		<b>Bus2Bus</b>	
One Zone	£5.50		£4.50	
Two Zones	£6.20		£5.20	
All Zones	£6.80		£5.80	
Junior Rover	£3.70			

<b>NETWORK ONE WEEKLY TICKETS</b>				
	<b>Multi Modal</b>	<b>Student &amp; 16 – 18 year-olds</b>	<b>Bus2Bus</b>	<b>Student &amp; 16 – 18 year-olds Bus2Bus</b>
One Zone	£18.00	£13.50	£17.00	£12.70
Two Zones	£20.50	£15.50	£19.00	£14.30
All Zones	£24.50	£18.50	£20.50	£15.40

<b>NETWORK ONE 4 – WEEKLY TICKETS</b>				
	<b>Multi Modal</b>	<b>Student &amp; 16 – 18 year-olds</b>	<b>Bus2Bus</b>	<b>Student &amp; 16 – 18 year-olds Bus2Bus</b>
One Zone	£62.00	£46.50	£59.00	£44.20
Two Zones	£72.00	£53.50	£68.00	£51.00
All Zones	£86.00	£64.00	£76.00	£57.00

## **SCHEDULE 4**

### **CUSTOMER CHARTER**

#### **1. INTRODUCTION**

- 1.1 Our Charter for bus users in Tyne and Wear assures customers that services provided by the bus Partnership deliver the very best in customer service with high standards shared by all operators.
- 1.2 Our Charter spells out what you can expect from us before, during and after your journey. Here we tell you about information sources, help you find what you need to know about paying for your journey and about accessibility. It also explains how you will be consulted when services need to change, and how we will keep you informed when services suffer disruption.
- 1.3 Our Charter sets clear standards for the vehicles you will travel in and for the support that customers can expect from our staff.
- 1.4 Safety and accessibility are very high priorities in the delivery of our bus services. Our Charter makes clear the commitments we are making to both. We are committed to ensuring that every passenger travelling by bus in Tyne and Wear has an experience that is safe, reliable, comfortable and enjoyable.
- 1.5 The Tyne and Wear Bus Partnership (the "**Partnership**") is a formal partnership of bus operators, local authorities, the Integrated Transport Authority and Nexus. The Partnership has one central board and a local district board in each of Tyne and Wear's five districts. Together, we are committed to delivering further improvements to build on the high levels of customer satisfaction achieved in Tyne and Wear.

#### **2. BEFORE YOUR JOURNEY**

##### **2.1 Getting Information**

The Partnership members provide a range of sources of information for you to choose from to get the details you need in the ways that suit you best.

Bus operators and Nexus are working towards providing information in a variety of ways.

##### **In Print**

- Timetables for all services
- Maps for each area of Tyne and Wear
- Ticket zone and price guides

##### **On-line**

- Timetables for all services
- Route maps
- Google map of routes and stops
- Journey planners
- Live on line helpdesk
- Facebook and Twitter

##### **Mobile**

- Mobile friendly web pages
- Information Apps

- Route maps
- Google maps of routes and stops
- Journey planners
- M-Ticket Apps

**At Stop**

- 5,700 bus stop displays of service timetables
- Stop codes
- Contact details

**Travel Centre and Interchanges**

- Face to Face help and support
- Printed information

**Call Centres**

- Dedicated customer services staff

**Additional Accessible Options**

- Talking web pages
- Large print information
- Conversion to Braille

Please go to Contact Details to access these sources of information.

You can use many different ways to get bus information. We want you to be able to rely upon the information we provide, and we are committed to building on and improving the choices available.

## **2.2 Paying for your journey**

It isn't always necessary to be certain of all the fares for your journeys before you travel. Network One's simple 'Bus2Bus' tickets provide area wide travel for the whole day with all bus operators and if you need the Metro or Ferry as well, the Network One Day Rover includes those too.

Partnership members' literature, on-line or mobile information and call centres will provide full details of the wide choice of options available. There will be a value for money fare to suit you. Regular bus users will find a number of additional money-saving options to choose from.

Fares fall into three simple tiers:

- **Network One tickets:** valid on all buses, Metro, the Shields Ferry and on trains between Newcastle, Heworth and Sunderland and Newcastle, Metrocentre and Blaydon. Network One tickets include Transfares, which are single tickets for journeys that involve one bus and one Metro trip as part of a single journey, Day Rovers and weekly and longer term tickets.
- **Bus2Bus and Weekly tickets:** costing less than Network One tickets, give you travel on all buses without the Metro, Ferry or Trains.
- **Individual Operator tickets:** a wide range of choices of singles, returns, zonal day, weekly and longer period tickets to suit your needs, generally at lower prices than Bus2Bus or Network One options.

To enable passengers to take advantage of the extra security and savings offered by smart ticketing, buses are equipped with smart card readers which will recognise all Concessionary Travel (ENCTS) cards, operators' own smart cards, and POP cards with the NESTI STR cash wallet. Buses will display a NESTI smart ticketing scheme logo reassuring customers of participation in the scheme.

Individual fare or ticket prices will not be increased more than once per year. Customers affected will be given a minimum of seven days advance notice of changes to prices.

Whilst it is necessary to operate a system of penalty fares for passengers travelling without a valid ticket, and to pursue prosecutions against offenders who seek to defraud the services, we have a code of conduct to ensure fair and consistent approaches to the issuing of penalty fares and dealing with apparent fraud on bus services.

### **2.3 Fares for young people**

We recognise that buses are vital for most young people; for education, training, work and leisure. We are committed to simple, straightforward discounted fares for all young people up to 18 and for those going onto higher education.

- Discounts for young people up to 18 regardless of whether in education, training, work or not.
- Discounts for full time students in higher education.
- A range of offers developed with the providers of secondary, further and higher education.
- Clearly signposted information in literature and on-line so young people can readily access fares offers available to them.

### **2.4 Accessibility**

The Partnership shall publish an Accessibility Guide with detailed guidance on accessing the bus network.

### **2.5 Boarding**

All buses will stop if passengers waiting at stops require that particular service.

### **2.6 Wheelchairs**

All drivers receive training to enable us to carry wheelchair passengers in safety and comfort and will provide reasonable physical assistance if required.

- Accessible buses are designed in accordance with legal requirements and can carry wheelchair or other mobility devices up to a maximum size of 78cm wide and 110cm long. Accessible buses include a clearly marked space for one wheelchair user who, for safety reasons, must travel facing the direction indicated and with brakes applied. Spaces in buses dedicated for passengers with wheelchairs or mobility frames will be clearly signed. Our drivers will request other passengers to vacate the wheelchair space if it is needed.
- Passengers who use walking frames, including frames with wheels, may use the wheelchair bay or buggy bay where one is provided. Folding wheelchairs may be carried either in the wheelchair bay or as luggage if folded and safely stowed.
- People with mobility issues, including impaired vision, who are unable to travel unaccompanied and who qualify for the English National Concessionary Travel Scheme (ENCTS) may be entitled to be accompanied by a companion free of charge. Please contact your local council for details.
- The Partnership members support the region-wide "Bridge Card" scheme that enables customers to deliberately bring any special needs to the driver's attention.

### **2.7 Prams and Buggies**

Many of our buses provide space for small prams and buggies to be carried unfolded in a dedicated buggy bay or in the wheelchair bay unless this is required by a wheelchair user. For safety reasons the number of buggies that can be carried is limited; this will be indicated on the exterior of buses near to the entrance doors, or the driver will advise.

## **2.8 Dogs**

Guide dogs or hearing dogs accompanying a registered disabled person will be carried at any time and free of charge. Our buses will carry other well-behaved pets that present no risk to other passengers or staff at the driver's discretion. All animals will travel free of charge.

## **2.9 Changes to bus services and consultation**

We are always open to new ideas and suggestions and value input from customers in advance of decisions about bus services. Whilst it is not possible to meet everyone's aspirations or concerns, effective consultation adds to the openness of decisions about the bus network.

Changes to each service will occur no more than once per year unless customers tell us they need improvement or there is a requirement to respond to demand for new services.

Changes to local bus services must be registered with the Traffic Commissioner eight weeks in advance of their implementation. Before those registrations are made:

- Partnership members will consult customers on any proposals to withdraw, reduce or significantly divert services;
- where proposed changes are purely to timing, increase frequencies, or add journeys, then partnership members may consult customers; and
- in all cases Partnership members will advise customers, ward councillors and Partnership Boards of such changes in advance of registration.

Consultation will:

- be announced to users of the service(s) via on bus notices no less than 3 days in advance of the consultation period, which will last for 21 days;
- include either an on bus or bus stop survey, or a door to door survey and may additionally offer online survey completion facilities;
- be notified in advance to council members in the wards affected; and
- involve other relevant stakeholders where appropriate.

The District Bus Partnership Boards and the Tyne and Wear Bus Partnership Board have an important role to play in considering proposals for changes and the feedback from consultation as part of their role.

When decisions on changes have been reached, we will give a minimum of four weeks' notice before any changes commence through leaflets or notices on buses. These will clearly state the date of the change, the reason for it, and contact information for further details or complaints. Full timetables will be available two weeks before the service changes start, on-line and in print, and a service change 'alert' notice will be displayed at bus stops two weeks in advance of the change.

## **2.10 Planned disruption to Services**

When roadworks or special events are planned, the effect on bus users is often significant. The Partnership members will work with the organisations involved and put in place operational adjustments to minimise disruption to services for customers, but where some delays or diversions are still unavoidable will:

- provide advice in advance of the works or event commencing;
- provide advice on alternative services where appropriate; and
- update customers via on-line, mobile, or social networking communications during the disruption.

## **3. DURING YOUR JOURNEY**

Your comfort and safety and the provision of reliable and punctual journeys are our top priorities.

### **3.1 At the Bus Stop**

We will co-operate and work together in good faith with Nexus and the relevant Local Authorities to enable Nexus and the relevant Local Authorities to:

- provide safe convenient location of bus stops and shelters that are well lit and with good access, with adequate space and uncluttered by other street furniture;
- repair any damaged or worn bus stops or shelters;
- display accurate and comprehensive timetable information and contact numbers for further information and assistance at all designated stops;
- continue to invest in increasing and improving the provision of bus shelters; and
- provide bus stops that are designed and laid out to accommodate accessible buses to facilitate safe and convenient access for all.

### **3.2 Our Buses**

- A majority of our vehicles are equipped with the means to communicate with our control centres and to summon help in an emergency.
- Are fitted with CCTV camera recording covering the interior and exterior of the vehicle.
- Are cleaned daily before service and additional cleaning will be carried out during the day when required.
- Are equipped for wheelchair access on regular network services.

### **3.3 Our Drivers**

- Will welcome you on board.
- Will provide friendly and helpful advice on your journey and fares if you need it.
- Will provide reasonable physical assistance for disabled people to access and leave the bus.
- Will advise you what to do in the event that you encounter difficulties, and will summon assistance if required.
- Will provide information if the bus is excessively delayed, needs to divert or otherwise alter its journey.
- Will transfer you to the next most convenient bus, regardless of operator, if the bus is unable to continue its journey.
- Will take control of the situation in the event of an emergency until emergency services or authorised personnel arrive.

### **3.4 Reliability and Punctuality**

We want to make sure that you can rely on your bus turning up. We want to ensure that your bus is on time when you board and on time when you reach your destination. Congestion, severe weather and serious incidents can affect the journeys we operate and their punctuality. Despite those challenges, we shall:

- operate 99.5% of all journeys shown in our timetables;
- operate 95% of our services 'on time.' This means that our buses depart no more than one minute early and no more than five minutes later than scheduled from each timing point;
- for 'frequent' services where the service interval is ten minutes or less, six or more buses will depart in any 60 minute period and the interval between consecutive buses shall not exceed 15 minutes; and

- where bus operator performance falls below these standards due to factors entirely within the control of the bus operator, that Operator shall make a deposit into its Service Improvement Account, the use of which shall be determined by the relevant Partnership Board but will always be linked to improving bus services for passengers in the local area.

We will also continue to improve the reliability and punctuality of our services by:

- improving operational contingency planning;
- improving training and communication for all staff involved;
- investing in the better use of new technologies to improve performance;
- deploying trained and experienced staff to aid drivers in the provision of reliable and punctual services; and
- working closely with partners to improve highways design for bus users.

### **3.5 Unplanned disruption to Services**

In the event that disruption to services arises without advance notice, the Partnership will use all relevant communication channels at its disposal to:

- provide information that is as timely, accurate and consistent as possible;
- enable passengers to make informed decisions about their journey;
- involve other agencies as required to minimise the disruption experienced by passengers;
- keep staff informed so that they can be as helpful and informative as possible for passengers; and
- pass details of significant disruptions to local radio stations and Traveline and post information on company websites and use social media as available.

### **3.6 Breakdowns**

In the unlikely event that your bus is unable to continue in service, we will ask you to transfer to an alternative bus or provide a replacement bus within 30 minutes. In the event of a breakdown affecting a last journey of the day, a replacement bus or a taxi shall be provided for onward travel to any destination that would have been served by the scheduled bus.

## **4. AFTER YOUR JOURNEY**

### **4.1 Lost Property**

Partnership members provide facilities for the storage and collection of lost property. We will do everything that we reasonably can to return lost property. Perishables such as foodstuffs will be kept up to 48 hours from its finding and other lost property will be kept for one month. The location of lost property collection points are shown in the Contact Details section.

### **4.2 Doing things better**

Although Tyne and Wear has one of the best bus networks in the country, we strive to do things better, to improve our performance and to give passengers the best possible journey experience. If we get it wrong, we want you to tell us.

Should a problem occur during your journey that requires immediate attention, please let the driver know at the earliest opportunity. This gives us a chance to put things right straight away.

If the driver isn't able to help you, or you wish to contact the operator first, please contact the customer services team of the bus operator concerned. Contact details are displayed in buses, are available from drivers and are shown in the Contact Details section of this Charter.

Operators will reply to complaints within 10 Working Days.

If you are not satisfied with the operators' response, you may contact Bus Users UK, the bus appeals body.

Complaints about services are monitored and reviewed by the Quality Bus Partnership Boards.

#### **4.3 Refunds**

If your bus has been delayed for more than 30 minutes due to matters within our control, we will consider a refund in the form of a voucher providing one days' free travel, subject to you being able to provide your ticket and details of the delay to substantiate your claim. This will not apply if the delay or failure to operate was caused by circumstances beyond our control, such as, but not limited to, roadworks, road closures, traffic delays, extreme weather or civil emergencies.

If events within the control of the operator mean that no buses are provided from a scheduled departure point within 60 minutes of the scheduled time, then operators will refund the cost of a taxi to any point on the route on presentation of a receipt and substantiation of your claim.

Some types of ticket may be offered at a discount in recognition of service reductions at Christmas but it is not possible to provide refunds for general or specific reductions in services during the Christmas period, on other bank holidays or due to major external events.

Requests for refunds should be addressed to the customer services team of the bus operator concerned. Bus drivers are unable to offer refunds.

#### **4.4 Meet your local manager**

From time to time, we organise 'meet the manager' sessions attended by representatives from the bus operators and Nexus. These will be publicised in advance so that passengers and potential passengers can provide feedback on how we're doing and bring along new ideas for consideration.

#### **4.5 Contact Details**

Operators  
Bus Partnership Boards  
Nexus, CA  
Travel Planning: Traveline, Transport Direct, Nexus.  
Highways  
Travelcentres  
Lost property collection points  
ENCTS enquiry points  
BUS USERS UK  
PASSENGER FOCUS

## SCHEDULE 5

## SERVICE REQUIREMENTS AND KPI

	(a) Service Requirement	(b) Key Performance Indicator ("KPI")	(c) Payment Threshold	(d) Calculation of Contribution to Service Improvement Account
1.	<b>Bus Reliability</b>	An Operator shall operate at least 99.5% of the aggregate scheduled mileage for its Routes as determined in a Quarter within each District.  To be measured and reported by the relevant Operator.	99.0%	Operator shall deposit £1000 into its Service Improvement Account per District per Quarter if the Operator does not satisfy the KPI and is below the Payment Threshold but is above 97%.  Operator shall deposit £2000 into its Service Improvement Account per District per Quarter if the Operator does not satisfy the KPI and is below 97%.  Lost Route mileage that can be demonstrated by the Operator to have arisen directly as a result of roadworks, untypical traffic congestion or extreme weather conditions will be excluded from the performance calculation.
2.	<b>Bus Punctuality</b>	An Operator shall operate at least 95.0% of its registered Services 'on time' within a Quarter.  To be measured and reported by the relevant Operator by registered service number.  'On time' is defined as no more than one minute early or no more than five minutes late at three or more timing points on the route.	92.0%	Operator shall deposit £250 into its Service Improvement Account per Quarter for each Service that does not satisfy the KPI and is below the Payment Threshold but is above 87%.  Operator shall deposit £500 into its Service Improvement Account per Quarter for each Service that does not satisfy the KPI and is below 87%.  Delays that can be demonstrated by the Operator to have arisen directly as a result of roadworks, untypical traffic congestion or extreme weather conditions will be excluded from the performance calculation.
3.	<b>Vehicle Standards</b>	100.0% of an Operator's Services in Tyne and Wear are operated using a vehicle with Euro III emission standards or better.  To be measured and reported by Operator on basis of its quarterly fleet lists (which lists shall be included in the Operator's reports).	97.5%	Operator shall deposit £500 into its Service Improvement Account per Quarter for each vehicle that does not satisfy the KPI and is below the Payment Threshold.
4.	<b>Vehicle Condition and Cleanliness</b>	90.0% of an Operator's buses used in operating the Services will have their interiors cleaned daily.  To be measured and reported by the relevant Operator.	85.0%	Operator shall deposit £500 into its Service Improvement Account per Quarter for any a bus identified as not having had its interior cleaned on a day and which is below the Payment Threshold.
5.	<b>Vehicle Service Information Displays</b>	100.0% of an Operator's buses in operation display the correct route number and destination information to the front, nearside and rear of the vehicle.  To be measured and reported by the relevant Operator.	98.0%	Operator shall deposit £50 into its Service Improvement Account per vehicle that does not satisfy the KPI and is below the Payment Threshold but above 96%.  Operator shall deposit £100 into its Service Improvement Account per Quarter per vehicle that does not satisfy the KPI and is below 96%.

	(a) Service Requirement	(b) Key Performance Indicator ("KPI")	(c) Payment Threshold	(d) Calculation of Contribution to Service Improvement Account
6.	<b>Clean Bus Stations</b>	All bus stations operated by a Party must be cleaned and maintained in a good condition at all times. To be measured and reported by Nexus.	100.0%	A Party shall deposit £1000 into its Service Improvement Account per bus station per Quarter that does not satisfy the KPI.
7.	<b>Accessible Bus Stops</b>	Each Local Authority must undertake works in its District such that no fewer than 5 additional bus stops per annum become capable of accommodating a low floor vehicles. This KPI will apply until 95% of the stops in the Local Authority's District are capable of accommodating a low floor vehicle. To be measured and reported by Nexus.	5 additional bus stops per annum become capable of accommodating a low floor vehicle.	Local Authority shall deposit £250 into its Service Improvement Account per bus stop per annum where it does not satisfy the KPI and is consequently below the Payment Threshold.
8.	<b>Clean Bus Stops</b>	Nexus shall procure that 100.0% of bus stops are cleaned at least once every 4 weeks. To be measured and reported by Nexus.	97.5%	Nexus shall deposit £30 into its Service Improvement Account per bus stop that does not satisfy the KPI and is below the Payment Threshold.
9.	<b>Maintained Bus Stops</b>	100.0% of bus stops shall be maintained in a good condition by the Local Authority, with damage made safe within 24 hours and repaired within five (5) Working Days. To be reported by Nexus and/or the Operators.	97.5%	Local Authority shall deposit £30 into its Service Improvement Account per bus stop that does not satisfy the KPI and is below the Payment Threshold
10.	<b>Bus Stop Liners</b>	Nexus shall procure up to date timetable information will be provided at 99% of all bus stops in Tyne & Wear. To be measured and reported by Nexus and/or the Operators.	97% of bus stops	Nexus shall deposit £10 into its Service Improvement Account per bus stop that does not display up to date timetable information for a period of more than 24 hours within a single week and is below the Payment Threshold but above 94%. Nexus shall deposit £20 into its Service Improvement Account per bus stop that does not display up to date timetable information for a period of more than 24 hours within a single week and is below 94%.
11.	<b>Bus Stop Liners</b>	Where a Service is changed, Nexus will update each timetable within two weeks before, and one week after, the enactment of a Service Change Date. To be measured and reported by Nexus and/or the Operators.	95% of bus stops affected by the Service Change	Nexus shall deposit £20 into its Service Improvement Account per bus stop that is not updated in accordance with the KPI and is below the Payment Threshold but above 90%. If performance is 90% or lower, this deposit shall double. Nexus shall deposit £40 into its Service Improvement Account per bus stop that is not updated in accordance with the KPI and is below 90%.

	(a) Service Requirement	(b) Key Performance Indicator ("KPI")	(c) Payment Threshold	(d) Calculation of Contribution to Service Improvement Account
12.	<b>Bus Stop Plates</b>	<p>Nexus shall procure that a bus stop flag will be provided at 100% of all bus stops in the Districts.</p> <p>To be measured and reported by Nexus and/or the Operators.</p>	99% of bus stops	<p>Nexus shall deposit £10 into its Service Improvement Account per bus stop not displaying a flag for a period of more than 24 hours within a week, and is below the Payment Threshold but above 97%.</p> <p>Nexus shall deposit £20 into its Service Improvement Account per bus stop not displaying a flag for a period of more than 24 hours within a week and is below 97%.</p>

DRAFT

## SCHEDULE 6

### DATA SHARING AGREEMENT

#### 1. DEFINITIONS

- 1.1 In this Data Sharing Agreement ("**DSA**") unless the context otherwise requires, the following words shall have the following meanings:

**"Agreement"** means the Voluntary Multilateral Partnership Agreement between the Parties;

**"Nexus Confidential Information"** means any of the trade secrets or confidential knowledge or information or any financial or trading information relating to Nexus (including Nexus Data) which the Operator may receive or obtain as a result of entering into the Agreement or from its participation in the Agreement;

**"Nexus Data"** means Data listed as Nexus Data in Annex B;

**"Nexus Permitted Use"** means the uses listed in Annex A for which Nexus is permitted to use the Operator Data;

**"Operator Confidential Information"** means any information provided by the Operator to Nexus which, given its content or the manner of its disclosure can be reasonably assumed to be confidential including, but not limited to, Route data, trade secrets or confidential knowledge or information or any financial costs or revenue or trading information relating to the Operator (including the Operator Data) which:

- (A) is supplied by the Operator either directly or indirectly to Nexus; or
- (B) Nexus may otherwise receive as a result of:
  - (1) entering into this Agreement; or
  - (2) Nexus's or the Operator's participation in and/or operation of the Agreement;

**"Operator Data"** means the data listed as Operator Data in Annex A; and

**"Operator's Permitted Use"** means the uses listed in Annex B for which the Operator is permitted to use Nexus Data.

- 1.2 Save to the extent set out in paragraph 1.1 above, in this DSA capitalised terms shall have the meanings given to such terms in the Agreement.
- 1.3 The interpretation provisions set out in clause 1.2 of the Agreement shall apply to this DSA as if references to "this Agreement" in those provisions were references to this DSA.

#### 2. OBLIGATIONS AND DATA USAGE

- 2.1 The rights and obligations in this DSA are intended to benefit and burden each individual Operator (acting in its own capacity and for and behalf of itself only) and Nexus, and references to the "Operator" in this DSA shall be construed as meaning the Operator who has disclosed or received the Operator Data / Nexus Data in question (as appropriate). No other Parties shall have any rights or obligations under this Schedule and, for the avoidance of doubt no Operator shall have any rights in respect of another Operator's Operator Data.
- 2.2 Nexus acknowledges that the legal and beneficial ownership of all Intellectual Property Rights in the Operator Data and any images, data or other items or information received from the Operator as part of the Agreement belongs to and remains with the Operator, and hereby assigns to the Operator all future rights it may have in the derivative works created

- from Operator Data obtained as part of the Agreement and Intellectual Property Rights in any derivative works (including any rights in or associated with associated databases).
- 2.3 The Operator acknowledges that all Intellectual Property Rights in Nexus Data shall belong to Nexus.
- 2.4 Each of Nexus and the Operator hereby grants to the other a non-exclusive world-wide royalty-free licence to use (and permit the use) of its Data strictly by the other Party solely for the other Party's Permitted Use for the duration of the Operator's participation in the Agreement.
- 2.5 Each Party acknowledges and agrees that it will not use the other Party's Data for any purpose other than its Permitted Use ("**Prohibited Use**") without the prior written consent of the other Party. If either Party wishes to make a Prohibited Use, it shall notify the other Party (including full details of the use to be made, and the third parties to whom it may be disclosed) and the other Party may at its sole discretion:
- 2.5.1 grant its consent without conditions;
- 2.5.2 grant its consent with such conditions as it requires e.g. (but without limitation) requiring:
- (A) that the outputs from such Prohibited Use not be disclosed to any third party without further consent from the other Party;
- (B) that third parties to whom data is disclosed enter into confidentiality arrangements with the other Party;
- (C) destruction of data created after the Prohibited Use; and
- (D) a full indemnity in respect of loss or damage flowing from the Prohibited Use; and/or
- 2.5.3 withhold its consent,
- in respect of all or any part of the request.
- 2.6 For the avoidance of doubt:
- 2.6.1 Nexus acknowledges and agrees that it will not use the Operator Data:
- (A) for the purposes of monitoring and/or reporting to any third party on the Operator's service performance in respect of reliability and timekeeping for all services, other than as may be agreed within the terms of the Agreement;
- (B) for the purpose of monitoring any ticketing scheme introduced with Operator, other than as may be agreed within the terms of the Agreement;
- (C) for any purpose relating to the potential introduction of a Quality Contracts Scheme under Section 124 of the Transport Act 2000.
- 2.6.2 The Parties hereto acknowledge and agree that in order to progress with the Agreement Nexus will need to aggregate specified data provided by the Operator with the equivalent data provided by the other Operator(s) who are signatories to the Agreement and will need to present those aggregated data back to the Operator and such other Operators. This sharing of aggregated data will only be undertaken where essential to the Agreement and in line with the Information Protocol. Where such sharing takes place in this prescribed manner this shall form part of Nexus's Permitted Use.
- 2.6.3 Nexus will expressly make clear in writing if any request by it under paragraph 2.5 may lead to use of the Operator Data (or any other data provided by the Operator) for the purposes set out in sub-clause 2.6.1(A) and/or 2.6.1(B) above.

Any approval given by the Operator under paragraph 2.5 shall not be deemed to approve such use unless:

- (A) that use has been drawn to the Operator's attention by Nexus; and
- (B) the Operator expressly sets out in writing that the approval given includes approval for the relevant data to be used for the purposes set out in sub-clause 2.6.1(A) and/or 2.6.1(B) above (as relevant).

- 2.6.4 Should a Traffic Commissioner, the police or the Vehicle and Operator Services Agency (VOSA) request that Nexus provides it with data, Nexus will, without exception, refer that request to the Operator and will not release any data to any Traffic Commissioner, police or VOSA themselves.
- 2.6.5 Where a Traffic Commissioner, police force or VOSA requests generic aggregated information such as congestion maps Nexus shall not release or provide such information without the prior written consent of the Operator whose data is included or incorporated in such generic aggregate information.
- 2.7 Nexus shall not, save as provided in paragraphs 2.4, 2.5, 2.6, 2.9 and/or 2.10:
  - 2.7.1 divulge or communicate to its employees, except for purposes agreed between the Parties; or
  - 2.7.2 divulge or communicate to any other person; or
  - 2.7.3 use or exploit for any purpose whatsoever, any Confidential Information provided to it by the Operator.
- 2.8 The Operator shall not, save as provided in paragraphs 2.4, 2.5, 2.6, 2.9 and/or 2.10:
  - 2.8.1 divulge or communicate to any person; or
  - 2.8.2 use or exploit for any purpose whatsoever, other than for the Operators Permitted Use and the performance of its obligations hereunder and in the Agreement, any of the Confidential Information provided to it by Nexus.
- 2.9 These restrictions and prohibitions on use, exploitation, communication and disclosure set out in paragraphs 2.1 to 2.8 above shall continue to apply after the expiration or termination of the Agreement and this DSA without limit in point of time, but shall cease to apply to any data, information or knowledge to the extent that it may properly come into the public domain through no fault of the person receiving the same or which the receiving party could demonstrate was known prior to its receipt of such information.
- 2.10 Notwithstanding any other provision of this paragraph 2, a Party receiving data to which this Agreement applies may disclose the same to the extent required by law or regulation provided that, (where practical and lawful to do so) before disclosure occurs it gives prompt written notice of the proposed disclosure to the Party who disclosed it in order to afford to that Party an opportunity to prevent disclosure through appropriate legal means.
- 2.11 The Operator and Nexus shall each ensure that its employees and any other parties to whom the data is disclosed to are aware of and comply with the provisions of this paragraph 2.
- 2.12 All obligations and rights in this DSA are subject to the Information Protocol.

### **3. REMEDY**

Nexus acknowledges and agrees that damages may not be an adequate remedy for any breach or threatened breach of the obligations set out in this Schedule and that a breach by Nexus of the same (e.g. if any of the Operator Data were to be disclosed to one of its competitors) is likely to result in immediate and irreparable harm. Nexus therefore agrees that in addition to any other remedies that may be available by law or otherwise, the

**Subject to Contract**

**Draft for discussion: 21<sup>st</sup> May 2014**

**Strictly Private and Confidential**

Operator may be entitled to obtain injunctive relief against any breach or threatened breach of this Agreement by Nexus.

DRAFT

## ANNEX A

## OPERATOR DATA AND NEXUS' PERMITTED USE OF OPERATOR DATA

Operator Data	Permitted Use by Nexus
Service timetable to bus stop level detail	<ul style="list-style-type: none"> <li>• Composition of timetables including stop specific</li> <li>• Provide bus priority at signal controlled junctions/crossings</li> <li>• Measure punctuality of service delivery</li> </ul>
Vehicle Position Data	<ul style="list-style-type: none"> <li>• Measure punctuality of service delivery</li> <li>• Monitor new network when introduced</li> <li>• Monitoring performance of partnership</li> <li>• Measure reliability and whether problem is depot turnout or operational</li> <li>• Provide bus priority at signal-controlled junctions/crossings</li> </ul>
Bus Punctuality and Reliability Data	<ul style="list-style-type: none"> <li>• Identifying locations and causes of bus delays in furtherance of a Punctuality Improvement Partnership</li> <li>• Measure overall punctuality of service delivery</li> <li>• Provide bus priority at signal controlled junctions/crossings</li> </ul>
Real time Data	<ul style="list-style-type: none"> <li>• Reporting on current performance or new network</li> <li>• Monitoring performance in partnership agreements</li> </ul>
Electronic ticket machine Data (including location Data)	<ul style="list-style-type: none"> <li>• Evaluation of patronage</li> <li>• Monitoring performance of partnerships</li> </ul>
Operational/performance Data	<ul style="list-style-type: none"> <li>• Monitoring performance of partnerships from customer perspective</li> </ul>
Prescribed financial data - Summary, or as jointly agreed, income by service to measure the success of the network	<ul style="list-style-type: none"> <li>• Monitoring performance of partnerships/effect of new network</li> </ul>
Complaints and correspondence data	<ul style="list-style-type: none"> <li>• Monitoring performance of partnerships</li> </ul>
Market Research	<ul style="list-style-type: none"> <li>• Monitoring performance of partnerships</li> </ul>

**ANNEX B**

**NEXUS DATA AND THE OPERATOR'S PERMITTED USE OF NEXUS DATA**

Nexus Data	Permitted Use by the Operator
<b>Geocoded Bus Stop Data</b>	<ul style="list-style-type: none"> <li>• Preparation and publication of bus timetables, schedules and service designs</li> </ul>
<b>OS Oscar Map Data</b>  <b>Drive Reduction Information</b>	<ul style="list-style-type: none"> <li>• Preparation and publication of bus service marketing and promotional material</li> <li>• Delivery of service information to Traveline and other information services and to the travelling public including SMS and voice communications</li> <li>• Identification of traffic flow issues</li> </ul>
<b>Traffic Delay and Traffic Flow Data</b>  <b>Traffic Signal Programme Data</b> <b>Parking Violations and Enforcement Data</b> <b>Road Works Management Data</b>	<ul style="list-style-type: none"> <li>• Identifying locations and causes of bus delays in furtherance of a Bus Punctuality Improvement Programme</li> </ul>

SCHEDULE 7

THE VPA BUS STRATEGY AND CHANGE CRITERIA

	(a) VPA Bus Strategy	(b) Change Criteria	(c) Qualitative Criteria	(d) Quantitative Criteria
1.	A fully integrated, multi-modal public transport network	<ul style="list-style-type: none"> <li>Change proposal maintains or improves existing connections with bus interchanges, Metro stations and rail stations</li> </ul>	<ul style="list-style-type: none"> <li>Existing connections to bus interchanges, Metro stations and rail stations are retained</li> <li>Existing frequencies are maintained to these connections</li> </ul>	<ul style="list-style-type: none"> <li>Change in number of buses stopping in vicinity of Metro stations and rail stations</li> </ul>
2.	Unified and consistent customer offer and guaranteed standards of service	<ul style="list-style-type: none"> <li>Change proposal maintains and improves levels of punctuality and reliability</li> <li>After Change proposal, service complies with requirements of Customer Charter</li> </ul>	<ul style="list-style-type: none"> <li>Change does not propose end to end running times increasing, unless specifically justified within the Change proposal</li> <li>No implications for delivery of Customer Charter commitments</li> </ul>	<ul style="list-style-type: none"> <li>Change proposal does not propose end to end running times increasing by &gt;5%, unless specifically justified within the Change proposal</li> </ul>
3.	Enhanced consultation on network changes	<ul style="list-style-type: none"> <li>Ensure proportionate consultation is undertaken for each Change proposal, and the responses to that consultation are reasonably taken into account</li> </ul>	<ul style="list-style-type: none"> <li>Operators and Nexus agree the scope of proportionate consultation that can be reasonably undertaken</li> </ul>	<ul style="list-style-type: none"> <li>Number of reasonable alterations incorporated into final proposal considered by Tyne and Wear Bus Partnership Board and relevant District Bus Partnership Board(s)</li> </ul>
4.	All infrastructure is accessible and of a high standard	<ul style="list-style-type: none"> <li>Accessibility not compromised for people in wheelchairs, people with buggies, people with sight difficulties and people with disabilities</li> <li>Change proposal leads to improved quality of infrastructure for passengers</li> </ul>	<ul style="list-style-type: none"> <li>No removal of raised kerbs, low floor vehicles or wheelchair/buggy space is proposed</li> </ul>	<ul style="list-style-type: none"> <li>Number of stops and/or vehicles improved that will enhance accessibility</li> </ul>
5.	Adopt accessibility standards and targets	<ul style="list-style-type: none"> <li>Change proposal leads to enhanced accessibility, or as a minimum does not adversely impact on</li> </ul>	<ul style="list-style-type: none"> <li>The ability to access key destinations (shops, GP, hospital, jobs, education) on</li> </ul>	<ul style="list-style-type: none"> <li>For significant network changes, models are run to forecast the change in accessibility</li> </ul>

	(a) VPA Bus Strategy	(b) Change Criteria	(c) Qualitative Criteria	(d) Quantitative Criteria
		existing accessibility	Service(s) affected by the Change proposal is maintained	arising from the Change proposal
6.	Common logo and accessible, high quality buses	<ul style="list-style-type: none"> <li>Change proposal does not alter or prevent the use of low floor accessible vehicles</li> <li>Vehicle fleets are updated and maintained to a high standard</li> <li>The display of the Partnership logo on vehicles is not affected by the Change proposal</li> </ul>	<ul style="list-style-type: none"> <li>Accessible vehicles are maintained in the Change proposal</li> <li>New or newer vehicles are provided as part of the Change proposal</li> </ul>	<ul style="list-style-type: none"> <li>The average age of the VPA Fleet is reduced/ maintained by the Change proposal</li> <li>The use of the Partnership logo on all VPA vehicles is maintained</li> </ul>
7.	Affordability for the customer and taxpayer	<ul style="list-style-type: none"> <li>Change proposals involving fare changes are fully justified based on evidenced increases in net costs</li> <li>Change proposals involving Secured Services provide good value for money</li> </ul>	<ul style="list-style-type: none"> <li>Evidence for fare increases is offered</li> <li>Change proposals involving Secured Services provide enhanced accessibility at no additional cost, or no significant detriment to accessibility at reduced cost</li> </ul>	<ul style="list-style-type: none"> <li>Fares are increased no more than once per year</li> <li>Subsidies on Secured Services will not exceed an agreed cost per passenger carried per contract</li> </ul>
8.	8. Simplified Fares and Ticketing	<ul style="list-style-type: none"> <li>Changes Proposals affecting passenger fares should seek to avoid adding complexity to fares, and should seek to simplify fares where commercially viable</li> <li>New technologies should be introduced when viable and where there is customer demand</li> </ul>	<ul style="list-style-type: none"> <li>New technologies are implemented as part of any Change proposals affecting ticketing</li> </ul>	<ul style="list-style-type: none"> <li>None</li> </ul>
9.	Improved Environmental Standards	<ul style="list-style-type: none"> <li>Change proposal includes introduction of modern low emission buses</li> <li>Change proposal has the ability to maintain or enhance modal share for the public transport network</li> </ul>	<ul style="list-style-type: none"> <li>Change proposal leads to no change to, or enhancement to, number of buses that achieve at least Euro IV emission standards</li> <li>Change proposal is unlikely to reduce accessibility by public transport</li> </ul>	<ul style="list-style-type: none"> <li>For significant network changes, models are run to forecast the change in accessibility arising from the Change proposal</li> </ul>

SCHEDULE 8

SCHEDULED MEETINGS

Meeting Name	Parties required to attend	Frequency of Meeting	Level of Attendee required	Outline of subject Matter
Quarterly Meeting	Each Operator	Once a Quarter in each Contract Year	Director level or Operator and Nexus, Chair for Tyne and Wear Bus Partnership Board or District Bus Partnership Board	Review of progress made under the Agreement

DRAFT

## **SCHEDULE 9**

### **INFORMATION PROTOCOL**

This Schedule sets out the principles regarding the flows of non-public information between Operators in the course of the development and operation of this Agreement.

It is inherent in the operation of this Agreement that it may from time to time be necessary for the representatives of each of the Operators to receive competitively sensitive information about competing Operators.

Disclosure of competitively sensitive information is most likely to arise in the context of the Tyne & Wear Bus Partnership Board, the District Bus Partnership Boards, the Disputes Board and ad hoc working groups. However, the issue of information sharing should be taken into account in any communications between the Operators under this Agreement or otherwise. The representatives of the Operators on the Boards referred to in this Agreement and at any other meetings or discussions between Operators are referred to in this protocol as the "**Representatives**".

#### **The Golden Rule**

Competitively sensitive information should never be shared between Operators under this Agreement or otherwise, unless, **each and every time**:

- Sharing the information is indispensable to make the Agreement work:
  - This means that the sharing of the information should be clearly linked and necessary to achieving the Bus Improvement Objectives.
  - The "indispensability" test is only met if there is no significantly less anti-competitive way to achieve the goals of this Agreement.
  - This means that the Parties should be able to demonstrate that they have considered whether an alternative was available.

#### **AND**

- The Information Protocol below is followed.

Please note, no information whatsoever should be shared which relates to individual Operators' future pricing intentions – unless it is already in the public domain. Sharing this sort of pricing information may amount to a "price fixing agreement" – meaning that the normal competition rules, including the Competition and Markets Authority's powers to impose significant fines, would apply.

#### **What is competitively sensitive information?**

Competitively sensitive information is non-public information, of a type which would not normally be disclosed to an independent competitor because it could potentially influence their competitive behaviour and/or lead to coordination of competitive behaviour.

This includes, for example, information on:

- Pricing (see above – individual future fares which are not yet public should never be discussed);
- Demand;

- Business strategies, such as new routes, changes to services, capacity expansion or reduction, improvements to fleets, cost-cutting or costs generally;
- Suppliers; and
- Marketing strategies.

**What is not competitively sensitive information?**

Information which is genuinely public, in the sense both of being available and of being reasonably easy to obtain (including by customers), is generally not competitively sensitive. Nor is information which is:

- Aggregated to the extent that "reverse-engineering" of individual operator data would not be possible; and/or
- High level.

**INFORMATION PROTOCOL**

**Before meetings/discussions**

1. Each Operator shall use its best endeavours to ensure that meetings and discussions related to this Agreement where more than one Operator is present, or more than one Operator's competitively sensitive information may be discussed, are only attended by representatives appointed to the Boards or representatives nominated in accordance with Clause 13 (each a "**Representative**").
2. Each Operator will provide its Representative with a copy of this Information Protocol, and will use its best endeavours to ensure the Representative's compliance with its terms.
3. Each meeting/discussion will have an agenda agreed and circulated in advance.

**During meetings/discussions**

4. Each Representative will comply with the Golden Rule when sharing, receiving and/or using competitively sensitive information.
5. Discussion and meetings will be confined to the agenda.
6. Records of all meetings/discussions will be kept, and minutes of the meetings will be produced and agreed shortly after the meeting (within seven (7) days).
7. If at any meeting/discussion any Representative considers that the discussion is (or may be, or may or will become) in breach of the Golden Rule, then that Representative will make his/her objections known and then leave the meeting/discussion. A record of any such objection will be kept.

**After meetings/discussions**

8. Each Representative will use any competitively sensitive information only for the purpose for which it was received, namely the proper functioning of this Agreement and the business of any Board.
9. Each Representative will keep the competitively sensitive information of another Operator received in the Representative's capacity as such secure and separate, so that it is not accessible to anyone else in the Representative's own organisation.
  - a. Each Representative will keep any competitively sensitive information which is in electronic form in a secure IT workspace which is not accessible to unauthorised persons, including any Operator personnel; and

- b. Physical documents containing any competitively sensitive information will be kept separate in an appropriate secure place.

**At all times**

10. Each Party will use all reasonable endeavours to ensure that any of its directors, officers and employees who are involved in the administration of this Agreement understand the Golden Rule.
11. Competitively sensitive information should not be discussed in public areas (e.g. not in the staff canteen, lobby, lifts or any other public area where you are likely to be overheard).
12. Take care in drafting emails, presentations or any other documents; think about how the document would look if it was disclosed in a regulatory investigation.
13. Seek legal advice if you are uncertain or have any legal concerns.

DRAFT

**SCHEDULE 10**  
**BOARD CONSTITUTIONS**

DRAFT

**Part A**

Tyne and Wear Bus Partnership Board Constitution

***[Note: A fully drafted constitution for the Tyne and Wear Bus Partnership Board, based on the principles set out below, will be agreed prior to signing and attached to this Agreement.]***

- The Board will meet quarterly to discuss and make decisions and recommendations as appropriate on TWBPB Decision Change Proposals and TWBPB Discussion Change Proposals.
- The Board will consider and make decisions for all TWBPB Decision Change Proposals. The Board will also be the forum for considering TWBPB Discussion Change Proposals.
- The Board will review annual reports from Operators on proposed fare changes.
- The purpose of the Board will be to deliver the objectives of the VPA Bus Strategy, and the Change Criteria that derive from this strategy.
- Board members will act always in the interest of delivering the VPA Bus Strategy and the Change Criteria.
- The Board will review quarterly reports on progress against the.
- The Board will determine how the Service Improvement Fund will be spent on SIF Proposals, based on achieving the VPA Bus Strategy and addressing areas where KPIs are not being achieved.
- The Board will review reports from Nexus and Operators. A quarterly report from passenger representatives will be reviewed. Other advisors will be invited as proposed by any Board member and agreed by the Board.
- Membership and voting arrangements will be as per Clause 3.

**Part B**

District Bus Partnership Board Constitution

***[Note: A fully drafted constitution for each District Bus Partnership Board, based on the principles set out below, will be agreed prior to signing and attached to this Agreement.]***

- The Board will meet quarterly to discuss and make recommendations on District Discussion Change Proposals that are relevant to the District. District Discussion Change Proposals recommended for approval will be referred to the Tyne and Wear Bus Partnership Board.
- The Board will discuss and make recommendations to the local Highway Authority regarding highway improvements that will assist in achieving the VPA Bus Strategy.
- The Board will discuss and make recommendations to the local planning authority regarding significant planning applications that impact upon bus routes, bus services and bus ridership.
- The purpose of the Board will be to make recommendations that deliver the objectives of the VPA Bus Strategy, and the Change Criteria that derive from this strategy.
- Board members will act always in the interest of delivering the VPA Bus Strategy and the Change Criteria.
- The Board will review quarterly reports on progress against the KPIs
- The Board will make recommendations about how the Service Improvement Fund could be spent on SIF Proposals in their District, based on achieving the VPA Bus Strategy and addressing areas where KPIs are not being achieved.
- The Board will review reports from Nexus and Operators. A quarterly report from passenger representatives will be reviewed. Other advisors will be invited as proposed by any Board member and agreed by the Board.
- Each Board meeting will be open to the public, publicised widely and will have at least 20 minutes dedicated to questions from members of the public. Questions from the floor will be submitted via the Chairman in advance of the meeting commencing.
- Membership and voting arrangements will be as per Clause 3.

## Appendix B: The Quality Contracts Scheme

**DRAFT**

**TRANSPORT ACT 2000**

**The Tyne and Wear Quality Contracts Scheme for Buses [date]**

*Made*

*[date]*

ARRANGEMENT OF THE SCHEME

ARTICLE

1. CITATION AND COMMENCEMENT
2. INTERPRETATION
3. THE QCS AREA
4. DESIGNATION OF SERVICES WITHIN THE QCS AREA
5. EXCLUSIONS FROM THE QCS
6. CLEARANCE CERTIFICATES
7. PROCUREMENT OF QUALITY CONTRACTS
8. DURATION AND TRANSITION
9. TICKETING AND ZONES
10. ALLOCATION ARRANGEMENTS
11. CONCESSIONARY TRAVEL
12. NET PROCEEDS DERIVED FROM THE QCS
13. GOVERNANCE OF THE QCS
14. TIME

ANNEXES

ANNEX 1: SERVICES INCLUDED

ANNEX 2: TICKETING

ANNEX 3: FARE ZONES

ANNEX 4: QUALITY CONTRACT STANDARDS

ANNEX 5: ALLOCATION ARRANGEMENTS

ANNEX 6: EXCLUDED AND EXEMPTED SERVICES

ANNEX 7: GOVERNANCE ARRANGEMENTS

ANNEX 8: TENDER FEATURES

**WHEREAS:**

- A The Transport Act 2000 (as amended) ("**2000 Act**") makes provision for a local transport authority to make a quality contracts scheme covering the whole or part of its area.
- B Pursuant to the provisions of the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014 (the "**Order**"), the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority (the "**NECA**") is the successor transport authority to the Tyne and Wear Integrated Transport Authority ("**ITA**") and has by operation of the Order had transferred to it the powers and responsibilities of the ITA and has assumed responsibility for the making of this Scheme;
- C The NECA is satisfied that the requirements of:
- (i) Section 125 of the 2000 Act relating to notice of and consultation on the Scheme have been satisfied;
  - (ii) [section 126A of the 2000 Act relating to approval of the Scheme by a QCS board have been satisfied and due account of the QCS board's findings has been taken by the NECA] *[Note: To be revised and amended as appropriate following conclusion of the QCS board procedure.];* and
  - (iii) section 124(1) of the 2000 Act will be met by the making of this Scheme in respect of the Tyne and Wear Area which forms part of the area of the NECA.
- D Sections 127(2) and (3) of the Act make provision for certain matters that the Scheme must specify and certain matters that the Scheme must outline, and section 127(4) and (6) of the 2000 Act make provision for certain matters that the Scheme may provide.
- E Section 127(5) of the 2000 Act makes provision for the Scheme to contain such ancillary provisions as the NECA thinks fit.
- F Section 102B of the Local Transport Act 2008 ("**2008 Act**") makes provision for the NECA to do anything it considers appropriate for the purpose of carrying out any of its functions or for purposes incidental (directly or indirectly) to its functions.
- G Section 102B(5) of the 2008 Act makes provision for the NECA to delegate to Nexus its function of taking action under section 102B(1) of the 2008 Act (but not the function of determining what action to take).
- H Pursuant to section 102B(5) of the 2008 Act the NECA has determined that Nexus should carry out certain actions pursuant to the terms of the Scheme.
- I Pursuant to section 162(4) of the 2000 Act, references to the NECA in sections 124(4)(a), (5) and (7), section 127(3A), section 127A(7), section 129(4), section 130 and section 131 of the 2000 Act are to be construed as references to Nexus.

Now, therefore, the NECA, in exercise of the powers conferred on it by sections 124 to 134B of the 2000 Act, and of all other powers enabling it in that behalf, hereby makes the following Scheme:

## 1. Citation and commencement

- 1.1 This Scheme may be cited as the Tyne and Wear Quality Contracts Scheme for Buses [date] and is made on ◆

## 2. Interpretation

### 2.1 In this Scheme:

- 2.1.1 "16-18 Scheme" means the travel scheme provided by the NECA which offers discounts on adult season ticket prices for travel on; (i) the Metro, (ii) the Shields Ferry or (iii) the Sunderland Newcastle local rail service or (iv) the Quaylink bus;
- 2.1.2 "1985 Act" means the Transport Act 1985;
- 2.1.3 "2000 Act" means the Transport Act 2000 (as amended);
- 2.1.4 "2008 Act" means the Local Transport Act 2008;
- 2.1.5 "2000 Act Concessionary Travel Reimbursement Scheme" means the concessionary travel reimbursement scheme made (from time to time) by Nexus pursuant to the Transport Act 2000 in respect of the Tyne and Wear Area;
- 2.1.6 "4-weekly ticket" means a ticket which entitles the holder to make an unlimited number of valid journeys within a four week period, and may be either a single-mode ticket or a multi-mode ticket;
- 2.1.7 "Affected Local Services" has the meaning given in regulation 2 of the QCS TUPE Regulations;
- 2.1.8 "all-day ticket" means a ticket which entitles the holder to make an unlimited number of valid journeys on a day, until the end of operation of Local Services other than Night Local Services, and may be either a single-mode ticket or a multi-mode ticket;
- 2.1.9 "all modes add-on" means a supplement to a multi trip ticket which is a single-mode ticket, which entitles the holder to make valid journeys by all of the following modes of transport; (i) bus, (ii) the Metro, (iii) the Shields Ferry or (iv) the Sunderland Newcastle local rail service;
- 2.1.10 "Allocation Arrangements" means the allocation arrangements set out in Annex 5;
- 2.1.11 "Annual Development Cycle" means the process set out in Part 3 (Annual Development Cycle) of Annex 7;
- 2.1.12 "annual ticket" a ticket which entitles the holder to make an unlimited number of journeys within a twelve month period, and may be either a single-mode ticket or a multi-mode ticket;
- 2.1.13 "Appropriate Representatives" has the meaning given to it in regulation 13 (3) of TUPE;

- 2.1.14 "Category A Excluded Service" means a Local Service specified in Part 1 of Annex 6;
- 2.1.15 "Category B Excluded Service" means a Local Service specified in Part 2 of Annex 6;
- 2.1.16 "Certificate of Professional Competence" has the meaning given to it in regulation 2(1) of the Vehicle Drivers (Certificates of Professional Competence) Regulations 2007;
- 2.1.17 "Child Concessionary Travel Scheme" means a Discretionary Concessionary Travel Scheme in respect of concessionary travel by children under the age of 16 years;
- 2.1.18 "Clearance Certificate" has the meaning given to it in section 6B(8) of the 1985 Act;
- 2.1.19 "Coach Local Service" means a Local Service:
- 2.1.19.1 primarily designed for journeys in excess of 15 miles;
  - 2.1.19.2 which does not permit point-to-point travel within the QCS Area, even where they are registered as Local Services within the QCS Area, but which may have designated stops less than 15 miles apart within the QCS Area; and
  - 2.1.19.3 which uses vehicles which are not licensed to carry standing passengers;
- 2.1.20 "Commencement Date" has the meaning ascribed to it in Article 8.1;
- 2.1.21 "Community Transport Local Service" means a Local Service which has been granted a community bus permit in accordance with section 22 of the 1985 Act;
- 2.1.22 "Constituent Councils" means the councils for the local government areas of Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland;
- 2.1.23 "DBS certificate" means the certificate issued by the Disclosure and Barring Service following completion of a Disclosure and Barring Service check;
- 2.1.24 "Discretionary Concessionary Travel Scheme" means a concessionary travel scheme made by the NECA pursuant to its powers under the 1985 Act;
- 2.1.25 "Emergency Service Subsidy Agreement" has the meaning ascribed to it in regulation 4(3) of the Quality Contracts Schemes (Tendering Requirements) (England) Regulations 2009;
- 2.1.26 "ENCTS" means the English National Concessionary Travel Scheme which entitles eligible older and disabled people to free off peak travel on eligible local buses within England;
- 2.1.27 "ETM" means Electronic Ticket Machine;

- 2.1.28 "Euro III emissions standard" means the emission standard in respect of the gaseous and particulate pollutants and opacity of smoke from the engine of the vehicle, complying with the limit values set out in row A of the table in section 6.2.1 of Annex I to Directive 1999/96/EC;
- 2.1.29 "Euro V emissions standard" means the emission standard in respect of the gaseous and particulate pollutants and opacity of smoke from the engine of the vehicle, complying with the limit values set out in row B2 of the tables in section 6.2.1 of Annex I to Directive 2005/55/EC;
- 2.1.30 "Excluded Service" means a Category A Excluded Service or a Category B Excluded Service;
- 2.1.31 "Excursions and Tours Local Service" means a Local Service where passengers travel together on a journey, with or without breaks, from one or more places to one or more places and back, which operates once a week or more for at least 6 weeks in a row and shall include sightseeing services operated by open-top or heritage vehicles;
- 2.1.32 "External Cross Boundary Bus Collaboration Agreement" has the meaning given to it in paragraph 2.2 of Part 1 of Annex 7;
- 2.1.33 "Franchise Agreement" has the meaning given to it in section 23(3) Railways Act 1993;
- 2.1.34 "Gold Card Plus" means a product available to eligible ENCTS pass holders, which for an annual fee permits all-day travel on (i) Quality Contract Services, (ii) Category B Excluded Services, (iii) Local Services granted a Clearance Certificate, (iv) Metro Services, (v) Shields Ferry Services and (vi) Sunderland-Newcastle local rail services;
- 2.1.35 "Governance Arrangements" means those arrangements specified in Annex 7;
- 2.1.36 "Highways Agency" means the executive agency of the Department for Transport which is responsible for operating, maintaining and improving the strategic road network in England on behalf of the Secretary of State for Transport;
- 2.1.37 "Impacted Council" means any local authority that is not a Tyne and Wear Council whose area is served by QCS Services and that may be affected by the introduction of the Scheme;
- 2.1.38 "Local Bus Board" has the meaning given to it in Part 2 of the Governance Arrangements;
- 2.1.39 "Local Service" has the meaning given to it in section 2 of the 1985 Act;
- 2.1.40 "Metro" means the light rapid transit system operating in Tyne and Wear;
- 2.1.41 "multi-mode ticket" means a ticket which entitles the holder to make journeys by all of the following modes of transport; (i) bus, (ii) the Metro, (iii) the Shields Ferry or (iv) the Sunderland Newcastle local rail service;

- 2.1.42 "multi-trip ticket" means an all-day ticket, a weekly ticket, a 4-weekly ticket or an annual ticket;
- 2.1.43 "NECA" has the meaning given to it in Recital B;
- 2.1.44 "NECA Cross Boundary Bus Collaboration Protocol" has the meaning given to it in paragraph 2.1 of Part 1 of Annex 7;
- 2.1.45 "NELB" means the means the Leadership Board of the NECA;
- 2.1.46 "Nexus" means the executive body of the NECA for the purposes of Part 5 of the Local Transport Act 2008 and Part 6 of the Local Democracy, Economic Development and Construction Act 2009, known as the Tyne and Wear Passenger Transport Executive;
- 2.1.47 "Night Local Service" and "night bus" means a Local Service which operates only at night time (typically between the hours of 2330 and 0500 when other types of service are not operational), which commences service following cessation of operation of a Standard Local Service, and which shall operate with an N prefix to its allocated service number;
- 2.1.48 "Operator" means a person operating local services or quality contract services, and references to an Operator shall be construed in accordance with section 137(7) of the 1985 Act;
- 2.1.49 "Peak Vehicle Requirement" or "PVR" means in respect of a Quality Contract Service the total number of Public Service Vehicles required to operate such Quality Contract Service in accordance with the terms of the relevant Quality Contract;
- 2.1.50 "Public Interest Criteria" means the public interest criteria specified in section 124(1)(a) to (e) of the 2000 Act;
- 2.1.51 "Public Service Vehicle" has the meaning given to it in the Public Passenger Vehicles Act 1981;
- 2.1.52 "Prescribed Time" means the prescribed time as defined in regulation 10 of the QCS Registration Regulations;
- 2.1.53 "Quality Contract" means an agreement entered into between Nexus and an Operator pursuant to Article 7;
- 2.1.54 "Quality Contract Services" mean Local Services provided pursuant to a Quality Contract;
- 2.1.55 "QCS Area" means the Tyne and Wear Area on the date of this Scheme;
- 2.1.56 "QCS board" has the meaning given to it in section 126A of the 2000 Act;
- 2.1.57 "QCS TUPE Regulations" means the Quality Contracts Schemes (Application of TUPE) Regulations 2009;
- 2.1.58 "QCS Network" means the network of local services to be provided by Nexus in accordance with Article 4;

- 2.1.59 "QCS Registration Regulations" means the Public Service Vehicles (Registration of Local Services) (Quality Contracts Schemes) (England and Wales) Regulations 2009;
- 2.1.60 "Relevant Employee" has the meaning given in regulation 2 of the QCS TUPE Regulations;
- 2.1.61 "Relevant Information" has the meaning given in regulation 2 of the QCS TUPE Regulations;
- 2.1.62 "Relevant Operator" has the meaning given in regulation 2 of the QCS TUPE Regulations;
- 2.1.63 "Replacement Local Service" means a Local Service provided to replace other modes of public transport which have been temporarily suspended including Metro, national rail or Shields Ferry replacement services;
- 2.1.64 "Round 1 Quality Contracts" has the meaning given to it in paragraph 2.1 of Annex 8;
- 2.1.65 "Round 2 Quality Contracts" has the meaning given to it in paragraph 2.2 of Annex 8;
- 2.1.66 "Scheme" means this quality contracts scheme;
- 2.1.67 "Scholars Local Service" means a Local Service providing transport for pupils to and/or from schools within the QCS Area provided that a Scholars Local Service may also provide transport to the general public;
- 2.1.68 "Scholars and Works Quality Contract" shall mean a Quality Contract let in respect of Scholars Local Services and/or Works Local Services;
- 2.1.69 "season ticket" means a weekly ticket, 4-weekly ticket or annual ticket, or any other ticket which Nexus may specify with a validity longer than that of an all-day ticket;
- 2.1.70 "Shields Ferry" means the commuter ferry operating a daily passenger service across the River Tyne between North Shields and South Shields, operated by Nexus;
- 2.1.71 "single-mode ticket" means a ticket which entitles the holder to make valid journeys by one of the following modes of transport only: (i) bus, (ii) the Metro, (iii) the Shields Ferry or (iv) the Sunderland Newcastle local rail service;
- 2.1.72 "single-trip ticket" means a ticket which entitles the holder to make a single journey, and may be either a single-mode ticket or a multi-mode ticket;
- 2.1.73 "Smartcard" means an ITSO enabled plastic card that may or may not contain a photo, which has an embedded microchip to store product and customer information;

- 2.1.74 "Special Event Local Service" means a Local Service procured by Nexus specifically for the purpose of providing additional capacity to the Standard Local Service network for a one-off special event;
- 2.1.75 "Standard Local Service" means a registered Local Service which is available to the general public and has stopping places no further than 15 miles apart, and which is not a Coach Local Service, Community Transport Local Service, Excursions and Tours Local Service, Night Local Service, Replacement Local Service, Scholars Local Service, Special Event Local Service, Taxibus Local Service or a Works Local Service;
- 2.1.76 "Sunderland-Newcastle Local rail service" means any national rail services operated pursuant to franchise agreements or otherwise agreed to accept multi-mode tickets between Sunderland and Newcastle;
- 2.1.77 "Taxi Bus" means a licensed taxi used to operate a Local Service under a restricted PSV operator's licence pursuant to section 12(1)(b) of the 1985 Act, where licensed taxi shall have the meaning ascribed to it in section 13(3) of the 1985 Act;
- 2.1.78 "Taxibus Local Service" means a Local Service where a licensed taxi is used to operate a Local Service under a restricted PSV operator's licence pursuant to section 12(1)(b) of the 1985 Act, where licensed taxi shall have the meaning ascribed to it in section 13(3) of the 1985 Act;
- 2.1.79 "Taxi Bus Quality Contract" means a Quality Contract let in respect of Local Services to be provided by one or more taxi buses;
- 2.1.80 "Taxi Bus Service" means a Local Service which is provided by a Taxi Bus;
- 2.1.81 "TNEC" means the Transport North East Committee, a joint committee of the Constituent Councils and the NECA;
- 2.1.82 "Traffic Commissioner" has the meaning given to it in the Public Passenger Vehicles Act 1981;
- 2.1.83 "Transitional Period" has the meaning given to it in regulation 2(1) of the QCS Registration Regulations;
- 2.1.84 "TUPE" means the Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014);
- 2.1.85 "TWSC" means the Transport North East (Tyne and Wear) Sub-committee, a sub-committee of TNEC comprising representatives from the Tyne and Wear Councils only;
- 2.1.86 "Tyne and Wear Area" means the area consisting of the areas of the metropolitan district councils for Newcastle, Gateshead, North Tyneside, South Tyneside and Sunderland;
- 2.1.87 "Tyne and Wear Councils" means the councils for the metropolitan district areas of Gateshead, Newcastle Upon Tyne, North Tyneside, South Tyneside and Sunderland;

- 2.1.88 "Tyne and Wear Council Area" means each of the metropolitan district areas of Gateshead, Newcastle Upon Tyne, North Tyneside, South Tyneside and Sunderland;
- 2.1.89 "Tyne and Wear User Consultative Forum" means a public forum to be established by Nexus for the purposes of facilitating dialogue between Nexus, passenger representatives, local business, stakeholders and the general public in relation to the Scheme;
- 2.1.90 "valid journey" means a journey which is valid within the terms of the relevant ticket;
- 2.1.91 "weekly ticket" means a ticket which entitles the holder to make an unlimited number of valid journeys within a seven day period, and may be either a single-mode ticket or a multi-mode ticket; and
- 2.1.92 "Works Local Service" means a Local Service providing transport to or from work places or other places which are not served by a Standard Local Service, which require a Local Service only at specified times of the day, or on specific days, provided that a Works Local Service may also provide transport to the general public.

2.2 In this Scheme, except where the context otherwise requires:

- 2.2.1 reference to a statutory provision shall include a reference to:
  - 2.2.1.1 the statutory provision as modified or re-enacted or consolidated from time to time whether before or after the date of this Scheme;
  - 2.2.1.2 any subordinate legislation made under the statutory provision whether before or after the date of this Scheme;
- 2.2.2 reference to a "person" or "persons" includes bodies corporate, unincorporated associations and partnerships and that person's or those persons' legal personal representatives, successors and permitted assigns.

### **3. The QCS Area**

3.1 The QCS Area is hereby designated as the area to which the Scheme relates.<sup>1</sup>

### **4. Designation of Services within the QCS Area**

4.1 The Local Services to be provided under the Scheme shall include:

- 4.1.1 Night Local Services;
- 4.1.2 Scholars Local Services;
- 4.1.3 Standard Local Services;
- 4.1.4 Taxibus Local Services; and

---

<sup>1</sup> S 127(2)(a).

4.1.5 Works Local Services.

- 4.2 Where a Local Service is to be provided pursuant to a Quality Contract both inside and outside the QCS Area, any part of the service which is to be provided outside the QCS Area shall be treated as a separate service for the purposes of this Scheme if there is any stopping place for that part of the service outside of the QCS Area, and the Operator shall be required to operate such service as a Local Service.
- 4.3 Where a Quality Contract Service falls within Article 4.2, the provisions of Part 6 of the Governance Arrangements shall apply in respect of any variation to such Quality Contract Service.

**5. Exclusions from the QCS**

- 5.1 Category A Excluded Services shall be excluded from the Scheme in accordance with section 127(4) of the 2000 Act provided that where an Operator makes an application to vary or cancel the registration of such Category A Excluded Service in accordance with the Transport Act 1985, it shall provide Nexus with written notice on the date on which the traffic commissioner accepts such application together with details of the Category A Excluded Service to be varied or cancelled, which shall be no less than 56 days before such variation or cancellation shall become effective.
- 5.2 Category B Excluded Services shall be excluded from the Scheme in accordance with section 127(4) of the 2000 Act provided that such Local Services at all times meet the following conditions:
- 5.2.1 the services shall have been in operation as registered Local Services prior to the date of this Scheme;
  - 5.2.2 the Operator of such Local Service shall notify Nexus that the Operator intends to operate such Local Service following the Commencement Date no less than 112 days prior to the Commencement Date;
  - 5.2.3 the route, timetable and stopping locations of each such service continues to reflect the route, timetable and stopping locations of that service which have been registered by the Operator under the registration number listed in Schedule 1 of Part 2 of Annex 6 in respect of that service save that:
    - 5.2.3.1 a Local Service which has not varied from those specified in paragraph 1.1 of Part 2 of Annex 6 shall be deemed to comply with this Article 5.2.3;
    - 5.2.3.2 a Local Service shall be deemed to comply with this Article 5.2.3 where the NECA has determined that any variation to the route, timetable or stopping locations will not adversely affect services provided pursuant to the Scheme;
  - 5.2.4 the Public Service Vehicles used to provide the services shall have been issued with all certificates required pursuant to regulation 3(8) of the Public Service Vehicles Accessibility Regulations 2000, as if such vehicle had been manufactured on the later of:
    - 5.2.4.1 the Public Service Vehicle's date of manufacture; and

5.2.4.2 1st October 2004;

5.2.5 the Operator of such Local Service shall notify Nexus no less than 56 days prior to the cancellation of the service and/or variation to such Local Service which is not in accordance with Article 5.2.3, and following the date of such cancellation or variation, such service shall no longer be a Category B Excluded Service; and

5.2.6 the Operator of such Local Service shall accept all valid tickets:

5.2.6.1 listed in paragraphs 3.2, 3.4, 3.5 and 3.6 of Annex for trips made by passengers within the QCS Area;

5.2.6.2 in respect of entitling travel in accordance with Discretionary Concessionary Travel Schemes available within the Tyne and Wear Area which are in addition to the requirements of the ENCTS including but not limited to Gold Card Plus,

provided that the Operator is reimbursed for such trips by the NECA or other party responsible for distribution of ticket revenue in respect of such tickets, in respect of such trips provided that, from the Commencement Date, the Operator submits supporting evidence of such trips to the NECA every four weeks in the form of ETM data.

## **6. Clearance certificates**

6.1 Where, following the Commencement Date, either:

6.1.1 an Operator proposes to register a Local Service with one or more stopping places within the QCS Area, which is not subject to a Quality Contract and is not excluded pursuant to Article 5;<sup>2</sup> or

6.1.2 an Operator proposes to vary a Local Service with one or more stopping places within the QCS Area, which is not subject to a Quality Contract and is not excluded pursuant to Article 5;<sup>3</sup>

then, following consultation by the Traffic Commissioner with the NECA pursuant to section 6B(4) of the 1985 Act, the NECA shall consider the registration or variation proposal and, where the NECA considers that such registration or variation will not have an adverse effect on Local Services provided under Quality Contracts in the QCS Area, the NECA shall issue a Clearance Certificate to the Traffic Commissioner in respect of such service within the Prescribed Time.

## **7. Procurement of Quality Contracts**

7.1 Subject to Article 7.8, Nexus shall invite tenders for the provision of the services to which this Scheme relates for the periods and on the basis specified in an invitation to tender in the form specified in Article 7.4.<sup>4</sup>

---

<sup>2</sup> section 6B of the 1985 Act pursuant to section 6(2B) of the 1985 Act

<sup>3</sup> section 6B of the 1985 Act pursuant to section 6(7A) of the 1985 Act

- 7.2 Nexus shall issue invitations to tender<sup>5</sup> for each Quality Contract:
- 7.2.1 *[date to be specified by reference to timetable, once date for making of scheme is determined]*and, in any event, on a date no later than 15 months prior to the Commencement Date in respect of the Round 1 Quality Contracts which are to be let to commence on the Commencement Date;
  - 7.2.2 *[date to be specified by reference to timetable, once date for making of scheme is determined]* and, in any event, on a date no later than 10 months prior to the Commencement Date in respect of the Round 2 Quality Contracts which are to be let to commence on the Commencement Date;
  - 7.2.3 save where, in an emergency, a shorter time period is required in order to ensure continuous provision of services, at least 9 months prior to the date for commencement of any Round 1 Quality Contracts for which an invitation has not been issued in accordance with Article 7.2.1;
  - 7.2.4 save where, in an emergency, a shorter time period is required in order to ensure continuous provision of services, at least 8 months prior to the date for commencement of any further Round 2 Quality Contracts for which an invitation has not been issued in accordance with Article 7.2.2; and
  - 7.2.5 subject to Article 7.8, where, in an emergency, a shorter time period is required to ensure continuous provisions of services, as soon as reasonably practicable following Nexus determining that such a Quality Contract is required to be let.
- 7.3 Nexus shall issue each invitation to tender:
- 7.3.1 in such a manner as Nexus considers appropriate for bringing it to the attention of persons that may be interested;
  - 7.3.2 in accordance with the requirements of the Utilities Contracts Regulations 2006; and
  - 7.3.3 to all persons who have given Nexus written notice pursuant to section 130(4) of the Transport Act 2000, specifying the address to which the invitation to tender should be directed.
- 7.4 Each invitation to tender for a Quality Contract shall specify:
- 7.4.1 the Local Services to be provided under that Quality Contract;
  - 7.4.2 the period specified for such Quality Contracts, which shall be no greater than 10 years;<sup>6</sup>
  - 7.4.3 the minimum standards applicable to such Quality Contract, as specified in Annex 4 to this Scheme;

---

<sup>4</sup> S 130(1)

<sup>5</sup> Section 127(3A) requires the date/dates for ITTs to be specified. We have split this between the initial ITTs, and any future ITTs for re-let services. Absolute dates do not make practical sense, as there may be early termination or services, and/or Nexus may choose to exercise the extension provisions within the quality contracts to extend them from 7 to 8, 9 or 10 years

<sup>6</sup> Section 130(2)

- 7.4.4 the other requirements for a tender in respect of such Quality Contract as specified in Annex 8 to this Scheme, including:
  - 7.4.4.1 any pre-qualification criteria specified for such Quality Contract;
  - 7.4.4.2 the evaluation criteria for each Quality Contract;
  - 7.4.4.3 any specified contract requirements for such Quality Contract;
  - 7.4.4.4 the deadlines for responding to such Quality Contract;
- 7.5 Nexus shall only accept tenders submitted by persons belonging to a category listed in section 130(5) of the Transport Act 2000.
- 7.6 Nexus shall keep under review the extent to which the Quality Contracts entered into by Nexus pursuant to this Scheme are complied with.<sup>7</sup>
- 7.7 After entering into a Quality Contract Nexus shall give notice to the Traffic Commissioner of:
  - 7.7.1 the Quality Contract Services to be provided in accordance with that Quality Contract; and
  - 7.7.2 the duration of that Quality Contract,

and Nexus shall also notify the Traffic Commissioner of any changes in the Quality Contract Services in accordance with the terms of the Quality Contract, and any early termination or extension of the term of the Quality Contract, in accordance with its terms.
- 7.8 Nexus shall not be required to tender for Quality Contract Services where either:
  - 7.8.1 section 131(1) of the 2000 Act applies, provided that any Quality Contract let without inviting tenders has a duration of no more than 12 months from the day on which such services are first to be provided, and that Nexus then invites tenders for such services as soon as practicable after the Quality Contract is entered into;<sup>8</sup> or
  - 7.8.2 Regulation 5(1) of the Quality Contracts Schemes (Tendering Requirements) (England) Regulations 2009 applies, provided that the Quality Contract for such services has a maximum duration of no more than two years, commencing with the day on which services are first provided pursuant to that Quality Contract.<sup>9</sup>
- 7.9 Nexus shall publish the information required by regulation 7 of the Quality Contracts Schemes (Tendering Requirements) (England) Regulations 2009 in respect of each tender and Quality Contract.

---

<sup>7</sup> S 124(7)

<sup>8</sup> Regulation 6 Quality Contracts Schemes (Tendering Requirements)(England) Regulations 2009

<sup>9</sup> Regulation 5(1) and 5(2) Quality Contracts Schemes (Tendering Requirements)(England) Regulations 2009

7.10 Nexus shall publish the information required by Article 7.9 in accordance with the requirements of regulation 8 of the Quality Contracts Schemes (Tendering Requirements) (England) Regulations 2009.

## **8. Duration and Transition**

8.1 This Scheme shall come into operation on [*date to be determined which will reflect an 18 month procurement period and six months of transition*] ("**Commencement Date**") and shall remain in operation for a period of 10 years from the Commencement Date.

8.2 Part 2 of the QCS Registration Regulations shall apply to any application to register or vary or cancel a registration of a local service with stopping places in the QCS Area, during the Transitional Period.

8.3 Where pursuant to regulation 6(3)(a) of the QCS Registration Regulations the Traffic Commissioner consults with the NECA in respect of a proposal to register, or vary or cancel the registration of, a Local Service during the Transitional Period, the NECA shall consider the registration or variation proposal and, the NECA shall notify the Traffic Commissioner whether:

8.3.1 the NECA considers that such registration or variation will have a significantly detrimental effect on persons using such service, or a significant proportion of such persons, taking into account any Quality Contract Service which would replace such Local Service; or

8.3.2 such Local Service would be an Excluded Service from the Commencement Date.

8.4 Where a Local Service which is to be wholly or materially replaced by a Quality Contract Service is varied or cancelled during the Transitional Period, or prior to, the Commencement Date, and the NECA, acting reasonably, believes that the variation or cancellation of that service will have a detrimental effect on persons using the service or on the anticipated benefits to be derived from the Scheme then Nexus may procure an Emergency Service Subsidy Agreement in respect of such Local Services, or any part of such Local Services.

## **9. Ticketing and Zones**

9.1 Each Quality Contract shall require the Operator to accept each of the ticket types specified in Annex which are applicable to each service provided pursuant to that Quality Contract.

9.2 The fare zones for tickets accepted pursuant to Article 9.1 shall be those specified in Annex 3.

9.3 The maximum fare payable in respect of the ticket types specified in Annex shall be determined in accordance with the governance arrangements.

## **10. Allocation Arrangements**

10.1 The Allocation Arrangements for the Scheme shall be as set out in Annex 5.

## **11. Concessionary Travel**

11.1 During the term of this Scheme the NECA shall maintain a Concessionary Travel Scheme pursuant to section 93 of the 1985 Act which provides comparable concessionary travel to concessionary passengers using Excluded Services and local services subject to a clearance

certificate as the concessionary travel provided to concessionary passengers using Quality Contract Services and the NECA shall procure that the Operators of such Local Services are reimbursed for the carriage of such concessionary passengers in accordance with the 1985 Act.

11.2 During the term of this Scheme Nexus shall, pursuant to section 149 of the Transport Act 2000, either:

11.2.1 maintain a 2000 Act Concessionary Travel Reimbursement Scheme; or

11.2.2 enter into agreements with operators of Excluded Services and Local Services subject to a clearance certificate,

to reimburse Operators of Excluded Services and Local Services subject to a clearance certificate for the provision of concessions under section 145A(1) of the Transport Act 2000 in respect of eligible journeys.

## **12. Net proceeds derived from the QCS**

12.1 Where Nexus receives revenues or other payments pursuant to the terms of a Quality Contract entered into pursuant to this Scheme, Nexus shall use such monies to meet the running costs of the Scheme, including, without limitation, any costs incurred by Nexus in respect of the Scheme which shall include the operational costs of the Scheme and payments made to Operators of Quality Contract Services.

12.2 Following the application by Nexus of any revenues or other payments that Nexus receives pursuant to the terms of a Quality Contract in accordance with Article 12.1, Nexus will retain any excess monies which will be spent at the direction of the NECA for the purposes of the Scheme or for the purposes of payments under the Quality Contracts entered into pursuant to the terms of this Scheme, in accordance with the terms of such Quality Contracts and the Governance Arrangements, including:

12.2.1 Nexus varying existing Quality Contract Services and/or Quality Contracts in accordance with this Scheme;

12.2.2 Nexus procuring additional services through new Quality Contracts in accordance with Article 7;

12.2.3 Nexus increasing the standards of existing or new Quality Contract Services;

12.2.4 Nexus providing other facilities or benefits to users of Quality Contract Services;

12.2.5 Nexus reducing (including reducing any required increase in) the fares payable by passengers using Quality Contract Services.

## **13. Governance of the QCS**

13.1 The Governance Arrangements for the Scheme set out in Annex 7 shall apply.

## **14. Time**

14.1 From the Commencement Date and for the duration of this Scheme, the NECA shall ensure that those steps that it considers necessary to procure all those things that ought reasonably to

be done to ensure that Operators can deliver the Quality Contract Services (including compliance with the minimum standards required under Annex 4) as required under the terms of this Scheme are taken within a reasonable time frame.

14.2 In any case where an Operator is, for whatever reason, unable to deliver some or all of the Quality Contract Services effectively or to meet one or more of the minimum standards required under Annex 4 by the Commencement Date and/or unable to do so during the term of a Quality Contract the NECA may, notwithstanding any other provision within this Scheme or the relevant Quality Contract(s), in its sole discretion, direct Nexus to allow the Operator a reasonable time to rectify such default provided that the NECA is satisfied that:

- 14.2.1 the Operator will be able to rectify the default in the additional time allowed;
- 14.2.2 any extension of time will not materially impede or prevent the overall achievement of some or all of the benefits intended to be delivered by the Scheme or the Operator has provided Nexus with a viable mitigation plan setting out how any adverse impacts will be properly ameliorated: and
- 14.2.3 that the Operator will for the duration of any default duly compensate Nexus for the default through a commensurate reduction in charges under the relevant Quality Contract and/or the payment of a sum that reflects the proportionate value of the services that have not been delivered and/or the delivery of other services free of charge or at a reduced charge.

## ANNEXES TO THE SCHEME

### ANNEX 1: SERVICES INCLUDED

Article 4

An indicative list of the services included in this Scheme as at the [Commencement Date] is set out below for information purposes only:

*[Note: The lists below are indicative based on the current network as at 3 November 2013 and will be updated to reflect the current network at the time of the making of the Scheme.]*

### Part 1: Round 1 Services

Service	Route Description	M-F Int-pk	M-F Eve	Satnt-pk	Sa Eve	Su Day	Su Eve	A							TAXI	TOTAL	Lot
								A	DD	SD	MIDI-49	MIDI-36	MINI-23	MINI-16			
1	Four Lane Ends - South Benwell/Statford	JNT 7.5	15	JNT 7.5	15	15	15	15.000								15.000	3
1/1A	Whitley Bay - Gateshead - Wrekenton/Kibbleworth	15*	30*	15*	30*	20*	30*									12.500	4
1/1A	Whitley Bay - Gateshead - Wrekenton/Kibbleworth	15*	30*	15*	30*	20*	30*	0.000								0.000	11
1/1A	Whitley Bay - Gateshead - Wrekenton/Kibbleworth	15*	30*	15*	30*	20*	30*									0.000	5
1/2/3/4	South Shields - Biddock Hall - South Shields	10	30	10	30	30	30				8.500					8.500	6
2A/2C	Sunderland - Washington	JNT 10	60	JNT 10	60	JNT 30	70				8.000					8.000	8
3	Farrington - Hylton Castle	10	30	10	30	20	30				9.000	0.000				9.000	9
4	Heworth - Houghton	10	30*	10	30*	15*/30	30*				10.500	0.000				10.500	7
4	Doxford Park - Town End Farm	10	30	10	30	20	30				0.000	11.000				11.000	9
5	South Shields - Jarrow	30	60	30	60	60	60					4.000				4.000	5
5	South Shields - Jarrow	30	60	30	60	60	60					0.000				0.000	7
5/5A	Doxford Park - Sunderland - Docky	30	60*	30	60*	60*	60*				0.000	3.000				3.000	9
6/7/8	Freeman Hospital - Metrocentre/Central Station (8)	JNT 15	30	JNT 15	30	JNT 15	30					8.750				8.750	1
7/8	South Shields - Staridon - Harton Nook - South Shields	10	30	10	30	30	30					8.500				8.500	6
8/78/78A	Sunderland - Stanley/Consett	JNT 15	60	JNT 15	60	30	60				0.000	7.000				7.000	11
8/78/78A	Sunderland - Stanley/Consett	JNT 15	60	JNT 15	60	30	60				6.000					6.000	10
8	Sunderland - South Hylton	30	-	30	-	-	-					2.000				2.000	9
9/9A	Sunderland - North Shields	30	30	30	30	30	30					4.000				4.000	4
10/10A/10B	Newcastle - Hesham (10) / Greenside (10A) / Prudhoe (10B)	JNT 10	JNT 20	JNT 10	JNT 20	JNT 15	JNT 20				6.000					6.000	5
10/10A/10B	Newcastle - Hesham (10) / Greenside (10A) / Prudhoe (10B)	JNT 10	JNT 20	JNT 10	JNT 20	JNT 15	JNT 20				7.000					7.000	5
10/11	North Kenton - West Denton Park/West Denton Shops	JNT 10	JNT 20	JNT 10	JNT 20	JNT 20	JNT 20				1.750	10.000	0.250			12.000	1
10/11	Grangetown - Pennywell	JNT 7.5	JNT 15	JNT 7.5	JNT 15	JNT 15	JNT 15					10.000				10.000	9
10/11	South Shields - Jarrow	30	60	30	60	30	60					4.000				4.000	6
11/11A	Newcastle - Blackhall Mill/Prudhoe	30	-	30	-	-	-					4.500				4.500	5
11/11A	Newcastle - Blackhall Mill/Prudhoe	30	-	30	-	-	-	0.500								0.500	5
12	Sunderland - Silkworth	10	-	10	-	-	-					4.000				4.000	9
12	Walkend/Walker - Fenham	JNT 7.5	20/60	JNT 7.5	20/60	15	20/60				12.000					12.000	3
12/12A	Mile End Road - The Lompen	JNT 30	60	JNT 30	60	30	60					2.000				2.000	6
13	Doxford Park - Town End Farm	10	30	10	30	20	30					11.000				11.000	9
15/15A	Walker - Kenton Bar/Montagu Estate	30	-	-	-	-	-				0.250	4.000				4.250	3
16	Hastings Hill - Red House	10	30	10	30	20	30					10.000				10.000	9
17/18	South Shields - Whiteas/Rockley Whins	10	30	10	30	30	30				0.000	9.750				9.750	6
17	Whitley Bay - Benton ASDA/Cramlington	20/60	30/60*	20/60	30/60*	-	-				1.500	8.500				10.000	4
17A	Whitley Bay - Wallsend	-	30	-	30	30	30						0.000			0.000	4
18	Wallsend - Forest Hall	30	-	30	-	-	-				0.000	3.750				3.750	3
18/19	Grindon - Southwick - Seaburn - Sunderland - Thorney Close - Grindon	30	-	30	-	-	-					6.000				6.000	9
19	North Shields Ferry - Northumberland Park/Ashington	30/60	-	30/60	-	-	-					5.000				5.000	4
20	Sunderland - Pennywell	10	30	10	30	20	30					5.000				5.000	9
20/20A/20Z	Sunderland - Durham	JNT 10	30	JNT 10	30	20	60					12.000				12.000	8
21	Newcastle - Chester-le-Street/Durham	JNT 7.5	30	JNT 7.5	30	JNT 10	30				17.000					17.000	11
22	Wallsend - Throckley	10	20	10	20	20	20				13.000					13.000	3
23	Thorney Close - Dene Estate	10	30	10	30	30	30					8.000				8.000	9
26/26A	Sunderland - Jarrow/Heworth (26A)	30	-	30	-	-	-				3.250	4.250	0.000			7.500	8
27	Newcastle - South Shields	10	30	10	30	20	30					13.750				13.750	5
27X	Newcastle-Hebburn	60	-	60	-	-	-						1.000			1.000	5
28/28A	Newcastle - Chester-le-Street	60/60	60*	60/60	60*	60	60					5.000				5.000	11
30	South Shields - Boldon	30	60	30	60	60	60					3.000				3.000	6
30/31/36	Fawdon/Montagu Estate - Fenham (Newcastle - 36)	JNT 7.5	JNT 15	JNT 7.5	JNT 15	JNT 15	JNT 15					16.000				16.000	1
31/32	Newcastle - Winton	30/30	60/60	30/30	60/60	60/60	60/60					4.250				4.250	5
32/32A	Newcastle - Benwell - Kenton - FLE - Newcastle	30	-	30	-	-	-				0.000	8.000				8.000	1
33	Newcastle - Jesmond - Gosforth Hollywood Avenue	30*	-	30	-	-	-					1.000				1.000	1
35	Newcastle - Red House Farm	30	-	30	-	-	-					1.000				1.000	1
35/35A/35B/35 C	South Shields - Low Moorly (35) / Rainton Bridge (35A)	JNT 10	JNT 30	JNT 10	JNT 30	JNT 20	JNT 30					18.000	0.000	0.000		18.000	8
35/35A/35B/35 C	South Shields - Low Moorly (35) / Rainton Bridge (35A)	JNT 10	JNT 30	JNT 10	JNT 30	JNT 20	JNT 30					0.000				0.000	7

Service	Route Description	M-F Int-pk	M-F Eve	Saint-pk	Sa Eve	Su Day	Su Eve	A	D	S	I	M	M	M	T	TOTAL	Lot
36/36A	Sunderland - Hylton Castle - Southwick - Sunderland	30	-	30	-	-	-	0.250	0.000	4.000						4.250	8
38/38A	Freeman Hospital - Whickham View	10	20	10	20	20	20	10.000								10.000	3
38/238	Sunderland - Tunstall Bank Est (38/38C) / Houghton Le Spring (238)	JNT 20*	-	JNT 20*	-	-	-			1.000	3.000					4.000	8
39	Dunford International - Pennywell	JNT 10*	-	JNT 10*	-	30	-			0.750	2.000	5.000				7.750	8
39	Dunford International - Pennywell	-	30	-	30	-	30				0.000						9
39/40	Walker/Walmsend - Dimpling Hall/Chapel House	JNT 5	JNT 15	JNT 5	JNT 15	JNT 10	JNT 15			22.500						22.500	3
40/41	Walmsend - Hadrian Park	10*	30	15*	30	30	30			0.000		5.750				5.750	4
42	Sunderland - Silksworth	10	30	10	30	20	30				5.000	0.000				5.000	8
43	Newcastle - Cramlington	15	60	15	60	30	60			0.000	6.500					6.500	2
43/44	Newcastle - Durham	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30*				14.000					14.000	10
44	Newcastle - Dinnington/Morpeth	30	60*	30	60*	60*	60*			3.000	0.000					3.000	2
45	Newcastle - Brunswick	30	60	30	60	60	60			2.000	0.000					2.000	2
45/46	Newcastle - Consett	JNT 15	JNT 30*	JNT 15	JNT 30*	JNT 30	60				9.000					9.000	10
46	Newcastle - Brunton Park	15	60	15	60	60	60					3.000				3.000	2
47	Newcastle - Blackhall Mill	30	60	30	60	30	60			0.500	4.500					5.000	5
49/49A/49B/49C	Gateshead - Winton	JNT 10	JNT 15	JNT 10	JNT 15	JNT 15	JNT 30				9.250					9.250	5
49/49A/49B/49C	Gateshead - Winton	JNT 10	JNT 15	JNT 10	JNT 15	JNT 15	JNT 30	0.000			0.000					0.000	5
50/50A	South Shields - Durham/Chester-le-Street	30	60	30	60	60	60				6.000					6.000	11
51	Newcastle - Benton/Whitley Bay	60	60*	60	60*	60*	60*			0.000	0.000		2.000			2.000	2
51/51A/52/52A	Gateshead - Heworth - Wrekenton - Gateshead	15	30	15	30	30	30			0.000	8.750					8.750	5
52	Newcastle - Killingworth - Cramlington	30	-	30	-	30	-			0.000	3.250					3.250	2
53	Cramlington - North Shields	30	60	30	60	60	60			0.000	3.250					3.250	2
53/54	Newcastle - Saltwell Park	10	30	10	30	20	30				8.000					8.000	5
54	Newcastle - Killingworth - Whitley Bay	30	60	30	60	60	60			4.000		0.000				4.000	2
55	Newcastle - Forest Hall	15	60	15	60	30	60			4.000		0.000				4.000	2
56	Newcastle - Sunderland	10	30	10	30	20	30				15.000					15.000	8
57	Newcastle - Wardley	20	30	20	30	20	30			5.000						5.000	5
58	Heworth - Newcastle/Hadrian Park	10/20	30	10/20	30	15/30	30	11.500								11.500	5
58X	Heworth - Cobalt	*	-	-	-	-	-	0.500								0.500	5
60	Sunderland - Parkside	10	30	10	30	20	30				8.000					8.000	8
61	Sunderland - Murton	15	60	15	60	30	60			0.000	5.000					5.000	8
62/63	Killingworth - North Walbottle/Chapel House	JNT 7.5	JNT 15	JNT 7.5	JNT 15	JNT 15	JNT 15			13.750	0.000					13.750	1
62/63	Killingworth - North Walbottle/Chapel House	JNT 7.5	JNT 15	JNT 7.5	JNT 15	JNT 15	JNT 15			7.000						7.000	3
64/64A	Gateshead - Dumston	JNT 30	-	JNT 30	-	JNT 30	-				1.333					1.333	5
67/69	Metrocentre/Winton - QE Hospital - Wardley	60	60*	60	60*	60*	60*			4.000						4.000	5
68	Four Lane Ends - DSS Tyneview Park	*	-	-	-	-	-	0.250	0.250							0.500	3
69B	Crawcrook - QE Hospital	-	-	-	-	*	-	0.000								0.000	5
71	Houghton-le-Spring - Chester-le-Street	30	60*	30	60*	-	-				2.000					2.000	11
71	Newcastle - Throckley	30	30	30	30	30	30			3.000						3.000	1
72	Newcastle - Chapel House	30	60	30	60	60	60			0.000	2.000					2.000	1
88	Walmsend - North Shields	30	-	30	-	-	-				3.000					3.000	4
87/88	Newcastle - Newbigin Hall	JNT 30	60	JNT 30	60	60	60			2.000	0.000					2.000	1
88/88A	South Shields - Lukes Lane Estate	JNT 15	30	JNT 15	30	30	30				9.000					9.000	7
90	Winton - Team Valley	*	-	-	-	-	-	0.250								0.250	5
90	Winton - Team Valley	*	-	-	-	-	-			0.250						0.250	5
90	Winton - Team Valley	*	-	-	-	-	-			0.500						0.500	5
90	Winton - Team Valley	*	-	-	-	-	-			0.000						0.000	5
90	Winton - Team Valley	*	-	-	-	-	-			0.000						0.000	5
91	Newcastle - Team Valley	*	-	-	-	-	-	0.000								0.000	11
91	Newcastle - Team Valley	*	-	-	-	-	-			1.250						1.250	4
91	Newcastle - Team Valley	*	-	-	-	-	-	0.000								0.000	7
92	Wardley - Team Valley	*	-	-	-	-	-	0.000								0.000	7
92	Wardley - Team Valley	*	-	-	-	-	-	0.125		0.125						0.250	5
93/93A/94/94A	Gateshead - Heworth - Team Valley - Gateshead	15	30	20	30	30	30	1.000	8.000	0.125						9.125	5
93/93A/94/94A	Gateshead - Heworth - Team Valley - Gateshead	15	30	20	30	30	30	0.000	0.000							0.000	11
93/93A/94/94A	Gateshead - Heworth - Team Valley - Gateshead	15	30	20	30	30	30	0.000								0.000	7
95/96/96A	Gateshead - Lobley Hill/Metrocentre	10/20	30*	10/20	30*	JNT 30	30*	0.125	0.250	2.917						3.292	5
95/96/96A	Gateshead - Lobley Hill/Metrocentre	10/20	30*	10/20	30*	JNT 30	30*			0.000						0.000	11
97	Newcastle - Metrocentre	15	30	15	30	30	30*			5.500						5.500	5
98/98A	Newcastle - Whickham	JNT 15	60*	JNT 15	-	60	-			5.500						5.500	5

Service	Route Description	M-F Int-pk	M-F Eve	Sa Int-pk	Sa Eve	Su Day	Su Eve	A	D	S	L	M	M	M	T	TOTAL	Lot
99	Silkworth - Seaburn	60	-	10	-	-	-			1.500						1.500	8
100	Newcastle - Metrocentre	8	30	8	30	12	30			5.000						5.000	1
306	Newcastle - Tynemouth/Whitley Bay	15	30	15	30	30	30	1.500	8.000							7.500	2
307	Newcastle - Benton ASDA	60*	-	60*	-	-	-	0.250	0.000							0.250	4
309/310/X39	Newcastle - Blyth/North Shields	JNT 7.5	JNT 30	JNT 7.5	JNT 30	JNT 15	JNT 30	0.250	15.000							15.250	4
391	Chirton - Longbenton DSS	*	-	-	-	-	-			0.250		0.250				0.500	4
554	Regent Centre - Quorum Business Park	*	-	-	-	-	-			0.000							2
574	Biddick Hall - Whiteleas - Crampton Parkson	*	-	-	-	-	-			0.000						0.000	6
575	Horsley Hill - Whiteleas - Bede Industrial Estate	*	-	-	-	-	-				0.000					0.000	6
792	Longbenton DSS - Blackhall Mill (PM)	*	-	-	-	-	-			0.250						0.250	5
921	Rainton Bridge - Newcastle	*	-	*	-	-	-	0.750								0.750	7
922	Rainton Bridge - Heworth	*	-	*	-	-	-			0.500						0.500	7
937	Chester-le-Street - Team Valley	*	-	-	-	-	-	0.000	0.000							0.000	11
939	Sunderland - Team Valley	*	-	-	-	-	-			0.000						0.000	5
941	Newcastle - Metrocentre - Team Valley	*	-	-	-	-	-	0.000								0.000	7
991	Blucher - Throckley - DSS Tyneview Park	*	-	-	-	-	-	0.000								0.000	3
995	Byker - Walker - DSS Tyneview Park	*	-	-	-	-	-	0.000								0.000	3
E1/E2/E6	South Shields - Sunderland	20	30	10	30	30	30			16.000	0.000					16.000	6
M2/M2A/M3	Heworth - Birtley	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30					8.000				8.000	7
M2/M3	Concord - Birtley	-	JNT 30	-	JNT 30	-	JNT 30					8.000				0.000	7
N21	Newcastle - Durham	-	*	-	*	-	-	0.000								0.000	11
N56	Newcastle - Sunderland	-	*	-	*	-	-	0.000								0.000	8
W5/W6	Concord - Brady Square (W5)/Barmston Court (W6)	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30					4.000				4.000	7
X1	Sunderland - Duxford International	*	-	-	-	-	-			0.000	0.000					0.000	9
X1/X1A	Newcastle - Eslington Lane	10	30	10	30	30	30*/60	13.750								13.750	7
X3/X36	Newcastle - Sunderland	60	-	10	-	-	-	0.500	3.750							4.250	8
X9	Newcastle - Cobalt	*	-	-	-	-	-	0.000	0.000							0.000	2
X20	South Shields - Felgate	30	60	10	60	60	60			2.000	0.250					2.250	6
X25	Newcastle - Langley Park	30	60*	10	60*	-	-	2.500	3.000							5.500	11
X30/X31/X70/X71	Newcastle - Newcastle - Lancaster/Consett	JNT 15	30*	JNT 15	30*	-	-	9.000	0.000							9.000	10
X34	Newcastle - Horsley Hill Square	30	*	30	*	-	-	3.000								3.000	6
X35	Sunderland - Hartlepool	30	-	30	-	-	-			6.000	0.000	0.000				6.000	8
X47	Newcastle - Kingston Park	10	20	10	20	15	20			5.000						5.000	1
X63	Newcastle - Killingworth	15	-	15	-	-	-	4.000								4.000	3
X66	Gateshead Metro - Metrocentre	7.5	30	6	30	7.5	30	3.500								3.500	5
X77/X78/X79	Newcastle - Ponteland/Barras Hall	JNT 30	-	JNT 30	-	60*	-	1.750	2.000							3.750	1
X82	Newcastle - Throckley	20	30	10	30	30	30	0.000	3.000							3.000	1
X87/X88	Newcastle - Newbiggin Hall	JNT 10	20	JNT 10	20	JNT 15	20	1.750	2.000							3.750	1
X88	Concord - Metrocentre	-	-	60	-	60	-			0.000						0.000	7
SCH 18A	Byker - St Marys RC Comp (AM)	*	-	-	-	-	-	0.000								0.000	4
SCH 106	West Road - Kenton Comp (AM)	*	-	-	-	-	-	0.125								0.125	2
SCH 110	West Road - Kenton Comp (AM)	*	-	-	-	-	-	0.250								0.250	5
SCH 110	Kenton Comp - West Road (PM)	-	-	-	-	-	-	0.000								0.000	5
SCH 115	Dame Allans - Four Lane End (PM)	*	-	-	-	-	-	0.125								0.125	2
SCH 116	Widopen - Gosforth East Middle School (AM)	*	-	-	-	-	-	0.250								0.250	4
SCH 117	Nuns Moor Park - Gosforth Central Middle School (AM)	*	-	-	-	-	-			0.500						0.500	2
SCH 128	Blakelaw - All Saints College (AM)	*	-	-	-	-	-	0.000								0.000	5
SCH 128	All Saints College - Kenton Bus (AM)	*	-	-	-	-	-			0.250						0.250	2
SCH 131	Hazlerigg - St Cuthberts (AM)	*	-	-	-	-	-	0.500								0.500	5
SCH 131	St Cuthberts - Hazlerigg (PM)	*	-	-	-	-	-	0.000								0.000	5
SCH 134	Sacret Heart - Kingston Park Road (PM)	*	-	-	-	-	-	0.000								0.000	5
SCH 139	Walbottle Campus - Sacret Heart (PM)	*	-	-	-	-	-	0.250								0.250	5
SCH 140	Two Ball Linnen - Walbottle Campus (AM)	*	-	-	-	-	-	0.250								0.250	5

Service	Route Description	M-F Int-pk	M-F Eve	Sa Int-pk	Sa Eve	Su Day	Su Eve	A							TOTAL	Lot	
								A	DD	SD	MIDI - 49	MIDI - 36	MINI - 23	MINI - 16			TAXI
SCH 141	Walbottle Campus - Newbiggin Hall Estate (PM)	*	-	-	-	-	-		0.250							0.250	5
SCH 141	Newbiggin Hall Estate - Walbottle Campus (AM)	*	-	-	-	-	-		0.125							0.125	2
SCH 143	Walbottle Campus - Tyne View (PM)	*	-	-	-	-	-		0.125							0.125	2
SCH 151	St Teresas RC Primary - Benton Front Street (PM)	*	-	-	-	-	-		0.000							0.000	5
SCH 158	Gosforth East Middle School - Newcastle Great Park (PM)	*	-	-	-	-	-		0.250							0.250	2
SCH 421	Farrington - Barnes School (AM)	*	-	-	-	-	-		0.250							0.250	8
SCH 442	St Thomas More - West Monkseaton (PM)	*	-	-	-	-	-		0.125							0.125	4
SCH 444	St Roberts - Birtley (PM)	*	-	-	-	-	-			0.250						0.250	5
SCH 451	East Rainton - St Roberts RC Comp (AM)	*	-	-	-	-	-		0.250							0.250	7
SCH 458	Wheatsharf - St Roberts RC Comp (AM)	*	-	-	-	-	-		0.500							0.500	8
SCH 458	St Roberts RC Comp - Wheatsharf (PM)	*	-	-	-	-	-		0.000							0.000	8
SCH 480	St Roberts RC Comp - Springwell (PM)	*	-	-	-	-	-		0.250							0.250	7
SCH 481	Biddick Comp - Houghton (PM)	*	-	-	-	-	-		1.000							1.000	11
SCH 482	Biddick Comp - Picktree Lane/Vigo Lane (PM)	*	-	-	-	-	-		0.500							0.500	11
SCH 652	West Allotment - George Stephenson High (AM)	*	-	-	-	-	-		0.500							0.500	4
SCH 652	George Stephenson High - West Allotment (PM)	*	-	-	-	-	-		0.250							0.250	4
SCH 653	George Stephenson - Holystone (PM)	*	-	-	-	-	-		0.250							0.250	5
SCH 664	Burnside - Dorset Avenue/Station Road (PM)	*	-	-	-	-	-		0.500							0.500	4
SCH 665	Burnside School - Dorset Avenue/Station Road (PM)	*	-	-	-	-	-		0.000							0.000	4
SCH 665	Burnside School - Dorset Avenue/Station Road (PM)	*	-	-	-	-	-		0.125							0.125	4
SCH 665	Rattle Hill - Burnside School (AM)	*	-	-	-	-	-		0.125							0.125	4
SCH 670	Star of the Sea - Backworth Castle Park (PM)	*	-	-	-	-	-		0.125							0.125	4
SCH 671	Wiltshire Drive - St Thomas More RC Comp (AM)	*	-	-	-	-	-		0.250							0.250	4
SCH 675	Cauldwell Lane - St Thomas More (AM)	*	-	-	-	-	-		0.250							0.250	4
SCH 676	Holy Cross - St Thomas More (AM)	*	-	-	-	-	-		0.125							0.125	4
SCH 676	St Thomas More - Holy Cross (PM)	*	-	-	-	-	-		0.125							0.125	4
SCH 678	Wiltshire Drive - St Thomas More (AM)	*	-	-	-	-	-		0.250							0.250	4
SCH 678	St Thomas More RC Comp - Walkers Forum (PM)	*	-	-	-	-	-		0.250							0.250	4
SCH 686	St Thomas More - John Spence High School (AM)	*	-	-	-	-	-		0.250							0.250	4
SCH 695	Killingworth Bus Station - Seaton Burn College (AM)	*	-	-	-	-	-		0.250							0.250	4
SCH 695	Seaton Burn College - Killingworth Bus Station (PM)	*	-	-	-	-	-		0.250							0.250	4
SCH 698	Anstisford - Seaton Burn College (AM)	*	-	-	-	-	-		0.250							0.250	4
SCH 698	Seaton Burn College - Anstisford (PM)	*	-	-	-	-	-		0.250							0.250	4
SCH 801	West Boldon - Whitburn Col (AM)	*	-	-	-	-	-		0.250							0.250	8
SCH 805	Harton Comp - South Shields Community School (AM)	*	-	-	-	-	-		0.125							0.125	8
SCH 816	St Wilfrids RC Comp - Jarrow (PM)	*	-	-	-	-	-		0.250							0.250	8
SCH 822	St Josephs - Fellgate Estate (PM)	-	-	-	-	-	-		0.500							0.500	7
SCH 827	Mile End Road - Harton Comp (AM)	*	-	-	-	-	-		0.375							0.375	8
SCH 827	Harton Comp - Mile End Road (PM)	*	-	-	-	-	-		0.000							0.000	8
SCH 830	Windy Nook - Emmanuel College (AM)	*	-	-	-	-	-		0.500							0.500	7
SCH 832	Emmanuel College - Heworth Metro (PM)	*	-	-	-	-	-		0.000							0.000	5
SCH 834	Brack Terrace - Emmanuel College (AM)	*	-	-	-	-	-		0.250							0.250	7
SCH 835	Highfield - St Thomas More (AM)	-	-	-	-	-	-		0.250							0.250	5
SCH 836	Highfield St Josephs RC - Blackhall Mill (PM)	*	-	-	-	-	-		0.250							0.250	5
SCH 837	Emmanuel College - Low Fell (PM)	*	-	-	-	-	-		0.250							0.250	7
SCH 838	Heworth Metro - Emmanuel College (AM)	*	-	-	-	-	-		0.250							0.250	11
SCH 839	Whickham Broadway - St Thomas More (AM)	*	-	-	-	-	-		0.250							0.250	5

Service	Route Description	M-F Int-pk	M-F Eve	Sa Int-pk	Sa Eve	Su Day	Su Eve	A	D	S	L	M	M	M	T	TOTAL	Lot
SCH 841	St Thomas More - Crookgate Bank Top (PM)	*	-	-	-	-	-			0.500						0.500	10
SCH 842	Immanuel College - St Thomas More (AM)	*	-	-	-	-	-			0.250						0.250	7
SCH 843	Chowdene - St Thomas More (AM)	*	-	-	-	-	-			0.250						0.250	5
SCH 847	lobley Hill - Kingsmeadow Comp (AM)	*	-	-	-	-	-				0.250					0.250	11
SCH 856	Joseph Swan - Saltwell (PM)	*	-	-	-	-	-			0.250						0.250	7
SCH 873	Springwell Primary School - Lord Lawson Comp (AM)	*	-	-	-	-	-			0.750						0.750	7
SCH 873	Lord Lawson - Springwell (PM)	*	-	-	-	-	-			0.000						0.000	7
SCH 875	lockhaugh Road - Charles Thorp (AM)	*	-	-	-	-	-				0.250					0.250	5
SCH 875	Charles Thorp - Winton Mill (PM)	*	-	-	-	-	-			0.250						0.250	5
SCH 877	Greenode - Charles Thorp (AM)	*	-	-	-	-	-				0.250					0.250	5
SCH 878	Cardinal Hume - Wardley (PM)	*	-	-	-	-	-			0.250						0.250	7
SCH 882	Cardinal Hume - Birtley Northside (PM)	*	-	-	-	-	-			0.000						0.000	7
SCH 885	Shibdon Road - Winton West Lane School (AM)	*	-	-	-	-	-				0.000					0.000	5
SCH 886	Winton - Charles Thorp (AM)	*	-	-	-	-	-			0.250						0.250	5
SCH 887	Charles Thorp - St Thomas More (PM)	*	-	-	-	-	-			0.250						0.250	5
SCH 891	St Thomas More - Woodside (PM)	*	-	-	-	-	-			0.250						0.250	5
SCH 891	Hackhall Mill - St Thomas More (AM)	*	-	-	-	-	-				0.250					0.250	5
SCH 892	Hunston - Corpus Christi RC Primary (AM)	*	-	-	-	-	-				0.000					0.000	11
SCH 894	Immanuel College - Winton (PM)	*	-	-	-	-	-			0.250						0.250	5
SCH 895	St Mary's Primary - Byermoor (PM)	*	-	-	-	-	-			0.250						0.250	5

## Part 2: Round 2 Services

Service	Route Description	M-F Int-pk	M-F Eve	Saint-pk	Sa Eve	Su Day	Su Eve	A	D	S	L	M	M	M	T	TOTAL	Lot
								A	DD	SD	MIDI-49	MIDI-36	MINI-23	MINI-16	TAXI		
3	Battle Hill - Wallsend - Freeman Hospital/Regent Centre	60	-	60	-	-	-						1.500			1.500	101
3	Battle Hill - Wallsend - Freeman Hospital/Regent Centre	60	-	60	-	-	-						0.000			0.000	101
6	Newcastle Central Station - Jesmond Vale	30	-	30	-	-	-						0.750			0.750	101
8X	Pennywell - South Hylton	-	30	-	30	30	30							0.000		0.000	103
11/11A	Newcastle - Blackhall Mill/Prudhoe	30	-	30	-	-	-	0.250								0.250	257
13	West Denton Shops - Newburn - Throckley	60	-	60	-	-	-						0.750			0.750	101
17	Holy Cross - Benton ASDA/Cramlington	-	-	-	-	30/60	30/60						0.000			0.000	101
17	Holy Cross - Benton ASDA/Cramlington	-	-	-	-	30/60	30/60						0.000			0.000	101
17	Holy Cross - Benton ASDA/Cramlington	-	-	-	-	30/60	30/60						0.000			0.000	101
18	Walker - Four Lane Ends	-	30	-	30	30	30						0.000			0.000	101
18	Walker - Four Lane Ends	-	30	-	30	30	30						0.000			0.000	101
19	North Shields Ferry - Northumberland Park	-	30	-	30	30	30						0.000			0.000	101
19	North Shields Ferry - Northumberland Park	-	30	-	30	30	30					0.000				0.000	107
23	Washington/Birtley - Barley Mow	60/30	-	60/30	-	-	-						1.000			1.000	103
23	Washington/Birtley - Barley Mow	60/30	-	60/30	-	-	-						1.000			1.000	104
29	Gateshead - Kibblesworth	60	-	60	-	-	-					1.000				1.000	105
32/32A	Newcastle - Freeman Hospital/Four Lane Ends	-	60	-	60	30	60						0.000			0.000	101
32/32A	Newcastle - Freeman Hospital/Four Lane Ends	-	60	-	60	30	60						0.000			0.000	101
32/32A	Newcastle - Freeman Hospital/Four Lane Ends	-	60	-	60	30	60						0.000			0.000	101
32/32A	Newcastle - Freeman Hospital/Four Lane Ends	-	60	-	60	30	60					0.000				0.000	105
33A	Newcastle Central Station - Jesmond - Gosforth - Hollywood Avenue - Fawdon	-	60	-	60	60	60						0.000			0.000	101
37	Doxford Park - Washington	60	-	60	-	-	-					1.000				1.000	102
37	Doxford Park - Washington	60	-	60	-	-	-						1.000			1.000	103
38C	Sunderland - Tunstall Bank Est	-	60	-	60	60	60			0.000						0.000	103
59	Whitley Bay Metro - Backworth	60	-	60	-	-	-						1.000			1.000	101
59	Whitley Bay Metro - Backworth	60	-	60	-	-	-						0.000			0.000	101
68	Wrekenton - Bill Quay	60	-	60	-	-	-					0.750				0.750	105
73	Sunderland - Washington Galleries	60	-	60	-	-	-					1.000				1.000	102
73	Sunderland - Washington Galleries	60	-	60	-	-	-				1.000					1.000	103
79/79A	Barnwell - Hall Lane Estate	60	60*	60	60*	60	-						1.000			1.000	103
84/84A	Metrocentre - Newcastle - West Denton	60	-	60	-	-	-						0.875			0.875	101
84/84A	Metrocentre - Newcastle - West Denton	60	-	60	-	-	-						0.875			0.875	101
90	Widlington - Team Valley	*	-	-	-	-	-	0.000								0.000	218
90	Widlington - Team Valley	*	-	-	-	-	-			0.000						0.000	224
90	Team Valley - Widlington	*	-	-	-	-	-						0.000			0.000	108
91	Newcastle - Team Valley	*	-	-	-	-	-			0.100						0.100	261
91	Newcastle - Team Valley	*	-	-	-	-	-	0.250								0.250	204
91	Newcastle - Team Valley	*	-	-	-	-	-			0.250						0.250	214
92	Wardley - Team Valley	*	-	-	-	-	-			0.000						0.000	224
92	Wardley - Team Valley	*	-	-	-	-	-					0.000				0.000	105
92	Wardley - Team Valley	*	-	-	-	-	-					0.000				0.000	105
92	Wardley - Team Valley	*	-	-	-	-	-			0.100						0.100	261
92	Wardley - Team Valley	*	-	-	-	-	-			0.250						0.250	263
93A	Friars Goose - Heworth	*	-	-	-	-	-					0.000				0.000	105
93/93A/94/94A	Gateshead - Heworth - Team Valley - Gateshead	15	30	20	30	30	30	0.250								0.250	209
93/93A/94/94A	Gateshead - Heworth - Team Valley - Gateshead	15	30	20	30	30	30	0.250								0.250	259
93/93A/94/94A	Gateshead - Heworth - Team Valley - Gateshead	15	30	20	30	30	30			0.100						0.100	261
95/96/96A	Gateshead - Lobley Hill/Metrocentre	10/20	30*	10/20	30*	JNT 30	30*	0.250								0.250	260
135/135	Sunderland - Town End Farm Pallion - Sunderland	-	60	-	60	60	60						0.000			0.000	102

Service	Route Description	M-F Int-pk	M-F Eve	Saint-pk	Sa Eve	Su Day	Su Eve	A	D	S	L	M	M	M	T	TOTAL	Lot
								A	DD	SD	MIDI-49	MIDI-36	MINI-23	MINI-16	TAXI		
135/136	Sunderland - Town End Farm Pallion - Sunderland	-	60	-	60	60	60					0.000				0.000	102
168	East Rainton - Easington Lane	60	-	60	-	-	-						1.000			1.000	106
333	North Shields Ferry - Tynemouth Seafront	30	-	30	-	-	-					1.000				1.000	107
335	Four Lane Ends - Cobalt Business Park	30	-	30	-	-	-						1.000			1.000	101
335	Four Lane Ends - Cobalt Business Park	30	-	30	-	-	-						1.000			1.000	101
353	Four Lane Ends - Kingston Park	60	60	60	60	60	60					2.000				2.000	105
392	Marden Estate - Longbenton DSS	*	-	-	-	-	-			0.250						0.250	208
496	Hazlerigg - Longbenton DSS	*	-	-	-	-	-						0.000			0.000	101
515	Heworth - Hebburn	60	-	60	-	-	-						0.500			0.500	106
515	Heworth - Hebburn	60	-	60	-	-	-						0.500			0.500	103
516	South Shields - ST General Hospital	60	-	60	-	-	-					1.000				1.000	105
554	Regent Centre - Quorum Business Park	*	-	-	-	-	-						0.250			0.250	101
555	Four Lane Ends - Quorum Business Park	*	-	-	-	-	-					1.000				1.000	101
558	Seaburn - Heworth	60	-	60	-	60*	-						0.500			0.500	106
558	Seaburn - Heworth	60	-	60	-	60*	-						0.500			0.500	103
558	Seaburn - Heworth	60	-	60	-	60*	-					0.000				0.000	105
592	Doxford International - Rokur	*	-	-	-	-	-						1.000			1.000	108
593	Doxford International - Pallion	*	-	-	-	-	-						1.000			1.000	108
643	Whickham Watergate - Metrocentre	30	-	30	-	-	-							1.000		1.000	108
700/701	Sunderland City Shuttle	15	30	15	30	-	-					3.000				3.000	102
792	Blackhall Mill - Longbenton DSS (AM)	*	-	-	-	-	-			0.250						0.250	266
794	Stanley - DSS/Quorum	*	-	-	-	-	-				0.000					0.000	235
927	Jarrow - Monkton Business Park	*	-	-	-	-	-					0.250				0.250	105
933	Winton - Team Valley	*	-	-	-	-	-			0.000						0.000	246
933	Winton - Team Valley	*	-	-	-	-	-						0.000			0.000	104
937	Chester-le-Street - Team Valley	*	-	-	-	-	-					0.000				0.000	105
939	Sunderland - Team Valley	*	-	-	-	-	-							0.000		0.000	301
939	Sunderland - Team Valley	*	-	-	-	-	-			0.000						0.000	224
939	Sunderland - Team Valley	*	-	-	-	-	-						0.250			0.250	244
939	Sunderland - Team Valley	*	-	-	-	-	-			0.000						0.000	246
939	Sunderland - Team Valley	*	-	-	-	-	-			0.000						0.000	255
939	Sunderland - Team Valley	*	-	-	-	-	-			0.250						0.250	265
941	Newcastle - Metrocentre - Team Valley	*	-	-	-	-	-			0.250						0.250	266
941	Newcastle - Metrocentre - Team Valley	*	-	-	-	-	-						0.000			0.000	106
941	Newcastle - Metrocentre - Team Valley	*	-	-	-	-	-							0.000		0.000	108
960	South Shields - DSS Waterview Park	*	-	-	-	-	-				0.000					0.000	226
968	Easington Lane - DSS Waterview Park	*	-	-	-	-	-						0.250			0.250	244
994	Heworth Metro - Follingsby Park	*	-	-	-	-	-				0.500					0.500	109
994	Heworth Metro - Follingsby Park	*	-	-	-	-	-				0.500					0.500	235
A1/A2/A3	ASDA Byker Free Bus	60	-	60	-	-	-					1.000				1.000	107
DRT	Sunderland Demand Responsive Transport	*	*	*	*	*	*								1.000	1.000	308
K1/K2	Four Lane Ends - Greenhills Estate	60	-	60	-	-	-							1.000		1.000	108
M3A	Heworth - Chester Le Street	*	-	-	-	-	-					0.000				0.000	105
M12	Lingey Lane - Heworth - Gateshead Metro	*	-	-	-	-	-					0.500				0.500	109
M71	Kingston Park - Newbiggin Hall	30	-	30	-	-	-						1.000			1.000	101
Q1/Q2	Newcastle Central Station - Gateshead Metro / Newcastle Haymarket - St Peters Basin	JNT 5	JNT 10	JNT 5	JNT 10	JNT 7.5	JNT 10				8.000					8.000	105
R3/R4	Clara Vale - Rowlands Gill	60	60	60	60	60	60						1.000			1.000	106
R3/R4	Clara Vale - Rowlands Gill	60	60	60	60	60	60						1.000			1.000	106
R3/R4	Clara Vale - Rowlands Gill	60	60	60	60	60	60						1.000			1.000	108
R5	Rowlands Gill Local Service	60	-	60	-	-	-							1.000		1.000	108

Service	Route Description	M-F Int-pk	M-F Eve	Sa Int-pk	Sa Eve	Su Day	Su Eve	A	D	S	E	M	M	M	T	TOTAL	Lot		
								A	DD	SD	MIDI-49	MIDI-36	MINI-23	MINI-16	TAXI				
R6	Rowlands Gill - Ryton	60	60*	10	60*	60*	60*									0.000	0.000	106	
R6	Rowlands Gill - Ryton	60	60*	10	60*	60*	60*									0.000	0.000	106	
R6	Rowlands Gill - Ryton	60	60*	10	60*	60*	60*									0.000	0.000	108	
S1	Metrocentre Shuttle	15	-	15	-	15	-				0.750						0.750	105	
TB10	Fewster Square - QE Hospital	60	-	10	-	-	-										1.000	1.000	301
TB14	Northside Estate - South Pictobello	30	-	10	-	-	-										1.000	1.000	302
TB15	Blaydon - Garden House Estate	60	-	10	-	-	-										1.000	1.000	303
TB20/TB21	Houghton - Fence Houses/Dairy Lane	60/60	-	60/60	-	-	-										1.000	1.000	304
TB29	Gateshead Metro - Bensham Hospital	30	-	-	-	-	-										1.000	1.000	305
TB503	South Shields - Boldon ASDA	60	-	10	-	-	-										1.000	1.000	306
TB504	South Shields - St General Hospital - Hersey Hill	-	60	-	60	60	60										0.000	0.000	306
TB529	Heworth - Lukes Lane Estate	60	-	10	-	-	-										1.000	1.000	307
W1/W1A	Whitley Bay Metro - Earsdon Grange	JNT 30	-	JNT 30	-	-	-					1.000					1.000	105	
W1/W1A	Whitley Bay Metro - Earsdon Grange	JNT 30	-	JNT 30	-	-	-					1.000					1.000	105	
W2	Whitley Bay Metro - Brierdene	30	-	10	-	-	-						0.000				0.000	101	
W2	Whitley Bay Metro - Brierdene	30	-	10	-	-	-						1.000				1.000	101	
W3	Whitley Bay Metro - Percy Main	60	-	10	-	-	-					1.000					1.000	105	
W5/W6	Concord - Brady Square (W5)/Barnston Court (W6)	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30					0.000					0.000	105	
W5/W6	Concord - Brady Square (W5)/Barnston Court (W6)	JNT 15	JNT 30	JNT 15	JNT 30	JNT 30	JNT 30					0.000					0.000	105	
X40/40A	Newcastle - Great Park	20	60	20	60	60	60	3.000			0.250	0.000					3.250	105	
SCH 103	Excellior Academy - Big Lamu (PM)	*	-	-	-	-	-			0.000							0.000	263	
SCH 103	Excellior Academy - Big Lamu (PM)	*	-	-	-	-	-			0.250							0.250	230	
SCH 104	Excellior - Stanhope Street (PM)	*	-	-	-	-	-			0.000							0.000	231	
SCH 104	Excellior - Stanhope Street (PM)	*	-	-	-	-	-			0.250							0.250	262	
SCH 104	Stanhope Street - Excellior Academy (AM)	*	-	-	-	-	-			0.500							0.500	211	
SCH 105	Great Park - St Cutbert's (AM)	*	-	-	-	-	-			0.750							0.750	231	
SCH 105	St Cutbert's - Great Park (PM)	*	-	-	-	-	-			0.000							0.000	231	
SCH 106	Kenton Comp - Denton Road (PM)	*	-	-	-	-	-			0.250							0.250	231	
SCH 111	Kenton Comp - West Road (PM)	*	-	-	-	-	-			0.250							0.250	259	
SCH 111	West Road - Kenton Comp (AM)	*	-	-	-	-	-			0.250							0.250	220	
SCH 112	Elswick - West Jesmond Primary School (AM)	*	-	-	-	-	-				0.500						0.500	234	
SCH 112	West Jesmond Primary School - Westgate Road (PM)	*	-	-	-	-	-				0.500						0.500	234	
SCH 114	Dame Allans School - Newcastle Great Park (PM)	*	-	-	-	-	-			0.250							0.250	229	
SCH 114	Newcastle Great Park - Dame Allans (AM)	*	-	-	-	-	-			0.250							0.250	230	
SCH 115	Four Lane Ends - Dame Allans (AM)	*	-	-	-	-	-			0.250							0.250	232	
SCH 116	Gosforth East Middle School - Wideopen (PM)	*	-	-	-	-	-			0.250							0.250	232	
SCH 117	Gosforth Central Middle School - Nuns Moor Park (PM)	*	-	-	-	-	-			0.500							0.500	263	
SCH 118	Westhope - Kenton Comp (AM)	*	-	-	-	-	-			0.250							0.250	261	
SCH 124	Kenton Comp - Kingston Park (PM)	*	-	-	-	-	-			0.250							0.250	232	
SCH 124	Tadler Grange - Kenton Comp (AM)	*	-	-	-	-	-			0.250							0.250	263	
SCH 132	Walbottle Campus - Newbiggin Hall Est (PM)	*	-	-	-	-	-			0.250							0.250	260	
SCH 134	Kingston Park Road - Sacret Heart (AM)	*	-	-	-	-	-			0.500							0.500	204	
SCH 135	Sacret Heart - Great Park (PM)	*	-	-	-	-	-			0.250							0.250	233	
SCH 135	Great Park - Sacret Heart (AM)	*	-	-	-	-	-			0.500							0.500	264	
SCH 137	Newburn - Walbottle Campus (AM)	*	-	-	-	-	-			0.500							0.500	233	
SCH 137	Newburn - Walbottle Campus (AM)	*	-	-	-	-	-			0.250							0.250	230	
SCH 137	Walbottle Campus - Newburn (PM)	*	-	-	-	-	-			0.000							0.000	230	
SCH 138	Walbottle Campus - North Walbottle (PM)	*	-	-	-	-	-			0.250							0.250	260	
SCH 139	Dame Allans - Walbottle Campus (AM)	*	-	-	-	-	-			0.250							0.250	232	
SCH 140	Walbottle Campus - Two Ball Linnen (PM)	*	-	-	-	-	-			0.250							0.250	217	
SCH 142	Walbottle Campus - Kenton Bar (PM)	*	-	-	-	-	-			0.500							0.500	229	

Service	Route Description	M-F Int-pk	M-F Eve	Saint-pk	Sa Eve	Su Day	Su Eve	A	DD	SD	MIDI - 49	MIDI - 36	MINI - 23	MINI - 16	TAXI	TOTAL	Lot
SCH 142	Fal Lane - Walbottle Campus (AM)	*	-	-	-	-	-			0.250						0.250	220
SCH 143	Tyne View - Walbottle Campus (AM)	*	-	-	-	-	-			0.250						0.250	229
SCH 145	Chapel House Est - Walbottle Campus (AM)	*	-	-	-	-	-			0.250						0.250	261
SCH 145	Walbottle Campus - Chapel House Est (PM)	*	-	-	-	-	-			0.250						0.250	262
SCH 146	Walbottle Campus - Kenton Bar (PM)	*	-	-	-	-	-			0.500						0.500	211
SCH 146	Kenton Bar - Walbottle (AM)	*	-	-	-	-	-			0.500						0.500	262
SCH 147	Chapel House - Walbottle (AM)	*	-	-	-	-	-			0.250						0.250	230
SCH 147	Walbottle - Chapel House (PM)	*	-	-	-	-	-			0.250						0.250	214
SCH 151	Benton Front Street - St Teresas RC Primary (AM)	*	-	-	-	-	-				0.250					0.250	266
SCH 155	Walbottle - General Hospita (PM)	*	-	-	-	-	-			0.250						0.250	233
SCH 158	Bramton Lane - Gosforth Ear Middle School (AM)	*	-	-	-	-	-				0.250					0.250	235
SCH 421	Barnes School - Farrington (PM)	*	-	-	-	-	-			0.250						0.250	241
SCH 422	Broadway Junior School - Hastings Hill (PM)	*	-	-	-	-	-			0.250						0.250	265
SCH 441	Grangetown - St Roberts RC Comp (AM)	*	-	-	-	-	-			0.500						0.500	242
SCH 441	St Roberts RC Comp - Grangetown (PM)	*	-	-	-	-	-			0.500						0.500	242
SCH 444	Lord Lawson - St Roberts RC Comp (AM)	*	-	-	-	-	-			0.250						0.250	241
SCH 450	East Herrington - St Roberts (AM)	*	-	-	-	-	-				0.500					0.500	226
SCH 450	St Roberts RC Comp - East Herrington (PM)	*	-	-	-	-	-			0.500						0.500	239
SCH 451	Sunderland - St Roberts RC Comp (AM)	*	-	-	-	-	-			0.500						0.500	243
SCH 451	St Roberts RC Comp - Sunderland (PM)	*	-	-	-	-	-			0.500						0.500	243
SCH 452	Burnside Estate - St Michael's RC Primary (AM)	*	-	-	-	-	-						0.250			0.250	244
SCH 452	St Michael's RC Primary - Burnside Estate (PM)	*	-	-	-	-	-						0.250			0.250	244
SCH 453	St Roberts RC Comp - East Rainton (PM)	*	-	-	-	-	-			0.500						0.500	236
SCH 454	Easington Lane - St Roberts RC Comp (AM)	*	-	-	-	-	-			0.500						0.500	238
SCH 454	St Roberts RC Comp - Easington Lane (PM)	*	-	-	-	-	-			0.500						0.500	238
SCH 457	Whitburn - St Roberts RC Comp (AM)	*	-	-	-	-	-			0.500						0.500	237
SCH 457	St Roberts RC Comp - Whitburn (PM)	*	-	-	-	-	-			0.250						0.250	237
SCH 458	Wheatshaf - St Roberts RC Comp (AM)	*	-	-	-	-	-			0.500						0.500	240
SCH 458	St Roberts RC Comp - Wheatshaf (PM)	*	-	-	-	-	-			0.500						0.500	240
SCH 459	St Roberts - Lambton Village	*	-	-	-	-	-			0.500						0.500	223
SCH 460	Springwell - St Roberts RC Comp (AM)	*	-	-	-	-	-			0.500						0.500	236
SCH 461	Houghton - Biddick Comp (AM)	*	-	-	-	-	-			0.250						0.250	239
SCH 462	Vigo Lane - Biddick Comp (AM)	*	-	-	-	-	-			0.500						0.500	223
SCH 465	Biddick Comp - Penshaw (PM)	*	-	-	-	-	-			0.250						0.250	241
SCH 469	St Bedes RC Primary - JE Kennedy Primary (PM)	*	-	-	-	-	-				0.500					0.500	245
SCH 525	Jarrow Bus Station - St Wilfrids RC (AM)	*	-	-	-	-	-			0.250						0.250	253
SCH 525	Whitburn CoE - King George Comp (PM)	*	-	-	-	-	-			0.250						0.250	265
SCH 542	South Shields Community School - Boldon ASDA (AM)	*	-	-	-	-	-			0.500						0.250	249
SCH 542	Low Simonside - Boldon Colliery ASDA (AM)	*	-	-	-	-	-			0.250						0.250	248
SCH 542	Boldon Comp - Park Avenue (PM)	*	-	-	-	-	-			0.000						0.250	249
SCH 556	St Joseph's RC Comp - South Shields (PM)	*	-	-	-	-	-			0.500						0.500	251
SCH 556	Chichester - St Joseph's RC Comp (AM)	*	-	-	-	-	-			0.500						0.500	247
SCH 558	Durham Drive - Whitburn CoE (AM)	*	-	-	-	-	-			0.000						0.000	254
SCH 558	Whitburn CoE - Durham Drive Roundabout (PM)	*	-	-	-	-	-			0.750						0.750	254
SCH 660	John Spence - Shiremoor Metro (PM)	*	-	-	-	-	-				0.250					0.250	208
SCH 664	Madrian Park - Burnside Hgt School (AM)	*	-	-	-	-	-			0.500						0.500	205
SCH 670	Backworth Castle Park - Star of the Sea (AM)	*	-	-	-	-	-				0.250					0.250	208
SCH 671	St Thomas More RC Comp - Walbottle Forum (PM)	*	-	-	-	-	-			0.500						0.500	206
SCH 673	St Thomas More - Monkseaton (PM)	*	-	-	-	-	-			0.500						0.500	202
SCH 674	Monkseaton Cauldwell Lane - St Thomas More (AM)	*	-	-	-	-	-			0.500						0.500	206

Service	Route Description	M-F Int-pk	M-F Eve	Sa Int-pk	Sa Eve	Su Day	Su Eve	A	D	S	L	M	M	SF	F	TOTAL	Lot
SCH 677	Wallend Forum - St Thomas More (AM)	*	-	-	-	-	-		0.500							0.500	202
SCH 677	St Thomas More - Wallend Forum (PM)	*	-	-	-	-	-		0.500							0.500	264
SCH 679	St Thomas More - Red House Farm (PM)	*	-	-	-	-	-				0.250					0.250	208
SCH 680	Station Road - St Thomas More (AM)	*	-	-	-	-	-				0.500					0.500	207
SCH 680	St Thomas More - Station Road (PM)	*	-	-	-	-	-				0.500					0.500	207
SCH 681	Shields Road - St Thomas More RC Comp (AM)	*	-	-	-	-	-		0.500							0.500	201
SCH 681	St Thomas More RC Comp - Shields Rd/Chillingham Rd (PM)	*	-	-	-	-	-		0.500							0.500	201
SCH 687	St Thomas More - Wallend (PM)	*	-	-	-	-	-		0.500							0.500	205
SCH 693	Stalks Road - Seaton Burn College (AM)	*	-	-	-	-	-		0.500							0.500	203
SCH 693	Seaton Burn College - Stalks Road (PM)	*	-	-	-	-	-		0.500							0.500	203
SCH 801	Whitburn Col - Boldon Comu School (PM)	*	-	-	-	-	-		0.250							0.250	250
SCH 802	Durham Drive Roundabout - West Boldon Primary (AM)	*	-	-	-	-	-		0.250							0.250	251
SCH 802	West Boldon - Fellgate Estate (PM)	*	-	-	-	-	-				0.250					0.250	235
SCH 803	West Boldon - Whitburn Col (AM)	*	-	-	-	-	-		0.250							0.250	248
SCH 803	Whitburn Col - West Boldon (PM)	*	-	-	-	-	-		0.250							0.250	247
SCH 804	St Wilfrids RC School - Whitburn School (AM)	*	-	-	-	-	-		0.750							0.750	253
SCH 804	Whitburn Col - Cotswolds Estate (PM)	*	-	-	-	-	-		0.000							0.000	253
SCH 805	South Shields Comp - Edinburgh Road (PM)	*	-	-	-	-	-		0.500							0.500	228
SCH 806	South Shields Community School - Edinburgh Road (PM)	*	-	-	-	-	-		0.250							0.250	249
SCH 812	Hedworth Lane - Whitburn Comp (AM)	*	-	-	-	-	-		0.250							0.250	249
SCH 812	St Wilfrids RC Comp - Boldon Colliery ASSA (PM)	*	-	-	-	-	-		0.500							0.500	255
SCH 815	Whitburn - St Joseph's RC (AM)	*	-	-	-	-	-		0.500							0.500	250
SCH 815	St Joseph's RC Comp - Whitburn (PM)	*	-	-	-	-	-		0.250							0.250	254
SCH 819	Fewster Square - St Albans RC Primary (AM)	*	-	-	-	-	-				0.500					0.500	245
SCH 819	St Josephs - Heworth Golf Club (PM)	*	-	-	-	-	-			0.500						0.500	220
SCH 820	St Josephs - John Reid Road (PM)	*	-	-	-	-	-		0.250							0.250	250
SCH 820	Falmouth Drive - St Josephs RC Comp (AM)	*	-	-	-	-	-		0.500							0.500	252
SCH 821	Fellgate Estate - St Joseph's (AM)	*	-	-	-	-	-		0.250							0.250	261
SCH 821	St Joseph's RC - Fellgate Estate (PM)	*	-	-	-	-	-		0.500							0.500	248
SCH 824	St Joseph's RC Comp - South Shields (PM)	*	-	-	-	-	-		0.500							0.500	252
SCH 825	St Josephs RC - Leam Lane (PM)	*	-	-	-	-	-			0.250						0.250	225
SCH 826	Harton Comp - Marsden Grotto (PM)	*	-	-	-	-	-		0.250							0.250	247
SCH 831	Heworth Golf Club - Emmanuel College (Aht)	*	-	-	-	-	-		0.250							0.250	260
SCH 832	Beacon Lough - Emmanuel College (AM)	*	-	-	-	-	-		0.500							0.500	221
SCH 833	Emmanuel College - Heworth Metro (PM)	*	-	-	-	-	-		0.250							0.250	217
SCH 834	Emmanuel College - Gateshead Metro (PM)	*	-	-	-	-	-		0.000							0.000	209
SCH 835	St Thomas More - Highfield (PM)	*	-	-	-	-	-		0.250							0.250	257
SCH 836	Blackhall Mill - Highfield St Josephs Primary (AM)	*	-	-	-	-	-				0.000					0.000	227
SCH 838	Emmanuel College - Low Fell (PM)	*	-	-	-	-	-		0.000							0.000	259
SCH 839	St Thomas More - Whickham Broadway (PM)	*	-	-	-	-	-			0.100						0.100	261
SCH 840	Lobby Hill - St Thomas More (AM)	*	-	-	-	-	-		0.500							0.500	217
SCH 840	St Thomas More - Bensham (PM)	*	-	-	-	-	-		0.500							0.500	213
SCH 841	Crookgate Bank Top - St Thomas More (AM)	*	-	-	-	-	-		0.500							0.500	218
SCH 842	St Thomas More - Top of Lobby Hill (PM)	*	-	-	-	-	-		0.000							0.000	259
SCH 843	St Thomas More - Low Fell (PM)	*	-	-	-	-	-		0.250							0.250	204
SCH 844	Allerdene - St Thomas More (AM)	*	-	-	-	-	-		0.500							0.500	215
SCH 844	St Thomas More - Low Fell (PM)	*	-	-	-	-	-		0.500							0.500	215
SCH 844	Low Fell - St Thomas More (AM)	*	-	-	-	-	-		0.250							0.250	228
SCH 845	Hamsterley Mill - St Thomas More (AM)	*	-	-	-	-	-		0.500							0.500	216

Service	Route Description	M-F Int-pk	M-F Eve	Sa Int-pk	Sa Eve	Su Day	Su Eve	A	D	S	L	M	M	M	T	TOTAL	Lot
SCH 845	St Thomas More - Hamsterley NSJ (PM)	*							0.250							0.250	216
SCH 846	Joseph Swan - Kingsmeadow School (AM)	*							0.250							0.250	265
SCH 846	Kingsmeadow - Joseph Swan (PM)	*								0.250						0.250	224
SCH 847	Kingsmeadow Comp - Lobley Hill (PM)	*							0.250							0.250	258
SCH 848	Kingsmeadow - Bensham (PM)	*							0.250							0.250	219
SCH 849	Winton - Kingsmeadow Comp (AM)	*							0.250							0.250	259
SCH 849	Kingsmeadow Comp - Winton (PM)	*								0.100						0.100	261
SCH 854	Blackhall Mill - St Thomas More (AM)	*							0.500							0.500	212
SCH 854	St Thomas More - Chopwell Road (PM)	*							0.250							0.250	218
SCH 855	Joseph Swan - Cardinal Hume (PM)	*							0.250							0.250	210
SCH 856	Festival Park - Joseph Swan (AM)	*							0.500							0.500	255
SCH 857	Blaydon West Primary - Shildon Bank (PM)	*								0.500						0.500	246
SCH 859	Joseph Swan - Wrekenton (PM)	*							0.000							0.000	266
SCH 860	Windy Nook - Windy Nook Primary (AM)	*							0.500							0.500	246
SCH 861	Clara Vale - Charles Thorp (AM)	*							0.250							0.250	222
SCH 861	St Thomas More - Clara Vale (PM)	*							0.500							0.500	221
SCH 861	Clara Vale - St Thomas More (AM)	*							0.250							0.250	214
SCH 863	Winton - Charles Thorp School (AM)	*							0.500							0.500	213
SCH 863	Charles Thorp School - St Thomas More (PM)	*							0.250							0.250	218
SCH 864	Biddick Arts Centre - Lawd Lawson (AM)	*							0.250							0.250	239
SCH 864	Lawd Lawson - Washington (PM)	*								0.500						0.500	226
SCH 866	Derwentwater Road - Joseph Swan (AM)	*								0.500						0.500	225
SCH 866	Joseph Swan - Teams (PM)	*								0.250						0.250	224
SCH 868	Charles Thorp - Winton Mill (PM)	*										0.250				0.250	227
SCH 874	Kibblesworth - Lawd Lawson (AM)	*							0.250							0.250	241
SCH 874	Lawd Lawson - Kibblesworth (PM)	*							0.500							0.500	256
SCH 875	Charles Thorp - Winton Mill (PM)	*							0.500							0.500	212
SCH 875	Winton Mill - Charles Thorp (AM)	*							0.500							0.500	258
SCH 876	Charles Thorp - Hamsterley Mill (PM)	*							0.250							0.250	209
SCH 876	Hamsterley Mill - Charles Thorp (AM)	*							0.500							0.500	257
SCH 877	Charles Thorp - Greenside (PM)	*								0.500						0.500	222
SCH 878	Cardinal Hume - Wardley (PM)	*							0.250							0.250	237
SCH 878	Wardley - Cardinal Hume (AM)	*							0.500							0.500	256
SCH 879	Festival Park - Cardinal Hume (AM)	*								0.500						0.500	224
SCH 880	Cardinal Hume - Felling Square (PM)	*								0.250						0.250	225
SCH 882	Birtley Northside - Cardinal Hume RC (AM)	*							0.500							0.500	210
SCH 882	Cardinal Hume - Birtley Northside (PM)	*							0.250							0.250	210
SCH 884	St Oswalds RC - Leam Lane (PM)	*								0.250						0.250	266
SCH 886	Charles Thorp - St Thomas More (PM)	*							0.250							0.250	216
SCH 887	Scotland Head - Charles Thorp (AM)	*								0.250						0.250	222
SCH 889	Scotland Head - Whickham School (AM)	*							0.250							0.250	228
SCH 890	High Spen - Whickham School (AM)	*							0.500							0.500	219
SCH 892	Corpus Christi RC Primary - Dunston (PM)	*								0.000						0.000	224
SCH 893	Highfield St Josephs RC - Whickham School (AM)	*										0.500				0.500	227
SCH 894	Winton - Emmanuel College (AM)	*							0.250							0.250	209
SCH 895	Byermoor - Wasingwell Primary (AM)	*							0.250							0.250	209
SCH 896	Whickham School - Byermoor (PM)	*										0.250				0.250	227
SCH 897	Whickham School - High Spen (PM)	*							0.250							0.250	258
SCH 898	Kingsmeadow Comp - Whickham School (AM)	*							0.250							0.250	259
SCH 898	Whickham Comp - Winton Mill (PM)	*							0.250							0.250	219
SCH 899	Winton Mill - Winton West Lane Primary (AM)	*							0.250							0.250	214

**Part 1: Fares****1. Ticketing structure**

- 1.1 On and from the Commencement Date, the fares for each ticket type specified in paragraph 2 for the QCS Area shall be determined as set out in this paragraph 1 (*Ticketing structure*), and shall remain at such level until revised in accordance with the provisions of this Annex.
- 1.2 For each fare specified in paragraph 3, the fare chargeable on the Commencement Date shall be calculated as follows:
  2. Nexus shall recalculate each fare level specified in paragraph 3 no later than two (2) months prior to the Commencement Date ("**Initial Fares Adjustment Date**") in accordance with the following methodology:
    - 2.1 Nexus shall review and calculate the weighted average commercial fares charged by Operators in the QCS Area in the period immediately prior to the Initial Fares Adjustment Date ("**Average Commercial Fares**"), save that in calculating the Average Commercial Fare Nexus shall be entitled to:
      - 2.1.1 discount any unusually high or low fares charged by Operators, where in Nexus' reasonable opinion this would distort the overall calculation of Average Commercial Fares;
      - 2.1.2 adjust the Average Commercial Fares to reflect any fare changes made by Operators which, in Nexus' reasonable opinion have the object or effect of materially distorting the Average Commercial Fare compared to that which would have been calculated based on the weighted average commercial fares charged by Operators in the preceding 5 (five) years before the date of the Scheme.
    - 2.2 Nexus shall recalculate each fare level specified in paragraph 3 such that the weighted average fare expected to be charged on services provided pursuant to Quality Contracts is at least 1% lower than the Average Commercial Fare and that:
      - 2.2.1 The fares in respect of adult season tickets ("**Adult Season Ticket Fares**") shall be such that:
        - 2.2.1.1 weekly tickets are 3.5 times the relevant adult all-day ticket which is a single-mode ticket ("**Adult Multi-Trip Day Fare**");
        - 2.2.1.2 4-weekly tickets are 3.5 times the relevant weekly ticket fare calculated in accordance with paragraph 2.2.1.1;
        - 2.2.1.3 annual tickets are 11 times the relevant 4-weekly ticket fare calculated in accordance with paragraph 2.2.1.2;

- 2.2.2 The cost of an all modes add-on as specified in paragraph 3.2 shall be proportionate to the fare levels specified for the equivalent Adult Multi-Trip Day Fares;
  - 2.2.3 The fares in respect of adult night bus tickets as specified in paragraph 3.3 shall be proportionate to the fare levels specified for the equivalent adult single-trip ticket which is a single-mode ticket ("**Adult Single Fare**");
  - 2.2.4 The fares in respect of child single-trip tickets and child all-day tickets specified in paragraph 3.5 (part of the "**Child Concessionary Travel Scheme**"), where the child is carrying a valid photocard, shall be set at the level charged on the day prior to the Initial Fares Adjustment Date. The fares in respect of such tickets where the child is not carrying a valid photocard shall be determined at Nexus' discretion, provided that such fares shall be no greater than 1.5 times the fare charged where a child is carrying a valid photocard;
  - 2.2.5 The fares in respect of a child weekly ticket (part of the "**Child Concessionary Travel Scheme**") shall be no greater than seven (7) times the fare for a child all-day ticket;
  - 2.2.6 The fares in respect of a child 4-weekly ticket (part of the "**Child Concessionary Travel Scheme**") shall be no greater than four (4) times the fare for a child weekly ticket;
  - 2.2.7 The fares for 16-18 year olds (the "**16-18 Scheme**") specified in paragraph 3.4 shall be set at the level of the **equivalent** child ticket in accordance with paragraph 2.2.5 and 2.2.6 above; and
  - 2.2.8 The **fares** for students specified in paragraph 3.6 shall be set at a level below the equivalent adult weekly or 4-weekly fare for a single-mode ticket and at a level no greater than 3.25 times the 4-weekly fare for the term ticket.
- 2.3 Nexus shall be entitled to adjust any of the fares specified pursuant to paragraphs 2.2.1 to **Error! Reference source not found.** either **up** or down, provided that:
- 2.3.1 any increase in a single trip ticket or all-day ticket is capped to a fare which is the next multiple of ten (10) pence;
  - 2.3.2 any increase in a week ticket is capped to a fare which is the next multiple of one (1) pound;
  - 2.3.3 any increase in any ticket other than a single trip, all-day ticket or week ticket shall be capped to a fare which is no more than 10% higher than the revised fare;
  - 2.3.4 any decrease to a fare shall be in consultation with the NECA, on the basis that Nexus reasonably considers that such reduction would remain affordable; and
  - 2.3.5 following all such adjustments the weighted average fare expected to be charged on services provided pursuant to Quality Contracts is at least 1% lower than the Average Commercial Fare.

3. **Fare levels**

The fare levels set out in this paragraph 3 shall be used as the basis for calculation of the fare levels on the Commencement Date, as set out in paragraph 1 above.

3.1 **Adult Single-Trip, Single-Mode Tickets**

<b>Single-Trip Tickets on Single-Mode</b>				
<b>Number of zones</b>				
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
£1.30	£1.90	£2.50	£3.20	£4.20

3.2 **Adult Multi-Trip, Single-Mode Tickets**

	<b>Multi-trip Ticket on Single Mode</b>				<b>All modes add-on to any ticket</b>
	<b>Number of zones</b>				
<b>Time period</b>	<b>1 or 2</b>	<b>3</b>	<b>4</b>	<b>5</b>	
Day	£3.60	£4.40	£5.40	£6.40	+£1.60
Week	£12.50	£15.50	£19.00	£22.50	+£8.00
4-Week	£44.00	£55.00	£66.00	£78.00	+£24.00
Annual	£485.00	£605.00	£726.00	£858.00	+£264.00

3.3 **Adult Single-Trip Tickets: Night Bus**

No discounts, price cap or multi-trip tickets will be valid for travel on night buses.

<b>Single trip on night buses</b>				
<b>Number of zones</b>				
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
£2.60	£3.20	£3.80	£4.40	£5.00

### 3.4 Fares for 16-18 year olds (the “16-18 Scheme”)

The fares set out in this paragraph 3.4 (as revised in accordance with this Annex) shall apply to travel on any form of public transport under the NECA’s control, including Quality Contract Services operating in Northumberland, Durham and Hartlepool.

<b>Time period</b>	<b>16-18 (multi-modal, all zones)</b>
Week	£7.50
4-Week	£30.00

### 3.5 Fares for children under the age of 16 (“Child Concessionary Travel Scheme”)

The fares set out in this paragraph 3.5 (as revised in accordance with this Annex) shall apply to travel on any form of public transport under the NECA’s control, including Quality Contract Services operating in Northumberland, Durham and Hartlepool.

<b>Ticket type</b>	<b>Under 16 with photocard (multi-modal, all zones)</b>	<b>Under 16, no photocard (multi-modal, all zones)</b>
Single	£0.60	£0.80
Day	£1.10	£1.50
Week	£7.50	-
4-week	£30.00	-

### 3.6 Fares for students in full time education

The fares set out in this paragraph 3.6 (as revised in accordance with this Annex) shall apply to passengers who apply in advance for a Smartcard (with a photo) and provide evidence to the NECA that they are in full-time education at an educational establishment which is recognised by the NECA.

<b>Time period</b>	<b>Number of zones</b>			
	<b>1 or 2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Week	£10.50	£14.00	£16.50	£18.50
4-Week	£42.00	£47.50	£54.00	£61.00
Term	-	-	-	£140.00

#### 4. **Revision of fares and ticket types**

4.1 The fare structures and levels set out in this Annex (as amended from time to time in accordance with this Annex) may be amended annually on the first Sunday in April each year ("**Annual Fares Adjustment Date**") by the NECA in consultation with the Local Bus Board, provided that:

4.1.1 any such increases shall be such that the weighted average increase of fares since the previous Annual Fares Adjustment Date is no greater than the increase in the retail prices index from October in the year prior to the last Annual Fares Adjustment Date to October following the last Annual Fares Adjustment Date.

4.1.2 the NECA shall calculate the weighted average increase of fares for the purposes of this paragraph 4.1 by reference to a basket of fares reflecting the tickets used within the Scheme Area over the previous year.

4.2 The references in this Annex to the retail prices index means the monthly United Kingdom index of retail prices (for all items) published by the Office of National Statistics. If that index is not published for any month those references shall be references to any substituted index or index figures published by that Office for that month, or in the absence of such an index, such other index as the NECA shall determine, acting reasonably, is appropriate.

4.3 Notwithstanding paragraph 4.1 of this Annex, the NECA may determine from time to time, at its discretion, that it will:

4.3.1 amend the tickets or fares currently available in the QCS Area; and/or

4.3.2 introduce additional categories of tickets or fares in the QCS Area.

4.4 Whenever the NECA proposes to revise the fares that apply in respect of any journey within the QCS Area pursuant to this paragraph 4, the NECA will publish in at least one local newspaper circulating in the QCS Area and on the Nexus website, a notice setting out details of the fare revisions proposed.

#### 5. **Other Ticketing matters**

##### 5.1 **Price capping**

Nexus shall use reasonable endeavours to ensure that where a passenger uses a Smartcard to store or purchase their ticket, a cap shall be applied in respect of fares paid using such Smartcard, such that the total cost of any passenger's daily travel when using pay as you go credit on a Smartcard will not exceed the price of the relevant all-day ticket for the journeys undertaken.

##### 5.2 **Gold Card Plus**

Nexus shall use reasonable endeavours to ensure that at all times whilst it is required to reimburse Operators for providing concessionary travel on eligible journeys pursuant to the ENCTS that it shall also provide a Discretionary Concessionary Travel Scheme in respect of the Gold Card Plus or a similar Discretionary Concessionary Travel Scheme which provides materially the same benefits to eligible ENCTS pass holders, and provided that Nexus shall be entitled to require eligible ENCTS pass holders to pay an annual fee in respect of travel pursuant to such Discretionary Concessionary Travel Scheme, which may be increased in each year in accordance with paragraph 4 of this Annex.

## **Part 2: Transitional Arrangements**

### **1. Transitional Arrangements**

Each Quality Contract shall require the Operator to accept the following tickets for travel on Quality Contract Services:

- 1.1 all Network One season tickets (weekly, 4-weekly and termly paper tickets); and
- 1.2 all weekly and four weekly tickets issued by Operators in respect of valid journeys within the QCS Area,

in each case where such tickets were issued prior to the Commencement Date and remain valid for the proposed journey.

**Part 1**

The fares zones for the purposes of Annex 2 shall be those specified on the maps in Part 2, and shall cover the bus stops specified in a table to be published electronically by Nexus, specifying the name, location and co-ordinates of each bus stop. Where any new bus stop is built within a fare zone, Nexus shall update such table accordingly. A ticket for travel in a single zone is a ticket valid for travel in any single zone specified in this Annex 3. A ticket for travel in a number of zones is valid for travel across that number of adjacent zones.

Zones A, B and C cover all of Tyne and Wear (although some parts of zone C extend into Northumberland), and zones D and E cover services operating in Durham and Northumberland. The outer boundary of zone E will be the furthest geographic point to which Quality Contract Services will run and includes Hartlepool.

**Part 2****Figure 1: Zone A**

[Attached at the end of this document as “Annex 3 Part 2 Figure 1”]

**Figure 2: Zones A to E**

[Attached at the end of this document as “Annex 3 Part 2 Figure 2”]

## ANNEX 4: QUALITY CONTRACT STANDARDS

### 1. **Contract Standards**

- 1.1 The specification of each Quality Contract Service shall be specified in the relevant Quality Contract and shall be a minimum of the standards specified in this Annex 4 as determined by the NECA in accordance with Annex 7.
- 1.2 Each Quality Contract will specify for each Quality Contract Service:
  - 1.2.1 the minimum operational service standards, which shall be no less than those specified in paragraph 2;
  - 1.2.2 the minimum vehicle standards, which shall be no less than those specified in paragraph 3;
  - 1.2.3 the minimum driver standards, which shall be no less than those specified in paragraph 4;
  - 1.2.4 the no compulsory redundancy requirement as specified in paragraph 5; and
  - 1.2.5 the minimum monitoring and performance management standards, which shall be no less than those specified in paragraph 6.

### 2. **Operational Service Standards**

- 2.1 The operational service standard specification for each Quality Contract Service will state the following information:
  - 2.1.1 the route and stopping arrangements;
  - 2.1.2 days of operation;
  - 2.1.3 timetable;
  - 2.1.4 in service mileage; and
  - 2.1.5 the start and end date of the Quality Contract Service.

### 3. **Vehicle Standards**

- 3.1 For the purposes of this Scheme, a Public Service Vehicle is a "**QCS Vehicle**" if it complies, as a minimum, with the requirements specified in paragraph 3.3.
- 3.2 Each of the requirements listed in paragraph 3.3 in respect of QCS Vehicles will be introduced under this Scheme and the Quality Contracts let pursuant to this Scheme within the timescales set out in paragraph 3.3.

- 3.3 The requirements are that:
- 3.3.1 up to and including the second anniversary of the Commencement Date, in respect of Quality Contracts with a Peak Vehicle Requirement of 2 or more Public Service Vehicles:
    - 3.3.1.1 at least 60% of the fleet of Public Service Vehicles used to deliver the relevant Quality Contract shall be fitted with engines which, as a minimum meet the Euro V emissions standard;
    - 3.3.1.2 the remaining 40% of the fleet of Public Service Vehicles referred to in sub-paragraph 3.3.1.1 shall be fitted with engines which, as a minimum meet the Euro III emissions standard;
  - 3.3.2 from the Commencement Date in respect of a Quality Contract with a Peak Vehicle Requirement of 1 Public Service Vehicle or from the second anniversary of the Commencement Date in respect of a Quality Contract with a Peak Vehicle Requirement of 2 or more Public Service Vehicles (as applicable), each Public Service Vehicle shall be fitted with an engine which, as a minimum meets the Euro V emissions standard for the duration of the remaining term of each Quality Contract including during any discretionary extension to such Quality Contract;
  - 3.3.3 from the Commencement Date each Public Service Vehicle shall be fitted with an operational driver behaviour management system to help deliver fuel efficient and safe driving techniques. Each Quality Contract shall require Operators to:
    - 3.3.3.1 provide additional training to drivers who do not meet the minimum standards required by the relevant operational driver behaviour management system; and
    - 3.3.3.2 implement incentives which reward drivers for good performance, as measured by the relevant operational driver behaviour management system;
  - 3.3.4 from the Commencement Date each Public Service Vehicle shall not be fitted with middle and/or rear passenger entry or exit doors, provided that this sub-paragraph 3.3.4 shall not apply to:
    - 3.3.4.1 articulated buses; or
    - 3.3.4.2 middle and/or rear emergency exit doors;
  - 3.3.5 from the Commencement Date each Public Service Vehicle shall comply with Schedules 1 and 2 of the Public Service Vehicles Accessibility Regulations 2000 (as amended or as substituted from time to time), and each Quality Contract shall require that Nexus can require that such compliance is demonstrated by the production on request by the Operator of a Quality Contract Service of either:
    - 3.3.5.1 a Public Service Vehicles Accessibility Certificate (PSVA 2); or
    - 3.3.5.2 a Public Service Vehicles Certificate of Conformity (PSVA 5);

- 3.3.6 up to and including the second anniversary of the Commencement Date:
  - 3.3.6.1 a minimum of 50% of the Public Service Vehicles within the fleet used to deliver Quality Contract Services under each Quality Contract shall be painted in a livery specified by Nexus within such Quality Contract from the date of commencement of Quality Contract Services pursuant to that Quality Contract;
  - 3.3.6.2 the remaining Public Service Vehicles within the fleet used to deliver Quality Contract Services under each Quality Contract shall carry standard logos and wording specified by Nexus within such Quality Contract on the front, sides and rear of the vehicle until such Public Service Vehicle has been rebranded in the livery specified by Nexus under the Quality Contract;
- 3.3.7 following the second anniversary of the Commencement Date, each Public Service Vehicle within the fleet used to deliver Quality Contract Services under each Quality Contract shall be painted in a livery specified by Nexus within such Quality Contract;
- 3.3.8 subject to paragraph 3.3.7, each Public Service Vehicle within the fleet used to deliver Quality Contract Services under each Quality Contract shall be re-painted (at the Operator's cost) at least every four years following the second anniversary of the Commencement Date;
- 3.3.9 from the Commencement Date each Public Service Vehicle shall have electronic light-emitting diode (LED) destination displays which are kept in working order and which conform with Schedule 2 of the Public Service Vehicles Accessibility Regulations 2000 (as amended);
- 3.3.10 from the Commencement Date each Public Service Vehicle shall be equipped with a vehicle location system and two-way voice/data communication which shall be capable of enabling:
  - 3.3.10.1 contact between the driver of the Public Service Vehicle and the Operator's depot; and
  - 3.3.10.2 the provision of real time passenger information to a central data repository;
- 3.3.11 from the Commencement Date each Public Service Vehicle shall be equipped with internal and external digital closed circuit television equipment;
- 3.3.12 from the Commencement Date each Public Service Vehicle shall be equipped with ITSO compliant electronic ticket machines;
- 3.3.13 from the Commencement Date each Public Service Vehicle shall be maintained in a state which is reasonably clean and damage free internally and externally when such Public Service Vehicle is delivering Quality Contract Services, and the Quality Contract shall require that the Operator shall as a minimum:
  - 3.3.13.1 clean each Public Service Vehicle internally and externally (subject only to any health and safety risks associated with

sub-zero temperatures) on a regular basis before entry into service of such Public Service Vehicle; and

- 3.3.13.2 maintain the interior of each Public Service Vehicle to an appropriate standard, subject to fair wear and tear;
- 3.3.14 from the Commencement Date each Public Service Vehicle shall display notices, service timetables and leaflets supplied by Nexus (in a position to be determined by Nexus) in accordance with the terms of the Quality Contract;
- 3.3.15 each Public Service Vehicle shall have an age of no more than 15.0 years (assessed from the first date of registration) throughout the term of each Quality Contract including any period of extension to such Quality Contract beyond the initial seven (7) year term;
- 3.3.16 the maximum average age of the fleet of Public Service Vehicles used to deliver Quality Contract Services under each Quality Contract shall not exceed:
  - 3.3.16.1 8.0 years at any point during the first two years of each Quality Contract; and
  - 3.3.16.2 7.0 years at any point after the first two years of the Quality Contract to the end of the seventh year of the Quality Contract;

and the maximum average age of the fleet of vehicles under a Quality Contract during any extension to that Quality Contract beyond the seventh year shall increase in one year increments so that in the tenth year of any Quality Contract, the average age of the fleet of Public Service Vehicles used to deliver Quality Contract Services under that Quality Contract shall not exceed ten (10.0) years;

- 3.3.17 each Public Service Vehicle shall be fitted with a ventilation and heating system which shall be capable of being maintained pursuant to the terms of the relevant Quality Contract to ensure a comfortable environment appropriate to the outside temperature at all times when the Public Service Vehicle is providing Quality Contract Services;
- 3.4 Notwithstanding the provisions set out in sub-paragraphs 3.3.1, 3.3.2 and 3.3.6, following the commencement of each Quality Contract (excluding any Taxi Bus Quality Contract), the requirements listed in paragraph 3.3 shall apply to any new or replacement Public Service Vehicles which are used to provide Quality Contract Services under that Quality Contract with immediate effect from the first date on which such new or replacement Public Service Vehicle is used in operational service in providing Quality Contract Services under that Quality Contract.
- 3.5 The requirements set out in sub-paragraphs 3.3.1, 3.3.2, 3.3.3, 3.3.4, 3.3.5, 3.3.6, 3.3.7, 3.3.8, 3.3.9, 3.3.14, 3.3.15 and 3.3.16 shall not apply in respect of any Taxi Bus Quality Contract, provided that all Taxi Buses operated in accordance with a Taxi Bus Quality Contract will be required to have a maximum age of no greater than seven (7) years, assessed from the date of first registration.

#### 4. **Driver Standards**

Each Quality Contract shall require that drivers of Quality Contract Services shall meet the following requirements at all times:

- 4.1 each driver must hold an appropriate driving licence for the vehicle driven;
- 4.2 each driver must have been issued with a Certificate of Professional Competence, and undertaken any subsequent required periodic training;
- 4.3 all drivers of Quality Contract Services must receive training, which may include training in respect of:
  - 4.3.1 caring for the customer;
  - 4.3.2 route learning; and
  - 4.3.3 disability awareness; and
- 4.4 drivers operating Scholars Services will be required to hold a valid DBS certificate, provided that where any driver is carrying out a "**regulated activity**" as defined in paragraph 1 of Part 1 of Schedule 4 of the Safeguarding Vulnerable Groups Act 2006, an enhanced DBS certificate shall be required.

#### 5. **No Compulsory Redundancy**

- 5.1 Each Quality Contract shall require that no employee assigned to Quality Contract Services shall be made compulsorily redundant in the first 2 years following the Commencement Date.

#### 6. **Performance Monitoring Schedule**

- 6.1 Each Quality Contract shall include a performance monitoring schedule which sets out the monitoring and performance level targets which Operators shall be required to meet including (without limitation) in relation to:
  - 6.1.1 monitoring and reporting compliance against:
    - 6.1.1.1 the operational service standard specification referred to in paragraph 2 (and in particular in relation to punctuality and reliability);
    - 6.1.1.2 the vehicle standards specification referred to in paragraph 3; and
    - 6.1.1.3 the driver standards specification referred to in paragraph 4.

**1. Affected Local Services**

- 1.1 For the purposes of these Allocation Arrangements all service numbers listed in Annex 1 are Affected Local Services, in relation to the Round 1 Quality Contract or Round 2 Quality Contract against which such service is listed.

**[Note 1: Annex 1 is indicative based on the current network as at 3 November 2013 and will be updated to reflect the current network at the time of the making of the Scheme, at which point the Affected Local Services will be amended on an equivalent basis.]**

**[Note 2: A request for information was made to all Relevant Operators pursuant to regulation 5 of the QCS TUPE Regulations on 19<sup>th</sup> August 2013. Operators were requested to provide anonymised employee information including a percentage estimate of working time spent on Affected Local Services. Certain Relevant Operators responded and provided detailed Relevant Information in September 2013. Nexus intends to make further requests for Relevant Information from Operators together with other information from sources outlined below in paragraph 2.5, to identify Relevant Employees.]**

**2. Relevant employees and principally connected employees**

- 2.1 For the purposes of this Scheme, pursuant to regulation 3 of the QCS TUPE Regulations, an individual's employment shall be deemed to be "principally connected" to the provision of Affected Local Services and such employee shall be a Relevant Employee for such services if that employee spends on average, at least 50% of their working time either:
- 2.1.1 assigned to the provision of Affected Local Services; or
  - 2.1.2 assigned to activities connected wholly or mainly to the provision of Affected Local Services.
- 2.2 For the purpose of this Scheme the time period used to assess whether an employee spends on average at least 50% of their working time assigned to the provision of Affected Local Services or assigned to activities connected wholly or mainly to the provision of Affected Local Services, shall be the 6 calendar month period preceding the TUPE transfer date.
- 2.3 Employees who are "principally connected" to Affected Local Services shall transfer to the operator of a Quality Contract in accordance with the Allocation Arrangements contained in this Annex 5.
- 2.4 For the avoidance of doubt, employees that are not "principally connected" to Affected Local Services shall be classed as being "out of scope employees". These employees will remain employed by their current operator and will not transfer to any new operator in accordance with the Allocation Arrangements contained in this Annex 5.
- 2.5 The NECA shall identify Relevant Employees taking into account:
- 2.5.1 the Relevant Information either:
    - 2.5.1.1 received from Operators in September 2013 pursuant to a request made under regulation 5 of the QCS TUPE Regulations;

- 2.5.1.2 pursuant to any further request pursuant to regulation 5 of the QCS TUPE Regulations or otherwise;
- 2.5.2 the details of the Affected Local Services identified in accordance with paragraph 1; and
- 2.5.3 any information provided in consultation with Relevant Operators and Appropriate Representatives.

### 3. Grouping and transfer of relevant employees

- 3.1 Relevant Employees identified in accordance with paragraph 2 shall be allocated by the NECA to a specific Quality Contract in accordance with paragraph 3.2
- 3.2 The NECA shall:
  - 3.2.1 identify organised groupings of Relevant Employees or classes of Relevant Employees within such organised groupings pursuant to regulation 8(2) of the QCS TUPE Regulations;
  - 3.2.2 identify for each organised grouping or class of Relevant Employees, the Quality Contract to which each organised grouping or class is to be assigned.
- 3.3 For the purposes of this Scheme the organised groupings and classes of Relevant Employees Table AA1 and Table AA2 have been identified taking into account the Relevant Information provided by Relevant Operators at the date of this Scheme [see note to tables], and any information obtained in consultation with Relevant Operators and appropriate representatives of Relevant Employees.

**[Note: the organised groupings and classes of employee identified are provisional and are based on the structure of the workforce at the time the information was provided and will be updated consistent with the current tables to reflect the information provided up to the date of making of the Scheme and in accordance with these Allocation Arrangements.]**

The columns show the groupings and classes identified.

- 3.3.1 The initial grouping identified for all Relevant Employees is defined with reference to the **identity of their current Operator employer** – see column 1 in Table AA1 and Table AA2.
- 3.3.2 Within that grouping there are organised groupings of Relevant Employees defined by the **location at which they are based** – see column 2 of Table AA1 and Table AA2.
- 3.3.3 Further classes of Relevant Employee are defined in relation to the **nature of duties undertaken** – see column 3 of Table AA1 and Table AA2.
- 3.3.4 Within the classes of Relevant Employees, further classes have been identified in relation to the **specific work undertaken**, for example in the case of drivers, with reference to the specific rota or services worked on, or in relation to the **job title** given by their employing Operator – see column 4 of Table AA1 and Table AA2.

- 3.3.5 Sub-groups have been identified within classes of employees where the **Relevant Operator has divided employees into subgroups** for the purpose of organising the responsibilities of Relevant Employees – see classes shown in *Italic* in columns 3 and 4 of Table AA1 and Table AA2.
- 3.4 Each grouping or class has been assigned to a Quality Contract on the basis of the Relevant Information received and the services which are anticipated to form part of a particular Quality Contract:
- 3.4.1 Table AA1 below relates to the employees of the three largest Operators in Tyne & Wear and shows the organised groupings and classes of Relevant Employees identified and the contracts to which each grouping or class of Relevant Employees is to be assigned.
- 3.4.2 Table AA2 below relates to the employees of small Operators in Tyne & Wear and shows the organised groupings and classes of Relevant Employees identified and the contracts to which each grouping or class of Relevant Employees is to be assigned.
- 3.4.3 The Tables do not seek to identify or allocate employees of Operators who are not Relevant Employees.

**[Note: The tables are indicative and based on Relevant Information received in September 2013, the network in operation on 03 November 2013 and depot operations as at 01 April 2014. The tables will be updated up to the date of making of the Scheme based on information received to that date].**

- 3.5 Nexus shall further update the tables based on available information up to the Commencement Date, or such later date as any Quality Contract to which Allocation Arrangements may apply, shall commence.

#### **4. Development of Allocation Arrangements**

- 4.1 Nexus has consulted with Appropriate Representatives and Relevant Operators on the Allocation Arrangements contained in this Annex 5, and the application of such Allocation Arrangements. The NECA considers it is entitled, acting reasonably, to take into account in finalising the Allocation Arrangements for each Quality Contract:
- 4.1.1 the outcome of such consultation; and
- 4.1.2 the Relevant Information requested and received pursuant to regulation 5 of the QCS TUPE Regulations.
- 4.2 Nexus shall update the detail of the Allocation Arrangements regularly based on available information leading up to the date of the coming into force of the Quality Contracts.
- 4.3 For the purposes of this Scheme, Table AA1 and Table AA2 below describe the allocation of Relevant Employees to Quality Contracts. **[Note: the tables are indicative as they reflect the position at the time when the Relevant Information was provided and are based on a network as at 03 November 2013. Nexus shall update the tables to reflect the information provided up to the date of making of the Scheme.]**

4.4 Nexus shall update the Allocation Arrangements regularly based on available information up to the Commencement Date, or such later date as any Quality Contract to which Allocation Arrangements may apply, shall commence.

5. **Application of Allocation Arrangements**

5.1 Nexus shall procure and pay for a dedicated facilitator during the Transitional Period to support Operators and employees in the TUPE transfer process. Nexus shall procure that the facilitator shall work with existing and incoming Operators to enable a smooth transfer of employees. Nexus shall update the detail of the Allocation Arrangements regularly throughout this transfer process on the basis of the available information and use reasonable endeavours to keep existing Operators, new Operators and employees informed during the transfer process.

5.2 The facilitator shall assist and manage the process of allocation of employees, but shall not be entitled to determine disputes or make decisions in place of an employer.

5.3 Nexus shall use reasonable endeavours to promptly agree the details and role of any Trade Union representative in consultation with the relevant Trade Unions following the date of this Scheme.

[Note 1: the following Tables are indicative only and reflect the position at the time when the Relevant Information was provided and is based on the services listed in Annex 1 which itself is indicative and is based on a network at 03 November 2013 and depot operations as at 1<sup>st</sup> April 2014. The detail of the Allocation Arrangements shall be updated regularly based on available information leading up to the date of the Scheme being made and in accordance with these Allocation Arrangements up to the Commencement Date or such later date that a Quality Contract to which the Allocation Arrangements apply shall come into effect].

[Note 2: The Tables do not seek to identify or allocate employees of Operators who are not Relevant Employees. For example, an employee may be based at Arriva Jesmond and may work in a clerical role, however if he/she is not a Relevant Employee he/she will not transfer to Contract 2. Whether or not an Employee is a Relevant Employee depends on whether he/she is “principally connected” to Affected Local Services – see paragraph 1 and 2.]

Table AA1 – Relevant Employees of large operators

1.	2.	3.	4.	5.
OPERATOR	LOCATION	NATURE OF DUTIES	SPECIFIC WORK UNDERTAKEN or JOB TITLE/ROLE	CONTRACT ASSIGNED TO
ARRIVA	Jesmond	Engineering	➔	Contract 2
		Clerical	➔	
		Drivers	<i>Mini-bus drivers</i> (working on Nexus secured services)	Contract 101
			<i>Conventional Drivers and Leading Drivers</i>	Contract 2

STAGECOACH	Slatyford Depot	<i>Traffic</i>	Drivers Revenue Inspectors	Contract 1
		<i>Engineering</i>		
	Slatyford Office	<i>Traffic</i>		
STAGECOACH	South Shields Depot	<i>Traffic</i>	PCV Drivers	Contract 6
		<i>Engineering</i>		
	South Shields Office	<i>Admin</i>		
		<i>Traffic</i>		
STAGECOACH	Walkergate Depot	<i>Traffic</i>	Drivers	Contract 3
		<i>Engineering</i>		
	Walkergate Office	<i>Admin</i>		
		<i>Traffic</i>		
STAGECOACH	Sunderland Depot	<i>Traffic</i>	PCV Drivers	Contract 9
		<i>Engineering</i>		

		<i>Admin</i>		
GO NORTH EAST	Chester-le-Street	Engineering	<i>PSV Servicing and PSV Maintenance</i>	Contract 11
		<i>Admin Staff</i>		
		<i>Traffic</i>		
		<i>Drivers</i>		
GO NORTH EAST	Deptford	Engineering	<i>PSV Servicing and PSV Maintenance</i>	Contract 8
		<i>Admin</i>		
		<i>Traffic</i>		
		<i>Drivers</i>	<i>Deptford Low Cost Drivers DEDL</i>	Contract 102
			All other Deptford drivers	Contract 8
GO NORTH EAST	*Riverside (previously Gateshead)	Admin		Contract 5

	Metro Staff)	<i>Traffic</i>		
		<i>Drivers</i>		
GO NORTH EAST	*Riverside (previously Sunderland Road based staff)	Engineering	<i>PSV Servicing and PSV Maintenance</i>	Contract 5
		<i>Admin</i>		
		<i>Traffic</i>		
GO NORTH EAST	*Saltmeadows (includes some drivers now based at Riverside)	Engineering	<i>PSV Servicing and PSV Maintenance</i>	Contract 105
		<i>Traffic</i>		Contract 105
		<i>Drivers</i>	Drivers based at Riverside as at July 2014 except <i>Artic drivers</i>	Contract 5
			Drivers based at Saltmeadows as at July 2014	Contract 105
			<i>Artic drivers – SLT Artic</i>	
GO NORTH EAST	*Riverside	Engineering	<i>PSV Servicing and PSV Maintenance</i>	Contract 5
		<i>Traffic</i>		

	(previously Winlaton based staff)	<b>Drivers</b>	All Winlaton Drivers	Contract 5
GO NORTH EAST	Hexham	Engineering	<b><i>PSV Servicing and PSV Maintenance</i></b>	Contract 5
		<b><i>Traffic</i></b>		
		Drivers		
GO NORTH EAST	Percy Main	Engineering	<b><i>PSV Servicing and PSV Maintenance</i></b>	Contract 4
		<b><i>Traffic</i></b>		
		Drivers		
GO NORTH EAST	Stanley	Engineering	<b><i>PSV Servicing and PSV Maintenance</i></b>	Contract 10
		<b><i>Admin</i></b>		
		<b><i>Traffic</i></b>		
		<b><i>Drivers</i></b>		Contract 10
GO NORTH EAST	Washington	Engineering	<b><i>PSV Servicing and PSV Maintenance</i></b>	Contract 7
		<b><i>Traffic</i></b>		Contract 7
		<b><i>Drivers</i></b>		

\*The Allocation Arrangements for the GNE Gateshead Depots are based on the Relevant Information provided by GNE in September 2013 before Riverside Depot was operational. Whilst this table gives the position as at July 2014, it is intended that the Workforce Information will be refreshed and the up-to-date information will be used to revise the Allocation Arrangements and will clarify the position for employees based at Riverside Depot.

**Table AA2 – Relevant Employees of Small Operators**

[Note 3: several small Operators did not respond to the request from Nexus for Relevant Information, nor did they respond to the request by Nexus to consult with Relevant Operators. This table has therefore been prepared based on the information available and based on the services listed in Annex 1 which itself is indicative and is based on a network at 03 November 2013]

Page 222

1.	2.	3.	4.	5.
OPERATOR	LOCATION	NATURE OF DUTIES	SPECIFIC WORK UNDERTAKEN or JOB TITLE/ROLE	CONTRACT ASSIGNED TO
A-LINE	Pelaw	Drivers	Employees “principally connected” to Services 794, 994, SCH158(am) and SCH 802(pm)	Contract/Lot 235
		Admin	Employees “principally connected” to Services SCH825(pm), SCH866(am) and SCH880(pm)	Contract/Lot 225
			Employees “principally connected” to Services 994 and M12	Contract/Lot 109
COMPASS	Leechmere	Office Staff		Contract/Lot 103
		Drivers		Contract/Lot 103
GATESHEAD	Felling/Jarrow/Sunderland	Clerks		Contract/Lot 308
		Managers		Contract/Lot 108
		Drivers	Drivers “principally connected” to the Services 90, 592, 593, 643, 941, K1/K2, R3/R4, R5, R6	Contract/Lot 108
		Drivers	Drivers “principally connected” to the DRT Service	Contract/Lot 308

CENTRAL TAXIS			Drivers “principally connected” to the Service 939 and TB10	Contract/Lot 301
			Drivers “principally connected” to the Service TB14	Contract/Lot 302
			Drivers “principally connected” to the Service TB15	Contract/Lot 303
			Drivers “principally connected” to the Service TB29	Contract/Lot 305
HENRY COOPER	Annitsford	Drivers (if any are “principally connected”)		Contract /Lot 208
KINGSLEY	Birtley	Drivers Admin	Employees who are “principally connected” to Service 960, SCH450(am), SCH864(pm)	Contract/Lot 226
			Employees who are “principally connected” to Service SCH457, SCH878(pm)	Contract /Lot 237
	Birtley		Employees who are “principally connected” to Service SCH454	Contract /Lot 238
			Employees who are “principally connected” to Service SCH450(pm), SCH461(am), SCH864 (am)	Contract /Lot 239
			Employees who are “principally connected” to Service SCH458	Contract /Lot 240
			Employees who are “principally connected” to Service SCH421(pm), SCH444(am), SCH465(pm), SCH874(am)	Contract /Lot 241
			Employees who are “principally connected” to	Contract /Lot 242

KINGSLEY		Drivers Admin	Service SCH441	
			Employees who are “principally connected” to Service SCH451	Contract /Lot 243
			Employees who are “principally connected” to Service SCH556(am), SCH803(pm), SCH826(pm)	Contract /Lot 247
			Employees who are “principally connected” to Service SCH542(am), SCH803(am), SCH821(pm)	Contract /Lot 248
			Employees who are “principally connected” to Service SCH542, SCH806(pm), SCH812(am)	Contract /Lot 249
			Employees who are “principally connected” to Service SCH820(am), SCH824(pm)	Contract /Lot 252
			Employees who are “principally connected” to Service SCH525(am), SCH804	Contract /Lot 253
			Employees who are “principally connected” to Service SCH558, SCH815(pm)	Contract /Lot 254
PHOENIX	Cowpen	Drivers	Employees who are “principally connected” to Service 19, 333 and A1/A2/A3	Contract/Lot 107
		Admin	Employees who are “principally connected” to Service SCH680	Contract/Lot 207
			Employees who are “principally connected” to Service 23 and 933	Contract 104

STANLEY TRAVEL	Oxhill	Drivers Admin	Employees who are “principally connected” to Service SCH146 (PM) and SCH104 (AM)	Contract 211
			Employees who are “principally connected” to Service SCH854 (AM) and SCH875 (PM)	Contract 212
			Employees who are “principally connected” to SCH453 (PM) and SCH 460 (AM)	Contract 236
			Employees who are “principally connected” to Service 939, 968, SCH452	Contract 244
			Employees who are “principally connected” to Service 939, SCH812 (PM), SCH856 (AM)	Contract 255
TGM	Annfield Plain	Drivers	Employees who are “principally connected” to Service 168, 515, 558, 941, R3/R4, R6	Contract /Lot 106
			Employees who are “principally connected” to Service SCH114 (PM), SCH142 (PM), SCH143 (AM)	Contract /Lot 229
			Employees who are “principally connected” to Service SCH104 (PM), SCH105, SCH106 (PM)	Contract /Lot 231
			Employees who are “principally connected” to Service SCH115 (AM), SCH116 (PM), SCH124 (PM), SCH139 (AM)	Contract /Lot 232
			Employees who are “principally connected” to Service SCH135 (PM), SCH137 (AM), SCH155 (PM)	Contract /Lot 233

CLASSIC		Admin	Employees who are “principally connected” to Service 933, 939, SCH857 (PM), SCH860 (AM)	Contract /Lot 246
			Employees who are “principally connected” to Service SCH801 (PM), SCH815 (AM), SCH820 (PM)	Contract /Lot 250
			Employees who are “principally connected” to Service SCH556 (PM), SCH802 (AM), SCH821 (AM)	Contract /Lot 251
WEARDALE	Stanhope	Drivers	Employees who are “principally connected” to Service SCH855 (PM), SCH882	Contract /Lot 210
			Admin	Employees who are “principally connected” to Service SCH840 (PM), SCH863 (AM)
		Employees who are “principally connected” to Service SCH832 (AM), SCH861 (PM)		Contract /Lot 221
		Employees who are “principally connected” to Service SCH103 (PM), SCH114 (AM), SCH137, SCH147 (AM)		Contract /Lot 230
		Employees who are “principally connected” to Service SCH112	Contract /Lot 234	

**Part 1: Category A Excluded Services**

1. The following services shall be Category A Excluded Services:
  - 1.1 Excursions and Tours Local Services;
  - 1.2 Community Transport Local Services;
  - 1.3 Replacement Local Services;
  - 1.4 Special Event Local Services;
  - 1.5 Any Local Service operating to/from the QCS Area with only one specified pick up/set down stopping point registered within the QCS Area;
  - 1.6 Any Local Service operating, in its entirety, under a secured services contract let by either Durham County Council, Northumberland County Council or the NECA where and to the extent that such Local Service additionally serves parts of the QCS Area;
  - 1.7 Any Local Service operating to/from Cumbria, South East Scotland or the Tees Valley where such service has a maximum of 10 specified pick up and 10 specified set down stopping points registered within the QCS Area;
  - 1.8 Coach Local Services which do not permit point-to-point travel within the QCS Area, even where they are registered as Local Services within the QCS Area; and
  - 1.9 any other class of service which may be determined to be a Category A Excluded Service by the NECA from time to time.

**Part 2: Category B Excluded Services**

1. A service which complies with the following requirements (as amended by the NECA from time to time, acting reasonably) will be a Category B Excluded Service:
  - 1.1 the Local Services identified in Schedule 1 to this Part 2 of Annex 6; and
  - 1.2 any other Local Services which Nexus determines, as at the date of this Scheme, to be materially the same as the Local Services set out in Schedule 1 to this Part 2 of Annex 6,provided that such Local Services at all times comply with the conditions set out in paragraph 5 of this Scheme.

**Schedule 1**

**Service Exclusions (Category B) (indicative based on network in operation 03 November 2013)**

<b>Service</b>	<b>Route Description</b>	<b>Operator Licence Number</b>	<b>Operator Name</b>	<b>Registration Number</b>	<b>Timetable Effective Date</b>
23	Sunderland - Hartlepool	PB0002717	Arriva Durham County Ltd	/220	30.08.13
24	Sunderland - Durham	PB0002717	Arriva Durham County Ltd	/257	27.10.13
57/57A	Whitley Bay - North Seaton/Morpeth	PB0002032	Arriva Northumbria Ltd	/266	01.09.13
100	Morpeth - Kirkley Hall College	PB0002032	Arriva Northumbria Ltd	/301	03.02.13
202	Peterlee - Seaham	PB0002400	Go Northern Limited	/486	24.03.13
265	Durham - Seaham	PB0002400	Go Northern Limited	/483	24.03.13
308	Newcastle - Blyth	PB0002032	Arriva Northumbria Ltd	/450	01.09.13
494	Newbiggin - DSS Longbenton	PB0002032	Arriva Northumbria Ltd	/276	01.09.13
923	Rainton Bridge - Peterlee	PB0002400	Go Northern Limited	/422	02.06.13
V9	Chopwell - Consett	PB0003954	Go North East Limited	/372	01.09.13
X2	Newcastle - Durham	PB0002717	Arriva Durham County Ltd	/238	28.07.13
X4	Newcastle - Blyth	PB0002032	Arriva Northumbria Ltd	/11	01.09.13
X5	Newcastle - Blyth	PB0002032	Arriva Northumbria Ltd	/252	01.09.13
X10/X11	Newcastle - Blyth	PB0002032	Arriva Northumbria Ltd	/337	01.09.13
X13	Newcastle - Blyth	PB0002032	Arriva Northumbria Ltd	/341	06.08.13
X14	Newcastle - Morpeth	PB0002032	Arriva Northumbria Ltd	/396	06.08.13
X15	Newcastle-Alnwick/Berwick	PB0002032	Arriva Northumbria Ltd	/429	06.08.13
X18	Newcastle - Alnwick/Berwick	PB0002032	Arriva Northumbria Ltd	/428	06.08.13
X20	Newcastle - Ashington (continues to Amble as service 20)	PB0002032	Arriva Northumbria Ltd	/309	06.08.13
X21	Newcastle - Stanhope	PB0002406	Weardale Motor Services Ltd	/3	22.04.02
X21	Newcastle - Ashington/Newbiggin	PB0002032	Arriva Northumbria Ltd	/159	06.08.13

X22	Newcastle - Ashington/Newbiggin	PB0002032	Arriva Northumbria Ltd	/194	06.08.13
X22	Durham - Metrocentre	PB0002400	Go Northern Limited	/282	27.10.13
X24	Durham - Metrocentre	PB0002717	Arriva Durham County Ltd	/165	03.02.13
X43	Stanley - Metrocentre	PB0003954	Go North East Limited	/507	28.10.12
X84/X85	Newcastle - Hexham	PB0003954	Go North East Limited	/582	08.09.13

## ANNEX 7: GOVERNANCE ARRANGEMENTS

Article 13

### Part 1: Tyne and Wear Sub-Committee

#### 1. TWSC

1.1 Pursuant to the constitution of the NECA and in order to discharge the functions related to bus services provided through this Scheme which have been delegated to it by the NELB, the TWSC shall:

1.1.1 oversee the operation of the Quality Contracts Scheme, seeking to achieve the NECA's objectives equitably, economically, efficiently and effectively within the annual budget for the provision of Quality Contract Services determined by the NECA;

1.1.2 carry out the obligations specified for the TWSC within the Annual Development Cycle specified in Part 3 (Annual Development Cycle) of this Annex 7;

1.1.3 carry out the obligations specified for the TWSC within the Emergency Network Change Procedure specified in Part 5 of this Annex 7;

1.1.4 produce an annual summary of the TWSC's activities related to the Scheme for review by the NELB and the TNEC;

1.1.5 establish and maintain, in a manner which the TWSC deems appropriate, dialogue with key stakeholders in respect of Quality Contract Services which may be identified by the TWSC, but which shall include (but not be limited to):

1.1.5.1 Durham County Council and Northumberland County Council;

1.1.5.2 any other Impacted Council with whom an External Cross Boundary Bus Collaboration Agreement is established (see paragraph 2.2 below);

1.1.5.3 Local Bus Boards, to the extent required to allow for local engagement in:

(a) bus service development proposals;

(b) performance monitoring of Quality Contract Services; and

(c) improving bus punctuality and reliability pursuant to Quality Contracts;

1.1.5.4 schools and colleges in relation to the provision of Scholars Services;

1.1.5.5 any other party involved in the safe and effective delivery of the Quality Contract Services including but not limited to:

- (a) operators of Local Services, including Quality Contract Services;
- (b) the Department for Transport;
- (c) Trades Unions;
- (d) the police;
- (e) the Highways Agency;

1.1.5.6 the Tyne and Wear User Consultative Forum; and

1.1.5.7 any other party as may be required that the TWSC believes should be consulted to allow the TWSC to achieve its aims as specified in this Part 1.

2. **NECA Cross Boundary Bus Collaboration Protocol and External Cross Boundary Bus Collaboration Agreements**

2.1 A protocol has been established by the NECA to manage the effects of the QCS on Northumberland County Council and Durham County Council. This is known as the “**NECA Cross Boundary Bus Collaboration Protocol**” as set out in Schedule 1 of this Annex 7. The discharge of the NECA Cross Boundary Bus Collaboration Protocol Agreement will be overseen by the TNEC on behalf of the NECA.

2.2 The NECA shall use reasonable endeavours to enter into appropriate agreements with any Impacted Council who is not a member of the NECA (an “**External Cross Boundary Bus Collaboration Agreement**”). In order to oversee the discharge of each External Cross Boundary Bus Collaboration Agreement a Cross-Boundary Group will be established, comprising elected members from both the TWSC and the relevant Impacted Council (“**Cross-Boundary Groups**”).

2.3 Each Cross-Boundary Group, or in the case of Durham County Council and Northumberland County Council only, the TNEC, will:

2.3.1 oversee the discharge of the obligations under the NECA Cross Boundary Bus Collaboration Protocol;

2.3.2 oversee the discharge of the obligations under the relevant External Cross Boundary Bus Collaboration Agreement; and

2.3.3 provide advice to the TWSC in relation to the development of services affecting any Impacted Council (as applicable).

## Part 2: Local Bus Boards

### Local Bus Boards

1. For the purposes of this Scheme the NECA shall establish a local bus board in respect of each of the Tyne and Wear Councils, in accordance with this Part 2 ("**Local Bus Board**").
2. The NECA shall procure that Nexus provides all clerical and secretarial support reasonably required by each Local Bus Board in order to carry out its obligations pursuant to this Annex 7.
3. The NECA shall procure that suitable meeting facilities are provided in each Tyne and Wear Council Area for meetings of the Local Bus Board for that Tyne and Wear Council.
4. Each Local Bus Board shall meet quarterly in accordance with the terms of reference as outlined in Schedule 2 to this Annex 7.
5. The membership of each Local Bus Board is to be determined by the relevant Tyne and Wear Council.
6. The Chair of each Local Bus Board shall be the TWSC representative for that Tyne and Wear Council.
7. Each Local Bus Board shall:
  - 7.1 develop and monitor a plan to improve bus punctuality and reliability in the relevant Tyne and Wear Council Area;
  - 7.2 monitor the delivery of local investment programmes which affect Quality Contract Services, including but not limited to:
    - 7.2.1 the programme of investment in local highways and bus related infrastructure for the relevant Tyne and Wear Council;
    - 7.2.2 Nexus and the NECA's investment plans as they relate to Quality Contract Services operating in the relevant Tyne and Wear Council Area;
    - 7.2.3 the investment proposals of all Operators operating in the relevant Tyne and Wear Council Area, to the extent that the Local Bus Board is aware of such proposals, including, but not limited to, Operators operating Quality Contract Services and Excluded Services;
  - 7.3 provide a regular summary of their activities to the TWSC;
  - 7.4 engage with passenger representatives, Trades Union representatives and other relevant local stakeholders; and
  - 7.5 if necessary, in respect of Quality Contract Services within their area, request that Nexus develops remedial plans where Quality Contract Services do not meet the standards specified in either:
    - 7.5.1 this Scheme; or
    - 7.5.2 the relevant Quality Contract.

8. Each Local Bus Board shall make such arrangements as it sees fit to:
  - 8.1 liaise with other Local Bus Boards on matters of shared interest which affect more than one Local Bus Board; and
  - 8.2 liaise with relevant Impacted Councils and Cross-Boundary Groups in relation to any Local Services in the areas of those Impacted Councils and Cross-Boundary Groups which are either:
    - 8.2.1 Quality Contract Services; or
    - 8.2.2 likely to be affected by one or more Quality Contract Services.
9. Nexus shall procure that each Quality Contract requires the Operators under that Quality Contract to attend meetings of any Local Bus Board for an area where they provide Quality Contract Services, at the request of that Local Bus Board.
10. Officers of Nexus shall attend any Local Bus Board at the request of that Local Bus Board.

### **Part 3: Annual Development Cycle**

#### **1. Timescale**

- 1.1 An Annual Development Cycle will be undertaken in accordance with the actions and indicative timescales specified in this Part 3, or such other timescales as Nexus may agree with the relevant parties, acting reasonably.

#### **2. Annual Report**

- 2.1 For the purposes of the Scheme Nexus shall, as soon as is reasonably practicable after the start of each financial year and no later than the end of June, produce a report to the NECA describing the performance of the QCS Network over the previous financial year (the "**Annual Report**").

- 2.2 The Annual Report shall include but shall not be limited to including a description of:

- 2.2.1 overall patronage levels;
- 2.2.2 costs;
- 2.2.3 revenues;
- 2.2.4 customer satisfaction;
- 2.2.5 any other indicators which Nexus believes are relevant to the delivery of bus services in the QCS Area; and
- 2.2.6 any indicators included at the request of the TWSC or any Local Bus Boards that can, in Nexus' reasonable opinion, be provided economically and practically.

- 2.3 The Annual Report shall be reviewed by:

- 2.3.1 the TWSC and the TNEC; and
- 2.3.2 each Local Bus Board (in respect of local information),

who shall provide any comments to Nexus for consideration, and Nexus shall publish the Annual report by no later than the end of July.

#### **3. Draft Bus Network Business Plan**

- 3.1 Following review of the Annual Report pursuant to paragraph 2.3, Nexus shall produce a draft business plan (the "**Draft Bus Network Business Plan**") by no later than the end of August in respect of the following financial year which shall include (with supporting evidence, where appropriate):

- 3.1.1 any proposed alterations to the Quality Contract Services;
- 3.1.2 revenue forecasts for the Quality Contract Services;
- 3.1.3 subsidy expectations for any proposed Quality Contract Services;

- 3.1.4 any proposed changes to bus fares within the QCS Area;
  - 3.1.5 an analysis of the impact of the proposals specified in paragraphs 3.1.1 to 3.1.4 on the Public Interest Criteria;
  - 3.1.6 the benefits of any proposed variation to the Quality Contract Services or fares charged to passengers using such Quality Contract Services; and
  - 3.1.7 the expected financial impact of any proposed variation on the NECA, Nexus, Operators of Quality Contract Services and other Local Services and the public.
- 3.2 Nexus shall provide the Draft Bus Network Business Plan to the TWSC for consideration.
4. **Consultation**
- 4.1 Subject to the approval of the TWSC, which shall be confirmed by the TWSC by no later than the end of September, Nexus shall consult in relation to the Draft Bus Network Business Plan with:
- 4.1.1 each Local Bus Board (as it relates to the area of that Local Bus Board);
  - 4.1.2 any Impacted Council with whom the NECA Cross Boundary Bus Collaboration Protocol or an External Cross Boundary Bus Collaboration Agreement exists (as it relates to the area of that Impacted Council); and
  - 4.1.3 the Tyne and Wear User Consultative Forum,
- and Nexus shall consider any comments it receives.
- 4.2 Nexus shall make the Draft Bus Network Business Plan available on the Nexus website for public comment.
- 4.3 The TWSC may request that Nexus conducts a formal public consultation exercise regarding the Draft Bus Network Business Plan in accordance with paragraphs 4.4 to 4.8 (inclusive).
- 4.4 Local Bus Boards and the Tyne and Wear User Consultative Forum may carry out consultations with local people and stakeholders in respect of any proposed route or timetable changes specified by the Draft Bus Network Business Plan, and shall provide feedback to the TWSC in respect of the responses to any such consultations by no later than the end of November. Nexus shall support such consultations by advertising the proposals specified in the Draft Bus Network Business Plan and providing appropriate materials to support such consultations.
- 4.5 Nexus will, by no later than the end of December, consider making reasonable adjustments to the Draft Bus Network Business Plan to reflect any feedback received from the Local Bus Boards, Impacted Councils, the Tyne and Wear User Consultative Forum or through public consultation requested by the TWSC, provided that no adjustments shall be made unless such adjustments:
- 4.5.1 can be achieved within the financial resources available;

- 4.5.2 would not breach the terms of the NECA Cross Boundary Bus Collaboration Protocol or any External Cross Boundary Bus Collaboration Agreement;
  - 4.5.3 are capable of delivery either through existing Quality Contracts or through the tendering of new Quality Contracts; and
  - 4.5.4 would not otherwise place Nexus in breach of a statutory obligation.
- 4.6 Where the criteria in paragraph 4.5 cannot be met then Nexus shall inform the TWSC and explain its decision in writing to the relevant Local Bus Board, the Impacted Councils or to the Tyne and Wear User Consultative Forum (as applicable), or in the case of requests arising through public consultation, by publishing a response to consultation.
- 4.7 If the Local Bus Board or the Tyne and Wear User Consultative Forum dispute the decision specified in paragraph 4.6 or propose to take action which will remove or mitigate the reasons specified for the decision in paragraph 4.6, then the matter will be referred to the TNEC for final determination, and the TNEC shall direct Nexus to amend the Draft Bus Network Business Plan accordingly.
- 4.8 If an Impacted Council disputes the decision specified in paragraph 6 then the Dispute Resolution Process specified in the relevant NECA Cross Boundary Bus Collaboration Protocol or External Cross Boundary Bus Collaboration Agreement shall be followed.
5. **Bus Network Business Plan**
- 5.1 The Draft Bus Network Business Plan shall be approved by the TWSC by no later than the end of January, provided that the NECA is satisfied that the requirements specified in paragraph 5.2 are met (the "**Bus Network Business Plan**").
- 5.2 The requirements are that the Draft Bus Network Business Plan:
- 5.2.1 works within the context of the NECA's current overall transport strategy and budget strategy;
  - 5.2.2 on implementation, will allow the Scheme to continue to meet the Public Interest Criteria; and
  - 5.2.3 including any variations required, can be made within the terms of the existing Scheme.
- 5.3 In the event that paragraphs 5.2.1 and 5.2.2 have been satisfied, but paragraph 5.2.3 will not be satisfied by the Draft Bus Network Business Plan, the NECA shall determine whether to vary the QCS pursuant to section 132 of the Transport Act 2000 (as amended), or whether to implement the Draft Bus Network Business Plan without such variations which cannot be made within the terms of the existing Scheme.
- 5.4 Nexus shall promptly, and by no later than the end of March, implement the Bus Network Business Plan, including but not limited to:
- 5.4.1 effecting any required contractual changes;
  - 5.4.2 procuring any additional Quality Contracts required; and

5.4.3 producing any necessary customer information with as much prior notice as possible.

## Part 4: Variation of the QCS

### 1. Variation of the QCS

1.1 Nexus shall only vary a Quality Contract Service pursuant to the terms of the relevant Quality Contract where such change:

1.1.1 has been determined by Nexus to be compliant with the Public Interest Criteria;

1.1.2 is made in accordance with the Governance Arrangements in this Annex 7;

1.1.3 is capable of being implemented either in accordance with the terms of the relevant existing Quality Contract (including any variations permitted pursuant to the terms of those Quality Contracts), through the procurement of one or more additional Quality Contracts or without any amendment to a Quality Contract; and

1.1.4 is determined in accordance with the Annual Development Cycle or the Emergency Network Change Procedure (as required).

1.2 Where the NECA decides to proceed with a variation to the Scheme which consists of:

1.2.1 the addition of Local Services that do not fall within the definition of Quality Contract Services and are not capable of being made in accordance with paragraph 1;

1.2.2 the withdrawal of Local Services that currently fall within the definition of Quality Contract Services and which are not capable of being made in accordance with paragraph 1;

1.2.3 the alteration of exclusions from the Scheme; or

1.2.4 a change which does not fall within the scope of the existing Scheme,

such variations shall be made in accordance with section 132 of the 2000 Act.

## Part 5: Emergency Network Change Procedure

### 1. Exceptional Events

- 1.1 An "**Exceptional Event**" is an event which could not reasonably have been foreseen when this Scheme was developed which has, or will have, a material adverse effect on the delivery of a Quality Contract Service and the effect of such event cannot be managed by Nexus or the Operator of the Quality Contract Service effectively through the implementation of the base specifications for Quality Contract Services specified in Annex 4 of this Scheme.
- 1.2 Exceptional Events shall include but are not limited to:
- 1.2.1 the unanticipated opening, closing, expansion or contraction of a generator or attractor of bus patronage;
  - 1.2.2 unanticipated events causing disruption or otherwise adversely affecting the operation of highways; and
  - 1.2.3 in relation to Scholars Services, ad-hoc changes to vehicle routings, timetables and capacities in response to previously unforeseeable changes in demand.
- 1.3 Nexus shall include relevant Exceptional Events in the change procedure contained in each Quality Contract.

### 2. Short Term Response Procedure

- 2.1 If the adverse effects of an Exceptional Event can be remedied (in the short term) through the re-routing or re-timing of a Quality Contract Service ("**Short Term Change**") pursuant to the terms of the relevant Quality Contract, Nexus may make such Short Term Change in accordance with the terms of the relevant Quality Contract and the procedure set out in this paragraph 2 shall apply.
- 2.2 Nexus shall report the Short Term Change to the TWSC (or the TNEC if the matter relates to Durham and/or Northumberland) for review and consideration at the next meeting of the TWSC or the TNEC (as applicable). The TWSC or the TNEC (as applicable) shall:
- 2.2.1 consult any relevant Local Bus Board and/or Impacted Council in relation to the Short Term Change; and
  - 2.2.2 seek advice from Nexus in relation to the financial impact of the proposed Short Term Change.
- 2.3 Where the TWSC or the TNEC (as applicable) considers that the Short Term Change is appropriate and the Exceptional Event is continuing, the TWSC or the TNEC (as applicable) shall:
- 2.3.1 accept the Short Term Change for the duration of the Exceptional Event, as a formal change to the Quality Contract Services and Nexus shall deliver the Short Term Change for this period in accordance with the terms of the relevant Quality Contract;

- 2.3.2 monitor the Short Term Change for the duration of the Exceptional Event; and
  - 2.3.3 following the resolution of the Exceptional Event, direct Nexus to reinstate the previous Quality Contract Service to the extent that Nexus has not already done so through the terms of the relevant Quality Contract(s).
- 2.4 If the TWSC or the TNEC (as applicable) considers that the Short Term Change is not appropriate and the Exceptional Event is continuing the TWSC or the TNEC (as applicable) shall direct Nexus to alter the Short Term Change and either:
- 2.4.1 revert to provision of the Quality Contract Services as specified in the relevant Quality Contract prior to the Short Term Change; or
  - 2.4.2 make another change as determined by the TWSC or the TNEC (as applicable) to manage the Exceptional Event where such change is also permitted under the change mechanism of the relevant Quality Contract, in which case paragraph 2.3 shall apply in respect of such further Short Term Change.

**3. Long Term Response Procedure**

- 3.1 Where Nexus recommends to the TWSC or the TNEC (as applicable) that the action to be taken in response to an Exceptional Event requires a medium to long-term change to the level or nature of fares to be charged on Quality Contract Services, the TWSC or the TNEC (as applicable) shall follow the procedure set out in this paragraph 3.
- 3.2 Nexus shall consider whether any adjustments to Quality Contract Services are required prior to the end of the Annual Development Cycle and shall recommend any such adjustments to the TWSC or the TNEC (as applicable) identifying:
- 3.2.1 what can be achieved in accordance with the terms of the existing Quality Contracts or whether a further Quality Contract must be procured in order to implement the recommended adjustments;
  - 3.2.2 whether such adjustments are consistent with the terms of the existing Scheme and compliant with the Public Interest Criteria; and
  - 3.2.3 whether such adjustments require a change to the Scheme in order to manage the relevant Exceptional Event, and whether the proposed change would result in the varied Scheme being compliant with the Public Interest Criteria.
- 3.3 An exceptional meeting of the TWSC (or the TNEC if the matter relates to Durham and/or Northumberland) shall be called to consider such recommendations, pursuant to which the TWSC or the TNEC (as applicable) shall direct Nexus to take such action as is necessary in accordance with the terms of each Quality Contract which may be affected which may include Nexus making changes to Quality Contract Services in accordance with the terms of such Quality Contract.

**4. General**

- 4.1 Nexus shall ensure that the details of each Exceptional Event are fully taken into account in the next Annual Development Cycle.

## **Part 6: Cross-Boundary**

### **1. Cross-Boundary coordination**

#### **1.1 The TWSC shall:**

- 1.1.1 formally consult any Impacted Councils during the Annual Development Cycle;
- 1.1.2 take into account the reasonable requirements of the Impacted Councils pursuant to paragraph 2.2 of Part 1 (Tyne and Wear Sub-Committee) of this Annex 7; and
- 1.1.3 wherever practicable, support the achievement of the local transport policies of any Impacted Councils.

**SCHEDULE 1: NECA CROSS BOUNDARY BUS COLLABORATION PROTOCOL**

## **SCHEDULE 2: TERMS OF REFERENCE: LOCAL BUS BOARDS**

Membership of the Local Bus Boards will be determined by the relevant Tyne and Wear Council, in conjunction with their TWSC representative.

Local Bus Boards will be advisory working groups of the NECA, to meet quarterly, with the following terms of reference:

- To make recommendations to the TWSC and the NECA on services wholly within their districts
- To provide comment to the TWSC and TNEC on cross boundary services
- To provide comment on fares, marketing and branding and accessibility standards to the TNEC and the NECA
- To provide input into the annual reporting process on local services and requirements
- To provide input into the Emergency Network Change Procedure
- To receive reports from Nexus that address any changes that occur outside of the annual planning process which may impact on patronage, accessibility and punctuality within their locality
- To liaise with customers, local service providers and stakeholders within their own locality through forums and open meetings
- To deliver local marketing, subject to availability of funding
- To review and monitor the following within their own locality:
  - service specifications
  - network design
  - performance
  - patronage
  - quality standards
  - customer satisfaction

1. Bidders will be required to submit a separate price for each Quality Contract which they tender for Quality Contracts.
2. The Quality Contract Services shall initially be tendered in two rounds:
  - 2.1 ROUND 1

Quality Contracts for the provision of Local Services with an assumed PVR of between 39 and 128 vehicles each, or such other number of vehicles as Nexus determines is required. *[Note: The assumed PVR stated in this paragraph is indicative only and will be updated at the time of the making of the Scheme.]*
  - 2.2 ROUND 2

Quality Contracts for the provision of Local Services with an assumed PVR of between 1 and 20 vehicles each, or such other number of vehicles as Nexus determines is required. *[Note: The assumed PVR stated in this paragraph is indicative only and will be updated at the time of the making of the Scheme.]*
3. Round 1 Quality Contracts shall be awarded to the bidder with the most economically advantageous tender applying evaluation criteria and weightings structured so as to maximise the delivery of benefits through the Quality Contract Services.
4. Nexus shall advertise all structured Round 1 Quality Contracts simultaneously but may stagger the deadline for completed submissions of the Quality Contracts, and may require bidders to make interim submissions for their proposals for any Quality Contract.
5. Round 2 Quality Contracts shall be awarded to the bidder with the lowest priced compliant bid.
6. All of the initial Quality Contracts will commence simultaneously on the Commencement Date.
7. Contract durations for all of the initial Quality Contracts will be for a maximum of 10 years, with a maximum 7 year initial term plus the right for Nexus to extend for up to 3 years.
8. Consortia bids will be accepted and sub-contracting will be allowed.
9. Each Quality Contract shall include specification of service routes, contract length, service number, detailed timetables, vehicle requirements (PVR/quality standards/minimum capacity/minimum engine emissions) and mileage. Individual services within a Quality Contract will be capable of variation provided that:
  - 9.1 the mileage of services within a Quality Contract may increase or decrease by up to 10% in total;
  - 9.2 the PVR within a Quality Contract may be increased by up to 10%; and
  - 9.3 notwithstanding paragraphs 9.1 and 9.2, where a Quality Contract relates to Works Services or Scholars Services the PVR shall not vary, with Operators being paid the base daily rate for the guaranteed 30 miles, in order to make that PVR available. Changes in

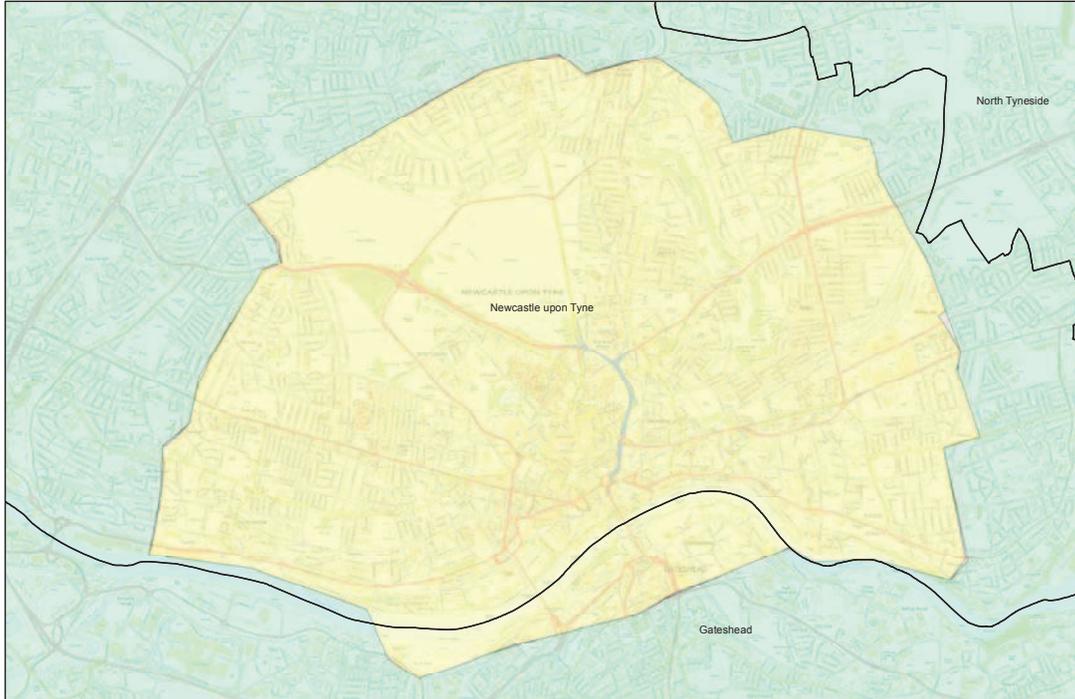
mileage within that PVR above 30 miles will then be paid at the tendered additional mileage rate.

10. New services shall be determined through the Governance Process, and may be let by separate tender of a new Quality Contract.
11. Quality Contracts shall allow for early and partial termination in circumstances where the QCS is revoked or services otherwise fall outside the terms of any revised QCS.
12. Where Quality Contracts are let during the term of the QCS they may have contract lengths which extend beyond the initial term of the QCS, but with a right for the contract to be terminated on expiry of the QCS to allow such contracts to continue into the period of the extended QCS if the QCS is continued in accordance with section 131A of the Transport Act 2000.

**Annex 3 Part 2 Figure 1**

QCS Zone A/B Boundary

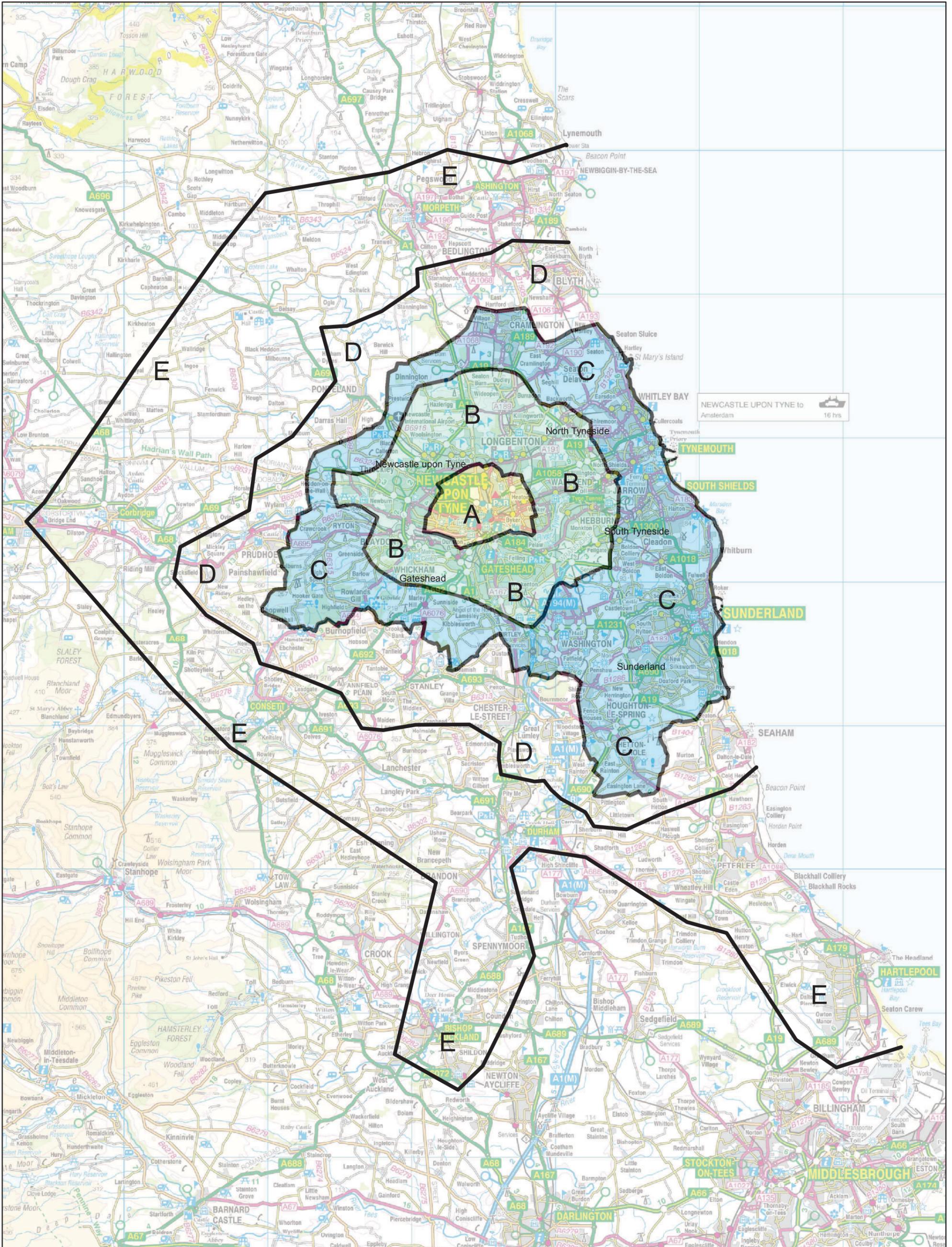
### QCS Zone A/B boundary



**Annex 3 Part 2 Figure 2**

QCS All Boundaries

# QCS All Boundaries



**Appendix C: QCS Public Interest Test Report**

TYNE AND WEAR QUALITY CONTRACTS SCHEME

PUBLIC INTEREST TEST

TYNE AND WEAR PASSENGER TRANSPORT EXECUTIVE (NEXUS)

OCTOBER 2014

Where the symbol  is shown, text has been taken from material provided by consultees, which was requested not to be disclosed due to commercial confidentiality. Nexus reserves the right to review the disclosure of such text at a later stage.

Blank page

## TABLE OF CONTENTS

<b>1. INTRODUCTION .....</b>	<b>1</b>
<b>1.1 The Public Interest Test .....</b>	<b>1</b>
<b>1.2 Document Structure .....</b>	<b>3</b>
<b>1.3 The existing bus market in Tyne and Wear .....</b>	<b>4</b>
1.3.1 The importance of buses .....	4
1.3.2 Structure of the local market .....	7
1.3.3 Secured Bus Services .....	8
1.3.4 Bus Patronage .....	10
1.3.5 Fares and Ticketing .....	12
1.3.6 Punctuality and customer satisfaction .....	14
1.3.7 Existing Voluntary Partnership Agreements .....	15
1.3.8 Funding .....	16
<b>1.4 The Do Minimum Scenario .....</b>	<b>17</b>
1.4.1 Introduction .....	17
1.4.2 Bus Patronage Forecast .....	17
1.4.3 Availability of Levy Funding .....	20
1.4.4 ENCTS reimbursement .....	23
1.4.5 Financial projection .....	24
1.4.6 Alternative Do Minimum Scenarios .....	25
1.4.7 Impact of Do Minimum Scenario .....	29
<b>1.5 The Quality Contracts Scheme for Tyne and Wear .....</b>	<b>32</b>
1.5.1 Introduction .....	32
1.5.2 Bus Network .....	32
1.5.3 Fares and Ticketing .....	33
1.5.4 Procurement and contract standards .....	34
1.5.5 Employees .....	36
1.5.6 Customer information and branding .....	37
1.5.7 Governance .....	38
1.5.8 Delivery of the QCS .....	38

<b>1.6</b>	<b>Analysis of the QCS - The Nexus Affordability Model .....</b>	<b>41</b>
1.6.1	Introduction to the Model .....	41
1.6.2	Demand Modelling .....	41
1.6.3	Financial Modelling .....	45
1.6.4	Value for Money Modelling .....	46
1.6.5	Summary .....	47
<b>2.</b>	<b>CRITERION (A) – BUS PATRONAGE .....</b>	<b>49</b>
<b>2.1</b>	<b>The Guidance .....</b>	<b>49</b>
<b>2.2</b>	<b>Approach and Methodology .....</b>	<b>51</b>
2.2.1	Trends in Bus Patronage .....	51
2.2.2	Key Drivers of Patronage .....	51
2.2.3	Demand Forecasting Methodology .....	56
2.2.4	Assessment of Risk.....	57
<b>2.3</b>	<b>Results .....</b>	<b>58</b>
<b>2.4</b>	<b>Conclusion .....</b>	<b>61</b>
<b>3.</b>	<b>CRITERION (B) – BENEFITS FROM SERVICE QUALITY IMPROVEMENTS.....</b>	<b>63</b>
<b>3.1</b>	<b>The Guidance .....</b>	<b>63</b>
<b>3.2</b>	<b>Approach and Methodology .....</b>	<b>66</b>
<b>3.3</b>	<b>Results .....</b>	<b>67</b>
3.3.1	Introduction .....	67
3.3.2	Bus Network.....	67
3.3.3	Fares and Ticketing .....	72
3.3.4	Standards for Buses and Bus Drivers .....	78
3.3.5	Customer Experience .....	88
3.3.6	Journey Information .....	91
3.3.7	Governance of Bus Services .....	95
3.3.8	Additional Economic, Social and Environmental Implications .....	100
3.3.9	Securing The QCS Benefits .....	104
<b>3.4</b>	<b>Conclusion .....</b>	<b>106</b>

<b>4.</b>	<b>CRITERION (C) – LOCAL TRANSPORT POLICIES .....</b>	<b>107</b>
<b>4.1</b>	<b>The Guidance .....</b>	<b>107</b>
<b>4.2</b>	<b>Approach and Methodology .....</b>	<b>108</b>
<b>4.3</b>	<b>Results .....</b>	<b>110</b>
4.3.1	Introduction .....	110
4.3.2	The Bus Strategy for Tyne and Wear 2012 .....	110
4.3.3	Delivery of Bus Strategy Objectives .....	112
4.3.4	The Third Local Transport Plan for Tyne and Wear, 2011-21 ('LTP3').....	121
4.3.5	Analysis of Relevant LTP3 policies .....	124
<b>4.4</b>	<b>Conclusion .....</b>	<b>130</b>
<b>5.</b>	<b>CRITERION (D) – ECONOMY, EFFICIENCY AND EFFECTIVENESS (3ES) .....</b>	<b>131</b>
<b>5.1</b>	<b>The Guidance .....</b>	<b>131</b>
<b>5.2</b>	<b>Approach and Methodology .....</b>	<b>134</b>
5.2.1	Approach.....	134
5.2.2	Methodology.....	137
5.2.3	Economy.....	141
5.2.4	Efficiency.....	143
5.2.5	Effectiveness .....	144
5.2.6	Value for Money .....	148
<b>5.3</b>	<b>Results .....</b>	<b>150</b>
5.3.1	Key Findings .....	150
5.3.2	Explanation of Impacts .....	152
<b>5.4</b>	<b>Conclusion .....</b>	<b>161</b>
<b>6.</b>	<b>CRITERION (E) - PROPORTIONALITY.....</b>	<b>163</b>
<b>6.1</b>	<b>Introduction.....</b>	<b>163</b>
6.1.1	The Guidance .....	163
6.1.2	Limitations in assessment.....	164
6.1.3	Quality assurance.....	166
6.1.4	Outline of approach .....	167

<b>6.2</b>	<b>Assumptions .....</b>	<b>168</b>
6.2.1	Introduction .....	168
6.2.2	Procurement strategy .....	168
6.2.3	Operator behaviour .....	171
6.2.4	Revised specification.....	172
<b>6.3</b>	<b>Adverse Effects on Operators .....</b>	<b>173</b>
6.3.1	Introduction .....	173
6.3.2	Different impacts on different Operators.....	174
6.3.3	Loss of profits/business value.....	175
6.3.4	Operational losses under QCS contracts .....	189
6.3.5	Additional costs of higher specification requirements.....	191
6.3.6	Stranded Assets .....	195
6.3.7	Cross-boundary operations .....	203
6.3.8	Wasted bid costs.....	220
6.3.9	TUPE Issues and redundancy costs.....	221
6.3.10	Adverse Effects arising from Pension issues.....	240
6.3.11	QCS introduced in another local authority area.....	250
6.3.12	Financial values of adverse impacts on Operators .....	251
6.3.13	Conclusions on Adverse Effects .....	254
<b>6.4</b>	<b>Improvements In Well-Being .....</b>	<b>257</b>
6.4.1	Introduction .....	257
6.4.2	Effects of Do Minimum Scenario .....	259
6.4.3	Improvements to well-being arising from the QCS .....	262
6.4.4	Conclusion on well-being to people living and working in the QCS Area.....	280
<b>6.5</b>	<b>Assessment of the VPA.....</b>	<b>281</b>
6.5.1	Introduction .....	281
6.5.2	Assessment of Benefits of the VPA.....	285
6.5.3	VPA Benefits: Bus Network.....	285
6.5.4	VPA Benefits: Fares and ticketing .....	290
6.5.5	VPA Benefits: Standards for Buses and Bus Drivers .....	295
6.5.6	VPA Benefits: Customer Experience .....	303

6.5.7	VPA Benefits: Journey Information.....	305
6.5.8	VPA Benefits: Governance of Bus Services .....	307
6.5.9	VPA Benefits: Additional Economic, Social and Environmental Implications.....	310
6.5.10	Securing The VPA Benefits .....	312
6.5.11	Assessment of the VPA Proposal: Competition Test .....	313
6.5.12	Assessment of the VPA Proposal: Enforceability .....	316
6.5.13	Assessment of the VPA Proposal: Operator Withdrawal .....	317
6.5.14	Assessment of the VPA Proposal: Parties to VPA Proposal .....	317
6.5.15	Assessment of the VPA Proposal: Operators.....	318
6.5.16	Assessment of the VPA Proposal: Termination .....	320
6.5.17	Assessment of the VPA Proposal: Remedies .....	328
6.5.18	Assessment of the VPA Proposal: Governance.....	331
6.5.19	Assessment of the VPA Proposal: Network Change and Savings .....	333
6.5.20	Assessment of the VPA Proposal: Fleet and Network .....	337
6.5.21	Assessment of the VPA Proposal: Fares and Ticketing .....	340
6.5.22	Assessment of the VPA Proposal: Variation .....	343
6.5.23	Assessment of the VPA Proposal: Comparison with the QCS.....	344
6.5.24	Assessment of the VPA Proposal: Affordability Analysis .....	352
6.5.25	Assessment of the VPA Proposal: Economic Analysis .....	354
6.5.26	Assessment of the VPA Proposal: Conclusion .....	355
<b>6.6</b>	<b>Proportionality.....</b>	<b>358</b>
6.6.1	Introduction to proportionality .....	358
6.6.2	Approach.....	363
6.6.3	Assessment of Improvements in Well-Being.....	367
6.6.4	Assessment of Adverse Effects .....	371
6.6.5	Assessment of the VPA .....	376
6.6.6	Conclusion.....	378
<b>7.</b>	<b>APPENDICES .....</b>	<b>381</b>

Blank page

## GLOSSARY OF TERMS

<b>Accessibility</b>	The ability to access points via the public transport network, taking into account walk access time and service availability;
<b>Allocation Arrangements</b>	Allocation arrangements prepared to determine which employees will transfer to which Quality Contracts as set out section 8 of the Quality Contracts Schemes (Application of TUPE) Regulations 2009;
<b>Annual Development Cycle</b>	A formalised process utilised to provide a consistent, open and transparent approach and to ensure that only necessary changes are made to the QCS Network which support the objectives of the QCS as set out in Part 3 of Annex 7 of the Scheme;
<b>Automatic Vehicle Location or AVL</b>	A means for automatically determining the geographic location of a vehicle and transmitting the information to a tracking system;
<b>BSOG</b>	Bus Service Operators Grant, formerly the Fuel Duty Rebate means the grant paid to Operators of eligible Local Services and community transport organisations to help them recover some of their fuel costs;
<b>Bus Appeals Body</b>	The body that provides an independent means of reviewing bus passengers' complaints in England and Wales where these have not been settled with bus companies and is a joint initiative by: <ul style="list-style-type: none"><li>• Bus Users UK;</li></ul>

- the Confederation of Passenger Transport UK; and
- the bus and coach industry's trade association,

which is an impartial forum that deals with complaint appeals arising from the scheduled services of any UK bus or coach company, except for complaints arising in [London](#) and [Northern Ireland](#), where other statutory bodies fulfil this function;

**Bus Network Business Plan**

Means the bus network business plan produced by Nexus as part of the Annual Development Cycle which is approved by the TWSC pursuant to Part 3 of Annex 7 of the Scheme;

**Bus Passenger Survey (BPS)**

Annual survey carried out by Passenger Focus to check bus passengers' satisfaction with Local Services;

**Bus Strategy**

The bus strategy developed by the former ITA pursuant to section 108 of the Transport Act 2000, as adopted by the Combined Authority that can be found at [www.nexus.org.uk/busstrategy](http://www.nexus.org.uk/busstrategy);

<b>Bus Strategy Deliverables or Deliverables</b>	<p>The deliverables of the Bus Strategy, being:</p> <ul style="list-style-type: none"> <li>• fully integrated, multi-modal public transport network;</li> <li>• unified and consistent customer offer and guaranteed standards of service;</li> <li>• enhanced consultation on network changes;</li> <li>• all infrastructure is accessible and of a high standard;</li> <li>• adopt accessibility standards and targets;</li> <li>• common brand and accessible, high quality buses;</li> <li>• integrated network;</li> <li>• affordability for the customer and the taxpayer;</li> <li>• simplified fares and ticketing offer; and</li> <li>• improved environmental standards;</li> </ul>
<b>Bus Strategy Objectives or Objectives</b>	<p>The objectives of the Bus Strategy, which are to:</p> <ul style="list-style-type: none"> <li>• arrest the decline in bus patronage;</li> <li>• maintain (and preferably grow) accessibility; and</li> <li>• deliver better value for public money;</li> </ul>
<b>Certificate of Professional Competence (CPC)</b>	<p>A qualification for professional bus, coach and lorry drivers which is in addition to a vocational driving licence introduced in response to EU Directive 2003/59/EC;</p>
<b>Coalition's Programme for Government</b>	<p>"The Coalition: our programme for government", published by HM Government, May 2010;</p>
<b>Combined Authority or NECA</b>	<p>The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority;</p>

<b>Commercial Bus or Commercial Service or Commercial Bus Service</b>	A bus service provided without any subsidy and with no restrictions on fares (excluding Concessionary Travel Scheme fares and the BSOG);
<b>Companion Card Scheme</b>	A scheme which allows individuals to travel free of charge with residents of Tyne and Wear who have certain allowances and cannot travel without a companion;
<b>Concessionaire</b>	The company contracted by Nexus to operate and maintain the Tyne and Wear Metro who, for the time being is DB Regio Tyne & Wear Limited;
<b>Concessionary Travel Scheme</b>	A travel scheme provided by the Combined Authority or Nexus which sets fares and uses public money to subsidise Concessionary Travel;
<b>Concessionary Travel or CT</b>	The carriage of passengers eligible for concessions (as defined in the Transport Acts of 1985 and 2000);
<b>Concessionary Travel Reimbursement or Statutory Reimbursement</b>	The reimbursement of Operators for transporting passengers eligible for concessions within a defined principal area at a cost below the notified fare (as defined in the Transport Acts of 1985 and 2000), in a given year, with the objective of leaving such Operators no better and no worse as a result of the existence of a Concessionary Travel Scheme;
<b>Consultation</b>	The period during which Nexus consulted with local people, including customers and key stakeholders and which included Informal Stakeholder Engagement, Public Engagement Exercise, Statutory Consultation and Supplemental Consultation;

<b>Consultation Report</b>	The report produced by Nexus in relation to the proposed QCS which outlines the consultation process, feedback received from Statutory Consultees and others and the responses to that feedback;
<b>Continuous Monitoring</b>	Nexus commissioned surveys that provide statistically robust annual estimates of passenger demand and revenue on a Tyne and Wear basis;
<b>CPI</b>	Consumer Price Index, being a measure of consumer price inflation which is produced to international standards and in line with European regulations;
<b>Cross Boundary Bus Collaboration Protocol</b>	NECA Cross Boundary Bus Collaboration Protocol to mitigate adverse impacts that the QCS may raise in County Durham and Northumberland;
<b>Customer Charter</b>	Sets out the service commitments and performance standards that customers can expect from QCS Services as outlined in section 1.5.6;
<b>DBS</b>	Disclosure and Barring Service;
<b>Deregulation</b>	The transfer of operation of bus services from public bodies to private companies pursuant to the provisions of the Transport Act 1985, fully effective from October 1986;
<b>DfT</b>	Department for Transport;

<b>Do Minimum Scenario</b>	The business case modelled in which an assessment is made by Nexus regarding the local bus market if no intervention takes place and therefore current trends continue, based on its current knowledge; the course of events that it is considered will transpire if no changes are made to the current way of delivering bus services in Tyne and Wear
<b>Draft VPA</b>	The draft voluntary multi-lateral partnership proposal provided to Nexus by NEBOA on 13 December 2013;
<b>EBIT</b>	Earnings before interest and tax;
<b>EBITA</b>	Earnings before interest, taxes and authorisation;
<b>ENCTS</b>	The English National Concessionary Travel Scheme introduced in 2001 and extended in April 2008, which obliges LTAs to offer free off-peak travel on eligible local buses for eligible older and disabled people within England;
<b>ETM</b>	Electronic Ticket Machine;
<b>ETO reason</b>	An economic, technical or organisational reason to make staff changes, or changes to terms and conditions, following a TUPE transfer;
<b>Fare Elasticity</b>	The relationship between the level of demand for bus services and the cost;
<b>GDP</b>	Gross Domestic Product – a measure of the total economic output of a country;

<b>Gold Card Plus</b>	A product available to eligible ENCTS pass holders, which for an annual fee permits all-day travel on (i) Quality Contract Services, (ii) Category B Excluded Services, (iii) Local Services granted a Clearance Certificate, (iv) Metro Services, (v) Shields Ferry Services and (vi) Sunderland-Newcastle local rail services;
<b>Guidance</b>	Statutory guidance issued by the Department for Transport regarding the Local Transport Act 2008 and Quality Contracts Schemes, published December 2009;
<b>Informal Stakeholder Engagement</b>	Process of entering into informal discussions with stakeholders in respect of options for the future delivery of the bus network in Tyne and Wear, undertaken by Nexus between December 2011 and February 2012;
<b>ITA or TWITA</b>	Tyne and Wear Integrated Transport Authority which oversaw the transport system across Tyne and Wear on behalf of the public, and comprised of elected Councillors and expert staff to promote and develop the transport network, which was abolished pursuant to Article 6 of the Order;
<b>ITSO</b>	ITSO Ltd a company limited by guarantee (CRN 04115311) whose registered office is Luminar House, Deltic Avenue, Rooksley, Milton Keynes, MK13 8RW;
<b>ITSO Specification</b>	The specification created by ITSO to provide interoperability for smart ticketing schemes available via the ITSO website from time to time;

<b>LCEB</b>	Low carbon emission buses, defined by the Government as those buses which produce at least 30% fewer greenhouse gas emissions than the average Euro III equivalent diesel bus of the same total passenger capacity, and the greenhouse gas emissions will be expressed in grams of carbon dioxide equivalent measured over a standard test, and will cover 'well-to-wheel' performance, thereby taking into account both the production of fuel and its consumption on board;
<b>Local Bus Boards</b>	Advisory working groups established by the Combined Authority in respect of each of the Tyne and Wear Councils, who are accountable to the Combined Authority and responsible for the network of services operating wholly within each district of Tyne and Wear, whose purpose is to monitor and review the performance of the bus network at a local level, advise the Combined Authority as regards local matters, and develop local approaches to improving bus service delivery including punctuality and reliability in accordance with Part 2 of Annex 7 of the Scheme;
<b>Local Service</b>	Has the same meaning as in Section 2 of the Transport Act 1985;
<b>Local Transport Authority (LTA)</b>	Has the meaning given to it in the Transport Act 2000;

<b>Local Transport Plan (LTP)</b>	The Third Local Transport Plan (LTP3) for Tyne and Wear produced by the ITA which comprises a 10 year strategy (2011-2021) underpinned by a series of three year delivery plans, as adopted by the Combined Authority;
<b>Lot</b>	Each of the 11 Quality Contracts to be procured in Round 1 based around groups of Commercial Services from existing depots in the North East area, and such lots will be determined at the point of QCS adoption;
<b>Low Carbon Emission Buses (LCEB)</b>	Defined by the Government as those buses which produce at least 30% fewer greenhouse gas emissions than the average Euro III equivalent diesel bus of the same total passenger capacity, and the greenhouse gas emissions will be expressed in grams of carbon dioxide equivalent measured over a standard test, and will cover 'well-to-wheel' performance, thereby taking into account both the production of fuel and its consumption on board;
<b>Metro</b>	A light rail rapid transit system operating in Tyne and Wear;
<b>Metro Gold Card</b>	Provides unlimited travel on the Metro, the Shields Ferry and Northern Rail services between Newcastle and Sunderland from 9.30am Monday - Friday and all day at weekends, on public holidays and throughout July and August at a concession for older and disabled people who hold a Concessionary Travel pass;
<b>MVA Consultancy/ SYSTRA</b>	External consultant, one and the same, now trading as SYSTRA, engaged by Nexus to provide quality assurance;

<b>NEBOA</b>	North East Bus Operators' Association;
<b>NECA or Combined Authority</b>	The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority;
<b>NELB</b>	The North East Leadership Board of the NECA;
<b>NESTI</b>	The “North East Smart Ticketing Initiative”; a programme funded by the 12 Local Authorities in the North East, the Combined Authority and Nexus, which will create a Smart Ticketing infrastructure that covers the public transport network in the North East, working in partnership with public transport operators;
<b>NESTI STR</b>	A NESTI product with stored travel rights;
<b>Network Review</b>	The network review process to be carried out pursuant to the terms of the VPA Proposal;
<b>Network Ticketing Ltd (Network One)</b>	An independent company wholly owned by its members who comprise the Operators of public transport in Tyne and Wear (including Nexus, as the Operator of Metro and Secured Bus Services with company number 02197910 and whose registered office is at Stagecoach Depot, Shields Road, Walkergate, Newcastle Upon Tyne NE6 2BZ);
<b>Nexus</b>	An executive body of the Combined Authority, whose office is at Nexus House, St James’ Boulevard, Newcastle upon Tyne, NE1 4AX;

<b>Nexus Affordability Model</b>	An excel based financial model which includes a bus patronage forecasting tool whose structure and relationships are based upon the National Bus Model (as further described at Section 1.6);
<b>NFC</b>	Abbreviated from <b>Near Field Communication</b> , a set of standards for smartphones and similar devices to establish radio communication with each other by touching them together or bringing them into close proximity, usually no more than a few centimetres. Present and anticipated applications include contactless transactions, data exchange, and simplified setup of more complex communications such as Wi-Fi;
<b>Non-Statutory Consultee</b>	A consultee with whom there is no statutory requirement for Nexus to consult under section 125(3) of the Transport Act 2000;
<b>Operator</b>	An operator of buses licensed by the Traffic Commissioner;
<b>Order</b>	The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014;
<b>Original QCS Proposal</b>	The QCS proposal which was the subject of informal dialogue in July 2012;
<b>Partnership Board</b>	A board established pursuant to the terms of a Voluntary Partnership Agreement;
<b>Peak Vehicle Requirement (PVR)</b>	The total number of buses which is required to operate a full service;

<b>Performance Management Specification (PMS)</b>	Agreed standards to be met within each Quality Contract as referred to in paragraph 5 of Annex 4 of the Scheme;
<b>PSVAR</b>	The Public Service Vehicles Accessibility Regulations 2000;
<b>PTE</b>	Passenger Transport Executive;
<b>Public Engagement Exercise</b>	A parallel process to the Statutory Consultation process implemented to raise awareness of the QCS Proposal to the general public;
<b>Public Interest Test</b>	The test (including the five criteria) contained within section 124 of the Transport Act 2000, and as explained in the Guidance for the development of Quality Contracts Schemes;
<b>QCS or Scheme</b>	The Tyne and Wear Quality Contracts Scheme for buses;
<b>QCS Adoption</b>	The decision point at which the Combined Authority formally makes the QCS;
<b>QCS Area</b>	The area of Tyne and Wear that will be covered by the QCS;
<b>QCS Board</b>	Has the meaning given to it in section 126A(1) of the Transport Act 2000;
<b>QCS Commencement</b>	The date from which services operating under and in accordance with Quality Contracts will commence;
<b>QCS Network</b>	The base network to be provided and developed by the Combined Authority under the QCS;

<b>QCS Proposal</b>	The quality contracts scheme proposal in respect of which Statutory Consultation was undertaken;
<b>QCS Services</b>	Local Services provided pursuant to a Quality Contract;
<b>QCS TUPE Regulations</b>	Quality Contracts Schemes (Application of TUPE) Regulations 2009;
<b>QR Codes</b>	Abbreviated from Quick Response Codes, the trademark for a type of matrix barcode (or two-dimensional bar code);
<b>Quality Contract</b>	An agreement entered into between Nexus and an Operator pursuant to Article 7 of the Scheme;
<b>Quality Contracts Scheme</b>	A scheme under which a Local Transport Authority, or two or more Local Transport Authorities acting jointly, determine what local bus services should be provided in the QCS Area to which the scheme relates and any additional facilities or services which should be provided in the QCS Area;
<b>Real Time Information</b>	A system which shows the adherence to schedule, normally in the format of countdown in minutes to the time of departure. The information is disseminated using a variety of media channels and the data can also be used for fleet management and monitoring in real time or historically;
<b>Round 1</b>	Quality Contracts for the provision of Local Services with an assumed PVR of between 39 and 128 vehicles each, or such other number of vehicles as Nexus determines;

<b>Round 2</b>	Quality Contracts for the provision of Local Services with an assumed PVR of between 1 and 20 vehicles each, or such other number of vehicles as Nexus determines`;
<b>RPI</b>	Retail Prices Index being the retail prices index for the whole economy of the United Kingdom and for all items as published from time to time by the Office for National Statistics, or if such index shall cease to be published or there is, in the reasonable opinion of the Combined Authority, a material change in the basis of the index or if, at any relevant time, there is a delay in the publication of the index, such other retail prices index as the Combined Authority may determine to be appropriate in the circumstances;
<b>Scheme or QCS</b>	The Tyne and Wear Quality Contracts Scheme for Buses for Tyne and Wear;
<b>Scholars Services</b>	A Local Service providing transport for pupils to and/or from schools within the QCS Area, provided that a Scholars Service may also provide transport to the general public;
<b>Secured Bus Services or Secured Services or Secured Buses</b>	Services partly or fully secured under Transport Act 1968 powers, subject to compliance with the requirements of the Transport Act 1985;
<b>Shields Ferry</b>	Commuter ferry operating a daily passenger service across the River Tyne between North Shields and South Shields, operated by Nexus;

<b>Smartcard</b>	A plastic card, that may or may not contain a photo, which has an embedded microchip to store product and customer information;
<b>Smart Ticketing</b>	The use of a Smartcard or other device that can be read, written to or edited by an ETM, as defined by the ITSO Standard, whereby an entitlement to travel (or ticket) is stored electronically;
<b>Soft Measures</b>	Variables in bus travel that affect the awareness, accessibility and acceptability of bus services amongst individuals and societal sectors in terms of, for example, passenger information, driver quality and safety;
<b>Statutory Consultation</b>	The period of formal consultation undertaken by Nexus, as directed by the ITA and on the ITA's behalf, between 30 July 2013 and 22 November 2013 and the period of Supplemental Consultation, pursuant to section 125 of the Transport Act 2000;
<b>Statutory Consultee</b>	The persons mentioned in section 125(3) of the Transport Act 2000;
<b>Statutory Notice</b>	The notice to be given pursuant to section 125 of the Transport Act 2000;
<b>Supplemental Consultation</b>	The period of supplemental consultation, which was part of Statutory Consultation, undertaken by Nexus between 9 April 2014 and 4 June 2014, in respect of the quality contracts scheme proposal;

<b>SYSTRA</b>	External consultant, formerly known as MVA Consultancy, engaged by Nexus to provide quality assurance;
<b>TAS Partnership Limited</b>	An external advisor involved in the development of the QCS, whose registered office is at Guildhall House, 59-61 Guildhall Street, Preston, Lancashire PR1 3NU, and whose registered company number is 2929880;
<b>TaxiCard</b>	Smartcard used to pay for part of any journeys by taxi for people with restricted mobility;
<b>TEMPRO</b>	Software used to forecast for transport planning purposes, such forecasts include population, employment, households by car ownership, trip ends and simple traffic growth factors based on data from the National Trip End Model (NTM);
<b>TNEC</b>	Transport North East Committee, a joint committee of the constituent councils and the Combined Authority;
<b>Traffic Commissioner</b>	A person appointed by the Secretary of State for Transport pursuant to Section 4 of the Public Passenger Vehicles Act 1981 as traffic commissioner, who is responsible for the licensing and regulation of those who operate heavy goods vehicles, buses and coaches, and the registration of local bus services;
<b>Transport Act 2000</b>	The Transport Act 2000 (as amended by the Local Transport Act 2008)

<b>TUPE</b>	Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014);
<b>TWITA or ITA</b>	The Tyne and Wear Integrated Transport Authority which oversaw the transport system across Tyne and Wear on behalf of the public, and comprised of elected Councillors and expert staff to promote and develop the transport network, which was abolished pursuant to Article 6 of the Order;
<b>TWSC</b>	The Transport North East (Tyne and Wear) Sub-Committee, a sub-committee of TNEC comprising representatives from the Tyne and Wear Councils only;
<b>TWUCF</b>	The Tyne and Wear Use Consultative Forum that will be established for the purposes of facilitating dialogue between Nexus, passenger representatives, local business, stakeholders and the general public in relation to the QCS;
<b>Tyne and Wear</b>	Area comprising of Gateshead, Newcastle Upon Tyne, North Tyneside, South Tyneside and Sunderland;
<b>Tyne and Wear Council</b>	Each of the councils for the metropolitan district areas of Gateshead, Newcastle Upon Tyne, North Tyneside, South Tyneside and Sunderland;
<b>Value for Money</b>	The appraisal criteria as outlined in this Proposal at Section 5.2.6;

<b>Voluntary Partnership Agreement or VPA</b>	An agreement between Operators and local authorities relating to the provision of bus services by those Operators to a specified standard, where the local authorities provide facilities or do other things for the benefit of persons using those services;
<b>VPA Proposal</b>	The draft voluntary multi-lateral partnership proposal received from NEBOA on 28 May 2014;
<b>Web-based Transport Analysis Guidance (WebTAG)</b>	The DfT's transport appraisal guidance and toolkit, which consists of software tools and guidance on transport modelling and appraisal methods that are applicable for highways and public transport interventions;
<b>Workforce Information</b>	Employee information obtained from Operators following a request under Regulation 5 of the QCS TUPE Regulations;
<b>Works Services</b>	A Local Service providing transport to or from work places or other places which require a local service only at specified times of the day, or on specific days, , generally secured, provided that a Works Service may also provide transport to the general public; and
<b>3Es</b>	Economy, efficiency and effectiveness, pursuant to section 124(1)(d) of the Transport Act 2000 .

## 1. INTRODUCTION

### 1.1 The Public Interest Test

1.1.1 This document has been prepared by Nexus for the NECA to help it to assess whether the QCS complies with the requirements of the “public interest” test contained within section 124 of the Transport Act 2000 and as explained in the Guidance for the development of Quality Contracts Schemes<sup>1</sup>.

1.1.2 Section 124(1) of the Transport Act 2000 sets out five criteria that must be satisfied:

- (a) The proposed scheme will result in an increase in the use of bus services in the area to which the proposed scheme relates (Criterion (a) – Bus Patronage);
- (b) The proposed scheme will bring benefits to persons using Local Services in the area to which the proposed scheme relates, by improving the quality of those services (Criterion (b) – Service Quality Benefits);
- (c) The proposed scheme will contribute to the implementation of the local transport policies of the LTA (Criterion (c) – Local Transport Policies);
- (d) The proposed scheme will contribute to the implementation of those policies in a way that is economic, efficient and effective (Criterion (d) – Economy, Efficiency and Effectiveness (3Es)); and
- (e) Any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates (Criterion (e) – Proportionality).

---

<sup>1</sup> Department for Transport, *Local Transport Act 2008: Quality Contracts Schemes Statutory Guidance*, December 2009

- 1.1.3 The Guidance provides detailed guidance as to how these Public Interest Test criteria should be addressed.
- 1.1.4 Against that background, the purpose of this document is to:
- (a) provide an assessment of the Scheme;
  - (b) explain why the QCS has been considered at this time; and
  - (c) explain why Nexus considers that the QCS satisfies each of the Public Interest Test criteria, and the work carried out which supports that view, in line with the statutory test and the Guidance.

## 1.2 Document Structure

1.2.1 In order to satisfy the above requirements and provide the NECA with sufficient information to make an informed decision on whether the Public Interest Test criteria have been met, this document has been structured as follows:

- (a) The remainder of this Section 1 provides the context for the QCS and:
  - (i) provides an introduction to bus services in Tyne and Wear as they stand today, including the performance of the current system;
  - (ii) explains the Do Minimum Scenario;
  - (iii) explains the main components of the Quality Contracts Scheme proposed for Tyne and Wear; and
  - (iv) explains the analytical tools that have been developed to underpin an assessment of the financial, economic and wider social impacts and benefits of the QCS.
- (b) Section 2 contains Nexus' analysis of Criterion (a) – Bus Patronage;
- (c) Section 3 contains Nexus' analysis of Criterion (b) – Service Quality Benefits;
- (d) Section 4 contains Nexus' analysis of Criterion (c) – Local Transport Policies;
- (e) Section 5 contains Nexus' analysis of Criterion (d) – Economy, Efficiency and Effectiveness (3Es);
- (f) Section 6 contains Nexus' analysis of Criterion (e) – Proportionality, including a detailed assessment of adverse effects, improvements to well-being and an assessment of the VPA, before drawing conclusions on the Proportionality of the QCS.

### 1.3 The existing bus market in Tyne and Wear

#### 1.3.1 The importance of buses

- (a) Tyne and Wear is a predominantly urban part of the NECA area in the North East of England. It covers the geographical areas of the Councils of Newcastle, Gateshead, North Tyneside, South Tyneside and Sunderland. The travel to work area for Tyne and Wear includes other parts of the NECA area, mainly towns and villages in Durham and Northumberland that are near to, but outside, Tyne and Wear.
- (b) Buses are the principal mode of public transport in the Tyne and Wear travel to work area, accounting for just over 135 million bus passenger journeys per year in 2013/14 in Tyne and Wear alone. The Tyne and Wear Metro, a light rapid transit system, accounts for more than 36 million journeys per year. The Metro system as a whole is managed and the railway infrastructure is maintained, by Nexus, with Metro services presently operated under contract by a Concessionaire (currently DB Regio). In addition, other public transport in the area includes the Nexus operated Shields Ferry between North and South Shields across the river Tyne, and local passenger rail services currently operated by Northern Rail.
- (c) Buses are essential to the economic and social wellbeing of the NECA area. In Tyne and Wear 78% of all public transport trips in 2013/14 were taken by bus. Of these trips, 34% were to access employment or education, 31% were for shopping and access to essential services, and 35% were for leisure or other activities. Elsewhere in the NECA area, in 2013/14 a total of 24 million bus trips were taken in Durham and 9 million bus trips were taken in Northumberland.

- (d) According to the DfT's National Travel Survey, the North East in 2012/13 continued to have the lowest levels of car ownership of any English region except London. According to DfT's bus patronage data<sup>2</sup>, Tyne and Wear had the highest number of local bus trips per head of population per year (111) of almost any part of the UK in the same year, exceeded only by London, Nottingham and Brighton and Hove. This figure of 111 is 32% greater than the average for English metropolitan areas outside London. This emphasises the crucial importance of buses to local people and the local economy.
- (e) The value of buses was recognised by Government in its policy paper 'A Green Light for Better Buses'. This noted that '...many people rely on their local bus to get to school, to work, to the doctor's, to visit their friends and family, or to go shopping', and that '...given their importance in providing employers and businesses access to labour markets, buses are important for a well-functioning and growing economy.'
- (f) A recent study commissioned by Greener Journeys<sup>3</sup> adds emphasis to the importance of bus services, as it states that there is a demonstrable link between retaining and improving bus services and improving employment rates. This employment impact could add a further 10% to the typical monetised transport benefits typically forecast to flow from improvements to bus services. People that are unemployed place a great reliance on the bus to access jobs and training opportunities – the same study says that over 70% of jobseekers do not have regular access to a private vehicle – and the bus is a crucial lifeline for people moving out of unemployment and accessing new work opportunities. Buses are also vital in helping maintain the economic health of city centre shopping centres nationally – the bus has

---

<sup>2</sup> <https://www.gov.uk/government/collections/bus-statistics>, Table BUS0110a

<sup>3</sup> <http://www.greenerjourneys.com/2014/07/buses-economy-ii/> - Greener Journeys is an bus industry campaign group backed by major UK bus operators. This work was undertaken by the University of Leeds Institute of Transport Studies

the largest market share nationally for city centre shopping trips, which represent 70% of all shopping trips in the UK.

- (g) Congestion in urban areas nationally is estimated to cost society £6-8 billion per year, and could rise to £30 billion per year by 2025<sup>4</sup>. Reduced congestion also supports economic vitality and growth. An effective network of bus services can attract people away from their cars, especially for trips between 2 and 5 miles in length, thereby reducing congestion and journey times in and around the main centres of economic activity where road space for the delivery of goods and services is at a premium.
- (h) Car travel is the largest source of transport carbon emissions in the UK. Modal shift from car to more sustainable modes such as the bus can play a major role in reducing carbon emissions and improving air quality.
- (i) Currently, around 13.7 million journeys are made by children on buses in Tyne and Wear every year, approximately 10% of all bus journeys. Around 2 million of those journeys are made on Scholars Services provided by Nexus. Almost two-thirds of child journeys on commercial services are made using child concessionary tickets (see paragraph 1.3.5(e) below). Almost 50% of all the journeys made by children are for education purposes, and three quarters of children who use buses to travel do so at least 3 times per week.
- (j) Bus services in Tyne and Wear, like elsewhere in the UK, play an important role in maintaining social links which are of high value to elderly and vulnerable members of society. A Passenger Focus report from July 2012 entitled 'Bus Service Reductions – the impact on passengers', found there were four main impacts on people's quality of life and lifestyle resulting from cuts to secured bus services:

---

<sup>4</sup> The Eddington Transport Study, *Volume 1: Transport's role in sustaining the UK's productivity and competitiveness*, 2006

- (i) Passengers could not travel like they used to: passengers made less discretionary trips;
- (ii) Dependency on others increased: awkwardness to ask for lifts and their travel plans now being contingent on others;
- (iii) Sometimes the passenger paid instead: passengers bore some of the costs by using taxis or other paid means of transport; and
- (iv) Lack of spontaneity: fewer services on fewer days reduced the opportunity to decide on the day to go out.

### 1.3.2 Structure of the local market

- (a) In the UK, with the exceptions of Northern Ireland and London, bus services were 'deregulated' under the Transport Act 1985. Subject to certain safety and quality standards, Operators are able to determine which services to run, the fares to charge and other such matters without recourse to the Local Transport Authority. Local Transport Authorities have powers to supplement these Commercial Services, filling gaps in the commercial network by inviting tenders for Secured Bus Services where services are either not provided, or not provided to the appropriate standard.
- (b) Local Commercial Bus Service provision in Tyne and Wear is currently provided almost exclusively by three Operators – Go North East, Stagecoach and Arriva. Within Tyne and Wear the overall mileage operated by each Operator is as follows: Go North East 50%, Stagecoach 37%, Arriva 11% and small operators 2%. Approximately 10% of the overall mileage is funded by Nexus but delivered by Operators, in the form of Secured Bus Services.
- (c) Local bus operations in Tyne and Wear are profitable; based on the most recent published accounts data from the three large incumbent Operators, Nexus estimates that an average 14% EBIT operating margin is achieved from Commercial Bus operations in Tyne and Wear (but underlying that figure the individual performance of the operators varies significantly).

- (d) There are currently approximately 400 different bus services registered to provide a network of routes in Tyne and Wear (of which around 210 services comprise the main network and around 150 are dedicated Scholars Services, with the remainder being bespoke Works Services or infrequent services). Of the main network, approximately 70% provide services wholly within the boundaries of Tyne and Wear, with the remaining 30% operating between Tyne and Wear and nearby areas (principally Northumberland and Durham).
- (e) Some Operators consult passengers and stakeholders regarding proposed changes to timetables and routings of Commercial Bus Services, although there is no legal requirement to do so or framework for consultation with which they are obliged to comply (except where a VPA exists – see Section 1.3.7 below). No consultation regarding changes to fares takes place. All services are registered with the Traffic Commissioner; Operators must give the Traffic Commissioner 56 days' notice when they wish to change a service.
- (f) As bus networks have evolved over many years commercial operations have tended to focus on major travel corridors while some less populated or more difficult to serve areas have had commercial provision reduced – leading to either Secured Bus Services being provided in place of previously Commercial Services, or in some cases loss of service provision altogether. These changes to the bus network mean that Accessibility has declined somewhat for some parts of Tyne and Wear, while for others where travel demand is strong, Accessibility has been maintained and on occasions enhanced. According to the DfT, bus vehicle mileage operated in the North East reduced from 105 million miles in 2004/5 (when the current methodology was established) to 86 million miles in 2012/13.

### 1.3.3 Secured Bus Services

- (a) Nexus provides Secured Bus Services using buses and taxis across Tyne and Wear on a discretionary basis, with funding sourced through the Tyne and

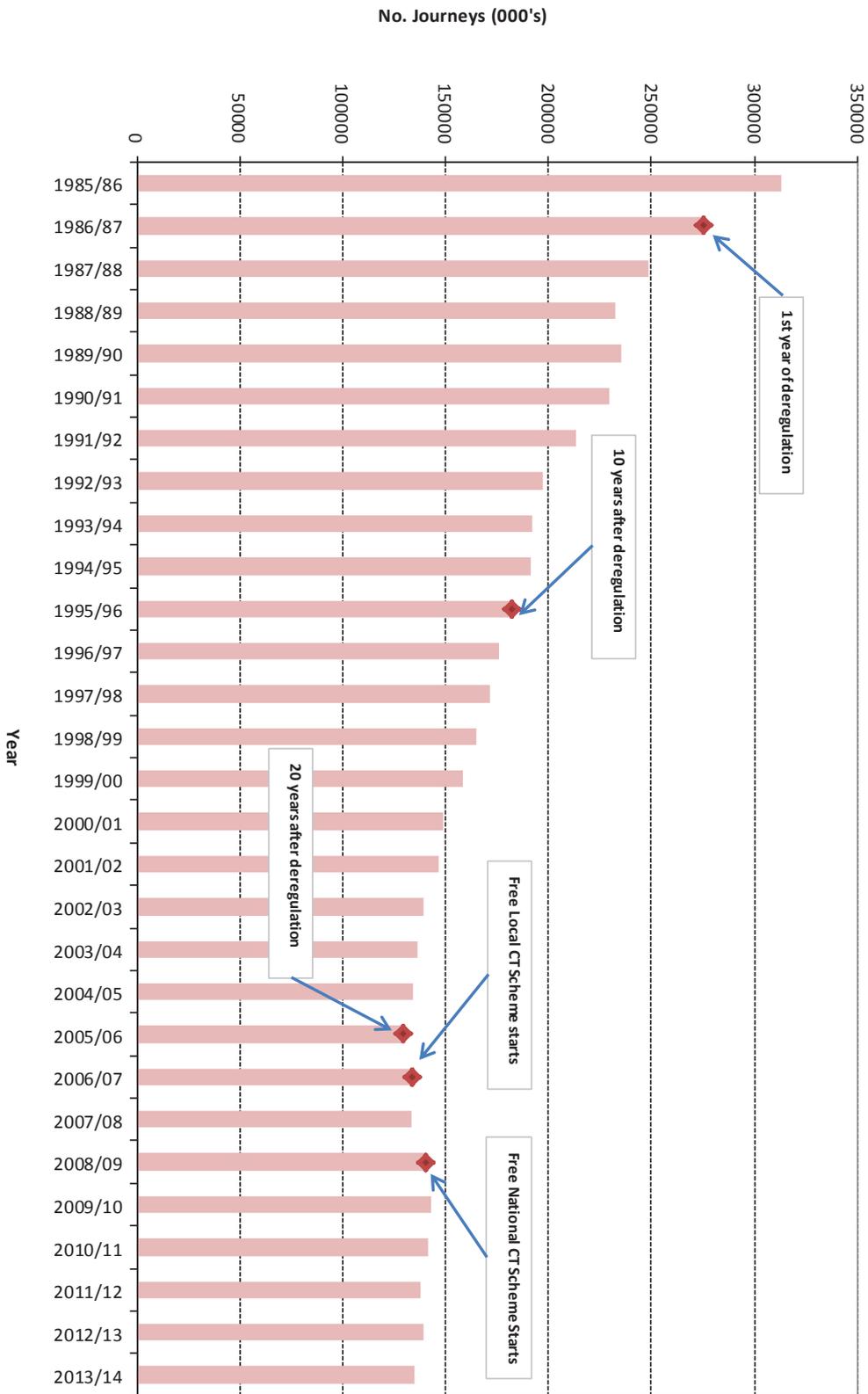
Wear levy (as described in Section 1.4.3). These services maintain locally important connections, either because they have been removed from commercial networks in the past or in some cases by providing new links that have never been provided on a commercial basis. In some cases Secured Bus Services expand the provision of services that are otherwise run commercially, for example by extending the timetable to cover late night or early mornings or by extending routes. In other cases entire services are provided, mainly in the daytime to serve isolated communities or to add important social and economic links.

- (b) Scholars Services and Works Services are also types of Secured Bus Services. These are discretionary services that provide access to schools and workplaces at key times of the day, where existing commercial bus networks are either unable to provide direct links or unable to provide sufficient capacity to satisfy peaks in demand.
- (c) Almost all Scholars Services in Tyne and Wear are provided on a discretionary basis by Nexus using funding from the Tyne and Wear levy. This differs from mostly rural parts of the country where councils have a statutory obligation through the Education Act 1996 to provide home to school travel to pupils that live more than two or three miles (the threshold depends on the pupil's age and family income) from their nearest state school; this travel is often funded separately through the relevant local authorities' education departments. In Tyne and Wear, education departments of local councils do not have a budget to cover standard home to school travel.
- (d) Secured Bus Services are contracted to around a dozen small Operators across Tyne and Wear (this number varies from time to time), as well as the three largest Operators. These services are regularly tendered by Nexus in order to maintain good value for money. BSOG for Secured Bus Services is paid directly to Nexus by DfT, where Nexus takes revenue risk.

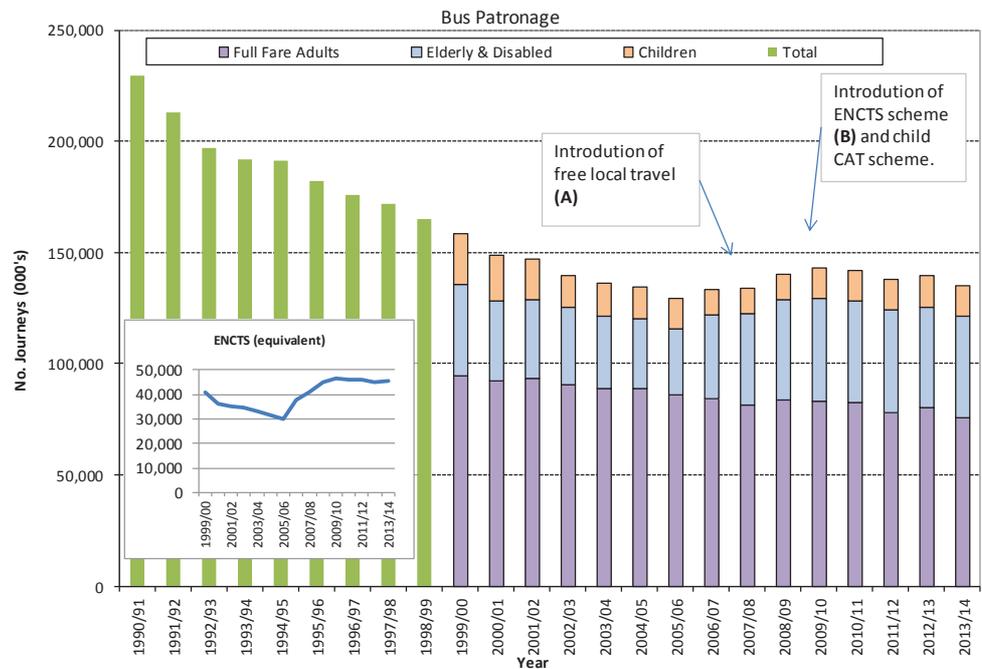
- (e) Secured Bus Services currently comprise 4.92 million bus miles per annum in Tyne and Wear (approximately 10% of all operated bus miles) and carry 8.77 million passengers (6.5% of the bus journeys made).

#### 1.3.4 Bus Patronage

- (a) Bus patronage in Tyne and Wear is in long term decline. After sustained growth during the 1970s and 80s, from the point of deregulation in 1986 the trend became one of decline that lasted until the introduction of free local bus travel for older and disabled people in 2006, followed by free national bus travel under the ENCTS in 2008. The chart overleaf shows this pattern.



- (b) However it is important to note the underlying trends exhibited by differing types of passenger. As shown by the chart below, the overall patronage trend was significantly flattened by rapid growth in ENCTS passengers between 2006/7 and 2009/10. The numbers of adult fare-paying passengers on the other hand continued to decline throughout:



### 1.3.5 Fares and Ticketing

- (a) Each bus operator, as well as Nexus for the Metro, Shields Ferry and Secured Bus Services, has its own distinct range of fares valid for travel on its own services.
- (b) The Bus Strategy<sup>5</sup> analyses historic bus fare increases in some detail, and in particular it notes a trend of increases to the average commercial fare that are above the prevailing rate of inflation – estimated by Nexus to be, on average, 3 percentage points above the Retail Price Index. The relationship between fares and retail prices has a significant influence over passenger

<sup>5</sup> The Bus Strategy for Tyne and Wear, [www.nexus.org.uk/busstrategy](http://www.nexus.org.uk/busstrategy)

perceptions of travel costs by bus, and affects how likely they are to travel by bus (that is, how much 'demand' there is). However during Statutory Consultation regarding the QCS Proposal, Operators asserted that to make future projections about increases in fares it is more appropriate to compare changes in bus fares with changes in the costs of bus operation. Nexus accepts that this approach is also valid and has therefore revised its analysis to compare fares to a projected increase in bus costs that blends inflation forecasts for different elements of bus operations (labour costs, insurance costs, fuel costs, maintenance costs, depreciation costs and other costs). On this basis, the historic trend has been for average fares to increase by approximately 2 percentage points above rises in overall bus costs. In the absence of any evidence to the contrary, whether assessed against inflation or costs, Nexus assumes that future increases to fares will follow a similar pattern to the recent past.

- (c) Multi-Operator, multi-modal ticketing for travel within Tyne and Wear is provided by Network Ticketing Limited, trading as Network One. Network One tickets are valid on the services of all of its members, and revenues collected from ticket sales are distributed among its members through agreed reimbursement arrangements.
- (d) ENCTS enables free off-peak travel for older and disabled people. Travel under ENCTS accounts for around a third of bus trips in Tyne and Wear. In Tyne and Wear some additional discretionary concessions funded by Nexus are offered that enhance ENCTS:
  - a Companion Card Scheme for disabled people who need to travel with a carer;
  - the ability to travel before 09:30 hours to hospital appointments;
  - the ability to use buses to the end of the operating day rather than ending at 23:00 hours; and

- the provision of all day travel during weekdays for disabled people.
- (e) The Under 16 scheme is an additional discretionary concession. It entitles children with an Under 16 card to a discretionary concessionary fare offering a significant discount compared to commercial child prices. There are no concessionary products for young people over the age of 16 or students, although there are a variety of discounted products for these passengers offered on a commercial basis.
- (f) Through the NESTI programme all buses in the North East have been equipped with ITSO-compliant smart ETMs. Almost all ENCTS transactions on local buses are processed as smart transactions. In addition, NESTI is developing NESTI STR that will allow passengers to purchase public transport tickets for different operators using a single Smartcard. The price of each ticket purchased using NESTI STR remains under the control of the individual Operators involved; price setting is not within the scope of the NESTI programme.
- (g) Bus operators Stagecoach and Go North East, along with Tyne and Wear Metro owner Nexus, have all introduced their own Smartcards and commercial Smart Ticketing products. These smart products do not allow interchange between operators (except where Metro products are valid on the Shields Ferry, Quaylink and 333 bus service). At present Network One does not offer any Smart Ticketing products.

#### 1.3.6 Punctuality and customer satisfaction

- (a) The day-to-day performance of the local bus system is relatively good: levels of punctuality and reliability are high, and the Bus Passenger Survey (BPS) carried out by Passenger Focus notes high levels of customer satisfaction with their journey compared to elsewhere in the UK – the last survey showed overall satisfaction in Tyne and Wear of 90%. The same survey indicated that customer satisfaction with value for money is 62% in Tyne and Wear. It should however be noted that the BPS takes account of the

views of passengers who are travelling on the day the survey is undertaken, and so by its very nature does not record the views of people who do not use the bus to travel.

- (b) The average age of the local bus fleet is 7.7 years (compared to a non-London UK average of 8.3 years, and 5.4 years in London). Operators have their own strategies and programmes for fleet replacement, and these will be influenced by compliance with current and future legislation such as the PSVAR requiring that certain Accessibility standards be met, and also by commercial considerations such as attractiveness to customers along with operating costs and other financial concerns.

#### 1.3.7 Existing Voluntary Partnership Agreements

- (a) One area of Tyne and Wear is already covered by a form of VPA with local Operators, East Gateshead. South Tyneside was previously covered by a form of VPA however this has now expired. The East Gateshead Quality Bus Partnership comprises Go North East, Nexus and Gateshead Council. South Tyneside was covered by two geographically overlapping VPAs, one comprising Stagecoach, Nexus and South Tyneside Council, and the other comprising Go North East, Nexus and South Tyneside Council.
- (b) These VPAs set out a limited number of commitments that each party agrees to adhere to, including some aspects of service standards and their management, for example a commitment from Operators to consult the Partnership Board in respect of network changes in advance of registering these with the Traffic Commissioner.
- (c) These VPAs have delivered benefits by providing a forum for greater dialogue and understanding between the parties. It is notable, however, that customer satisfaction monitoring has not shown any appreciable or consistent difference between the areas covered by VPAs and the rest of Tyne and Wear, nor does bus patronage appear to have grown in those areas compared to elsewhere. The Partnership Boards are limited in that

they do not take final decisions in terms of the network and fares to be charged; rather they are primarily used as forums for change proposals to be discussed and to discuss remedies for poor punctuality performance.

#### 1.3.8 Funding

- (a) In all, approximately £66.3 million of public funding will be spent in 2014/15 maintaining the bus network in Tyne and Wear, estimated at approximately 42% of total bus operator income. Of this value, £56.2 million is from local sources with the remaining £10.1 million coming direct from DfT in the form of BSOG.
- (b) In addition various one-off funding initiatives are offered by the Government from time to time, for which Nexus and Operators sometimes develop joint bids, that seek to improve the provision of services in Tyne and Wear. A recent notable example is the Green Bus Fund (GBF), which has part-funded the introduction of Low Carbon Emission Buses (LCEBs) and associated infrastructure for all three of Tyne and Wear's major operators in the North East.

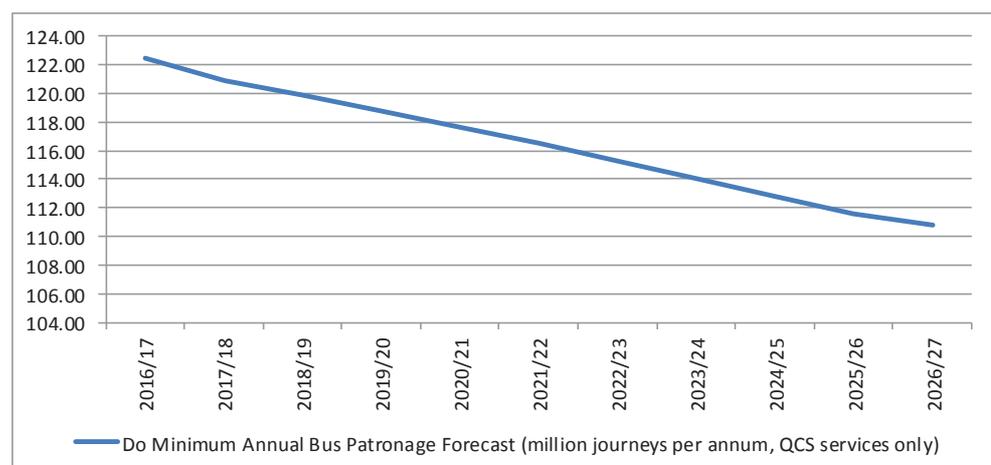
## 1.4 The Do Minimum Scenario

### 1.4.1 Introduction

- (a) This QCS is intended to deliver the objectives of the Bus Strategy, namely: arrest the decline in bus patronage; maintain (and preferably grow) accessibility; and deliver better value for public money. However in order to assess the likelihood of these objectives being achieved it is first necessary to establish the Do Minimum Scenario, and to establish those likely outcomes Nexus has developed a forecast based on its current knowledge. Where Nexus is aware of a likely change to market conditions it has built this into its forecast, and where no such changes are evident it has developed a future forecast based on historical trends.

### 1.4.2 Bus Patronage Forecast

- (a) The bus market in Tyne and Wear has suffered from long-term patronage decline as described in Section 1.3.4. Nexus estimates that forecasts for demographic changes and changing characteristics of the bus market (fares and services), as set out in the table below, would lead to a further total loss of 67 million passenger trips over the ten-year period covered by the QCS (2017-2027), as shown in the chart below:



Note: the figures in this chart do not include journeys made on services to be excluded from the QCS (which are forecast to amount to a further 11.4 million journeys in 2016)

- (b) This projection is based on assumptions relating to a number of factors that influence bus patronage as set out below:

Factor	Do Minimum Assumption	Effect on patronage over QCS ten-year period
Population	Population in the Tyne and Wear travel to work area will increase by 3.3% between 2017 and 2026 based on forecasts in the DfT TEMPRO <sup>6</sup> demographic model. This will grow demand for bus services.	+1.53m
Employment	Employment amongst the working age population in the Tyne and Wear travel to work area will increase by 2.1% between 2017 and 2026 based on TEMPRO forecasts. This will grow demand for bus services.	+5.04m
Car Ownership	The number of cars owned by people in the Tyne and Wear travel to work area will increase by 8.5% between 2017 and 2026 based on TEMPRO forecasts. This will reduce demand for bus services.	-21.22m
GDP	GDP in the Tyne and Wear travel to work area will increase as a result of growing economic activity. This will grow demand for bus services.	+2.01m
Fare changes – adult	Commercial bus fares, taken as a whole, will continue to increase by 2% above bus costs. This will reduce demand for bus services.	-35.53m
Fare changes – child under 16	Due to lack of available funding, Nexus anticipates that it will have to withdraw the Under 16 concession in 2017 in the DM scenario. This will make journeys more expensive and reduce the use of bus services by under 16s. Please note that withdrawal of this scheme is an assumption for modelling purposes that would require consideration and approval by the NECA before being put into effect.	
Fare changes – 16-18	Nexus is not aware of any proposals to amend ticketing for 16-18 year olds in the DM scenario, therefore the assumption for adult fare increases will apply.	
Fare changes – student	Nexus is not aware of any proposals to amend ticketing for students in the DM scenario, therefore the assumption for adult fare increases will apply.	

---

<sup>6</sup> <https://www.gov.uk/government/collections/tempro>

Factor	Do Minimum Assumption	Effect on patronage over QCS ten-year period
Fare changes – ENCTS	Nexus is not aware of any proposals to reduce or remove the ENCTS for the future, other than the gradual change to the eligibility age already announced by Government, and therefore no change to demand is anticipated as a result.	None
Fare changes – elderly/disabled discretionary	Due to lack of available funding, Nexus anticipates that it will have to withdraw discretionary concessions for elderly and disabled people in the DM scenario. Please note that this is an assumption for modelling purposes that would require consideration and approval by the NECA before being put into effect. However Nexus does not have sufficient data to model the effect of this change and therefore demand is assumed to be constant as a result, thus understating the likely overall reduction in patronage to some extent.	None
Simplified ticketing	Nexus is not aware of any proposals to simplify ticketing in the DM scenario, therefore no change to demand is anticipated as a result.	None
Customer Charter	Nexus is not aware of any proposals to modify existing customer charters in the DM scenario, therefore no change to demand is anticipated as a result.	None
Bus punctuality	Assumed to be a continuation of current performance in the DM, therefore no change to demand is anticipated as a result.	None
Smart ticketing	Nexus is not aware of any proposals to introduce Smart Ticketing in the DM scenario beyond that already achieved through NESTI and offered by operators, therefore no change to demand is anticipated as a result.	None
Vehicle quality	Nexus assumes that in the DM scenario operator fleet renewal programmes will continue in line with current practice with vehicles typically operational for an average of 15 years and then replaced by new vehicles, or by vehicles younger than 15 years of age cascaded in from other regions to help meet operational requirements - therefore no change to demand is anticipated as a result.	None

Factor	Do Minimum Assumption	Effect on patronage over QCS ten-year period
Secured Bus Services demand	Due to lack of available funding Nexus would progressively reduce its provision of Secured Bus Services between 2017 and 2024 (this withdrawal is an assumption for modelling purposes that would require consideration and approval by NECA before being put into effect). The journeys made by users of withdrawn Secured Bus Services will reduce by 46%, with an assumption that the remaining 54% of trips move to alternative commercial services.	-18.22m
Service supply (bus km operated)	The forecast declines in patronage arising from the other factors leading to reduced demand would lead to the withdrawal of further commercial services, simply because some services would become more lightly used and therefore less profitable or loss making. However, Nexus has not modelled these because of the absence of detailed information on demand and service utilisation.	None

- (c) As shown above, the net forecast of declining patronage is driven by a number of different factors, some of which are outside the direct control of the NECA and the bus industry (e.g. population characteristics, car ownership). Other factors however are within the sphere of influence of Operators (fare changes, ticketing and vehicle quality), while the availability of funding to provide Secured Bus Services is determined by the NECA.

#### 1.4.3 Availability of Levy Funding

- (a) Nexus receives an annual sum from the NECA to support its operation, with this sum drawn from the annual budgets of the five district councils in Tyne and Wear. This sum is known as 'Levy Funding' or 'the levy', and is the source of funding that Nexus uses to deliver many of its statutory and discretionary obligations (although it is noted that the operation of the Metro is not funded directly by the levy, it is funded from fare revenue and a separate grant received from DfT).

- (b) The Coalition's Programme for Government set out in 2010 that deficit reduction, and continuing to ensure economic recovery, is the most urgent issue facing the country. As a result, the government has set out measures in successive budgets to reduce the national budget deficit. As part of those measures, funding to local government has been reduced. The five councils in Tyne and Wear have responded to reductions to the grants they receive from central government by seeking to reduce expenditure.
- (c) In addition to suffering reduced grants from government, the NECA is concerned that the five councils in Tyne and Wear are subject to a gap between the cost to Nexus of reimbursing Operators for the statutory ENCTS and the funding received for the ENCTS. This arises both from the government's formula used to allocate ENCTS funding on a national basis, and from recent cuts by government to the funding streams to councils of which ENCTS reimbursement funding is a part. Using a conservative set of assumptions Nexus estimates the extent of underfunding to be at least £15 million per annum. Since 2006 the Tyne and Wear councils have repeatedly pressed the case for a fairer funding settlement so that the funding required for ENCTS reimbursement in Tyne and Wear is properly reflective of the actual expenditure required by Nexus, through the NECA, to meet its statutory reimbursement obligations. However, to date this has not led to any change in the government's position. Although the NECA will continue to press its case with government, Nexus believes that it is therefore likely that underfunding will continue until such time as the conditions of the ENCTS itself are revised, with the consequence that the Tyne and Wear councils will continue to expend significantly more on the ENCTS through the NECA levy than they receive from government.
- (d) Nexus is not aware of any specific proposals from any of the political parties that may form a future government to reduce or remove ENCTS in the future. Nexus has therefore assumed for the purposes of modelling the Do Minimum Scenario that the duty imposed on local Operators to carry ENCTS

pass holders free of charge, and the NECA's duty to provide statutory reimbursement, will continue for the duration of the QCS.

- (e) In recognition of the severe pressures placed on councils' funding availability, Nexus' grant income from the NECA, which is generated through the levy that the NECA places on the five Tyne and Wear councils, has been reduced by £9.3 million since 2010/11. As part of an agreed medium term financial strategy Nexus has managed this reduction in its funding without reducing front line public transport services by implementing a range of efficiency measures (including two successive 10% reductions in staffing), as well as using revenue reserves (£1.9 million in 2012/13, £0.6 million in 2013/14 and an estimated £3.0 million in 2014/15) to prevent a budget gap between income and expenditure from occurring. The need to use revenue reserves in order to maintain a balanced budget is not sustainable over the medium to long term and a plan is required to bring expenditure back into line with income.
- (f) As detailed in 1.3.8, Nexus' expenditure in 2014/15 on Bus Operations totals £56.2 million. Of this total, £36.7 million is spent on statutory ENCTS reimbursement and the discretionary add-ons that Nexus provides (see paragraph 1.3.5(d)), £15.6 million on Secured Bus Services, and £3.9 million on discretionary concessions valid for travel on bus services. For the purposes of this document, the provision of both statutory and discretionary concessions valid for travel on bus, taken together with the provision of Secured Bus Services, will be referred to as 'Bus Operations'.
- (g) Nexus' income from the Tyne and Wear levy in 2014/15 stands at £64.9 million. In addition to contributing towards Bus Operations the levy is spent on other activities including: provision of the Shields Ferry, maintenance and staffing of bus infrastructure, provision of public transport information, reimbursement for discretionary concessions on other public transport modes as well as direct and indirect overheads such as employees, office accommodation, debt charges and pensions. Aside from the cost of

concessionary travel, Metro is funded by a combination of farebox revenue and direct grant from the DfT, and so is not reliant on levy funding.

- (h) Nexus has assumed that in the Do Minimum Scenario the levy funding made available currently to support Bus Operations will be retained at the 2014/15 level. This is an assumption for modelling purposes only, and would require consideration and approval by the NECA before being put into effect. For alternative scenarios please see Section 1.4.5 below.

#### 1.4.4 ENCTS reimbursement

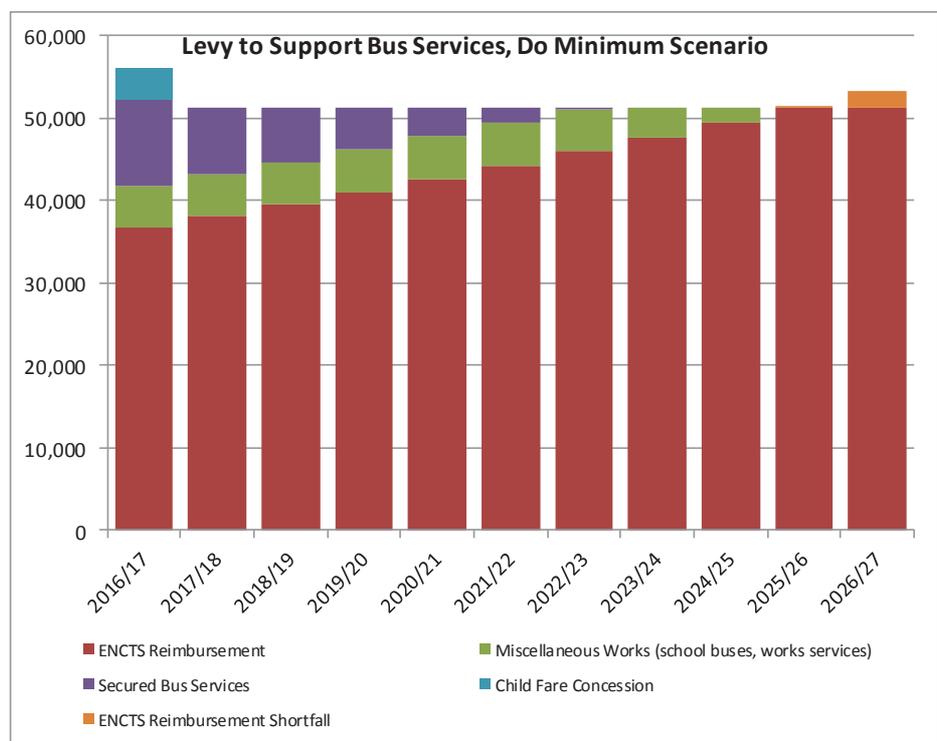
- (a) As discussed in paragraph 1.4.3(c), although the NECA considers that the Tyne and Wear councils are underfunded for the ENCTS, nevertheless reimbursement of Operators under the ENCTS is a statutory duty for the NECA. On NECA's behalf Nexus publishes a scheme for ENCTS reimbursement in line with statutory government guidance, although historically it has reached a voluntary settlement with the main local Operators in order to provide budgetary certainty to both Nexus and the Operator concerned. This has led to financial stability in Nexus' Concessionary Travel expenditure in recent years.
- (b) The principle of ENCTS reimbursement is that Operators are 'no better off and no worse off' by taking part in concessionary travel schemes. Because of this, the commercial fare that would have been charged in absence of the ENCTS is a relevant factor. As discussed in paragraph 1.3.5(b) Nexus assumes that commercial fares will increase at 2.0% above increases in bus costs each year. This translates into a 1.0% increase in reimbursement above bus costs, to reflect the fact that a proportion of trips are generated by the free fare offer and would not otherwise be made, and so no revenue is foregone.

#### 1.4.5 Financial projection

- (a) Nexus' projection, based on the assumptions set out in Sections 1.4.3 and 1.4.4, is that:
- (i) The underlying deficit in Nexus' budget described in paragraph 1.4.3(c) above will be eliminated from 2017/18 onwards by reducing Nexus' overall levy-funded expenditure on bus services. The strategy of maintaining service levels along with the associated need to use reserve funding to balance the budget will no longer be present. The reduction will be shared between bus related activities and other activities, in proportion to their relative size. Expenditure on bus activities will therefore be reduced by £5 million. Please note that the decision to eliminate the deficit by ceasing to use reserve funding, along with any decision regarding where budget cuts would fall, would require consideration and approval by the NECA before being put into effect. Nexus has assumed that this would result in the withdrawal of the Under 16 scheme in 2017/18 as well as the withdrawal of some Secured Bus Services.
  - (ii) The balance of expenditure on bus related activities will change through time, with the sustained growth in statutory ENCTS reimbursement described in Section 1.4.4 leading to an equivalent reduction each year in the amount available to spend on discretionary concessions on bus (see paragraphs 1.3.5(d) and 1.3.5(e)) and on Secured Bus Services (see Section 1.3.3). Nexus has assumed that this would result in the progressive withdrawal of Secured Bus Services and other discretionary concessions.
  - (iii) By 2025 the quantum of funding needed for statutory ENCTS reimbursement will exceed the total levy funding available to support Bus Operations, and Nexus has assumed that this would result in the complete withdrawal of all remaining standard Secured Bus Services

(by 2022), Scholars Services (by 2025), Works Services (by 2025) and other discretionary concessions (by 2017, as stated above). At this point the NECA will be required to consider its approach for funding statutory ENCTS reimbursement for the future, either by securing additional funding or by reducing expenditure elsewhere. This is illustrated in the graph below.

(iv) The graph below shows how ENCTS reimbursement will grow to envelope and eventually exceed the assumed levy.



#### 1.4.6 Alternative Do Minimum Scenarios

- (a) Nexus considers that the Do Minimum Scenario set out in Section 1.4.5 is the most likely scenario to occur if current market conditions remain unchanged. However Nexus acknowledges that many assumptions would require consideration and approval by the NECA before being put into effect, and that a number of alternative scenarios may occur. These include:
  - (i) The NECA may make further significant reductions in overall levy funding, resulting in a more accelerated reduction in the funding made

available to support bus related activities than the scenario described in Section 1.4.5. Nexus considers that this scenario is possible, given the on-going financial constraints and uncertainties faced by local councils, but has no firm evidence to support its adoption in preference to the assumptions already made in Section 1.4.5.

- (ii) The NECA may increase overall levy funding, resulting in an increase in the funding made available to support bus related activities and a slowing of the scenario described in Section 1.4.5. Nexus considers that this scenario is highly unlikely because of the councils' need to achieve further material budgetary savings which would cause them to resist any increase in the NECA levy for Tyne and Wear.
- (iii) The NECA may instruct Nexus to amend its budgetary profile, such that there is an increase in the funding made available to support bus related activities, and a decrease in the amount spent on Nexus' other levy-funded activities. This would result in the reduction or withdrawal of other socially and economically important front-line transport services (see below) but might slow the scenario described in Section 1.4.5. Nexus notes however that the amount spent on Nexus' other levy-funded activities is already relatively small compared to the amount spent supporting bus related activities, and reductions in that spend would also be likely to have adverse impacts on public transport use. Nexus also notes that the NECA may, as part of the process of finding further budgetary savings, determine to reduce the part of the levy that is not spent on bus related activities in any event. Nexus therefore considers that this scenario is unlikely.
- (iv) The NECA may direct Nexus to use its remaining usable reserves to dampen or slow the effects of reductions in expenditure that are described in Section 1.4.5. This would in effect be a continuation of the financial approach adopted by Nexus over recent years. However, the use of reserves has only been agreed to previously as part of a

medium term financial strategy that anticipated a material reduction in Secured Bus Service costs in the future through the introduction of a QCS or a VPA, and in the Do Minimum Scenario no such cost reductions will have been achieved. Further, such a strategy would be of limited duration as the remaining reserves that has Nexus has to expend in this manner are constrained and are unlikely to be replenished in the current environment. Nexus therefore considers that this scenario is very unlikely.

- (v) A decision to reduce expenditure on Nexus' other levy funded activities would require a review of the discretionary support to the Metro and the Shields Ferry that allows ENCTS passholders to travel on those modes by purchasing a Metro Gold Card for an annual fee of £12. In the event that this customer flexibility was removed, Nexus considers that the vast majority of trips would simply transfer from Metro and the Shields Ferry to bus given that Metro Gold Card holders are also ENCTS pass holders and are therefore entitled to free bus travel. The consequence of this would be increased ENCTS reimbursement to Operators, which would be offset against the savings accrued from withdrawing the discretionary scheme. Nexus therefore considers that removal of the Metro Gold Card is unlikely to be acceptable.
- (vi) Nexus could base future ENCTS reimbursement purely on the published scheme rather than through negotiated voluntary settlements with Operators. Nexus considers that this scenario may occur, particularly if Operators no longer wish to participate in the process of negotiating voluntary settlements. However in this scenario it is possible that all major Operators would appeal against the basis of the level of reimbursement made under the published scheme. Based on Nexus' limited experience of the appeals process to date, and despite Nexus having robust arrangements to calculate reimbursement within the parameters of its published scheme, there

can be no certainty in the possible outcomes of the appeals process. Consequently it cannot be assumed that this scenario would produce any further savings over the current process of negotiating voluntary settlements. Moreover, even if it did, Nexus would expect that in the long run, Operators would reduce the size of their network in order to mitigate any reductions in ENCTS reimbursement.

- (vii) The government could amend its funding for ENCTS, or the manner or form of the funding distribution, or it could revise or remove the scheme altogether. Whilst Nexus is aware of discussions and submissions made by various interest groups on various aspects of the current operation of ENCTS, it is not aware of any specific proposals from the government or from any of the political parties that may form a future government to reduce or remove ENCTS in the future. As a result Nexus considers it highly unlikely that any material reform of ENCTS will form government policy at any point in the reasonably foreseeable future.
- (viii) The government could amend the formula to calculate BSOG, or reduce or abolish the grant. Nexus is aware of the DfT's intention to review BSOG, however at this point in time there is no certainty over what the likely outcome of this review process may be. Should funding through BSOG be reduced or eliminated, this would be likely to lead to reductions in commercial service provision, with consequential reductions in accessibility, and additional demands for services to be secured by Nexus.
- (ix) Nexus could increase Metro, Secured Bus Services and Shields Ferry fares to meet the funding gap. Nexus considers that it is highly unlikely that sufficient additional fare income could be raised by increased fares on Metro, Secured Bus Services and Shields Ferry services given that such significant increases would be needed that

patronage itself would reduce significantly because of the elasticity of demand to fare changes.

- (b) In the light of the above, Nexus considers that its Do Minimum assumptions are robust.

#### 1.4.7 Impact of Do Minimum Scenario

- (a) The impact of the projected reductions in both overall bus patronage and public expenditure on bus related activities are significant. Expressed in terms of social consequences, the most likely Do Minimum Scenario will produce the following results:
  - (i) Bus fares will increase at a higher rate than inflation, influencing some people to switch from bus to car travel thus contributing to traffic congestion, and preventing others from travelling by bus as frequently as they used to;
  - (ii) The overall number of bus services - both those provided commercially and those that are publicly funded - will decrease, leading to some people having to walk further to access bus services, wait longer for the bus to arrive, interchange at remote locations, and in some cases curtail their activities earlier in the evening or start them later in the morning;
  - (iii) Declining patronage will cause further uncertainty in the bus network, by leading Operators to review services that do not make sufficient commercial returns to justify the cost of their continued operation. This is likely to continue the long-term trend of mileage reduction unless additional public funding can be provided to introduce more Secured Bus Services to fill the gaps in the commercial network (which would run wholly counter to the principal assumption on which the Do Minimum Scenario is predicated). It is not possible to model this effect because it would require a service-level understanding of

demand, revenue and costs in order to forecast which services might become unviable. Nexus does not have this level of data available because it is commercially confidential information belonging to the Operators;

- (iv) The increase in bus fares and the reduction in service levels will reduce some people's ability to participate as frequently or as easily in employment, education, healthcare, and retail and social activity;
- (v) The withdrawal of Scholars Services will make it harder for some children to study at the school of their choosing, lead to increased journey times for others and in some cases require children to interchange between commercial buses at remote locations. Other children may travel more frequently to school by car, reducing their independence and physical activity, and contributing to peak-hour traffic congestion;
- (vi) The withdrawal of the discretionary concessionary fare for children will have a significant impact on some families' expenditure, with the cheapest single commercial child fare costing significantly more than the concessionary fare (£0.85 on Stagecoach and £0.90 on Go North East, compared to £0.60 for the concessionary Under 16 fare<sup>7</sup>).
- (vii) The withdrawal of the discretionary Companion Card Scheme will reduce the travel horizons of some disabled people, the withdrawal of the ability to travel to hospital appointments before 09:30 hours will make it more expensive for some older and disabled people to access healthcare, and the withdrawal of the ability for the elderly to travel for free on bus services after 23:00 hours will also have a detrimental

---

<sup>7</sup> Fares quoted correct at September 2014

impact on their access to leisure and in some cases employment facilities.

- (viii) Local public expenditure on buses will need to increase from 2025/26 onwards in order to comply with the statutory duty to reimburse bus operators under the ENCTS.
- (ix) There is likely to be a benefit to the larger bus operators from this situation. If Secured Bus Services are stopped, a proportion of the passengers on those services will inevitably transfer on to the nearest commercial bus service that will meet their needs as they will have no other choice but to do so. This will inevitably increase patronage on those services and may make them more profitable. However, it means that there is no commercial incentive on operators to provide an alternative solution to the current dilemma.

## 1.5 The Quality Contracts Scheme for Tyne and Wear

### 1.5.1 Introduction

- (a) Under a QCS, the NECA as the relevant local transport authority will introduce a type of franchising system in Tyne and Wear to set fare levels, timetables and customer service standards, and Operators will compete for contracts to operate services following a defined specification set by the NECA. Certain services will be excluded from the QCS but will nonetheless be permitted to operate within the QCS Area, subject to meeting certain requirements.
- (b) The key components of the QCS are set out below and are also set out in detail within the Scheme and the contracts entered into with successful bidders.

### 1.5.2 Bus Network

- (a) The QCS Network will replicate as closely as possible the deregulated bus network in place at the point that the QCS is adopted. It will cover all regular scheduled Local Services that operate wholly within Tyne and Wear, and a number of cross-boundary services that provide socially necessary links for passengers between points inside Tyne and Wear.
- (b) Any future permanent changes to the QCS Network will be approved by the NECA following a process that will involve consultation with local people and other stakeholders (see 'governance' below).
- (c) A number of Local Services have been specifically excluded from the QCS, for example special event and community transport services. In addition a number of cross-boundary services have been excluded from the QCS. This is principally where such services provide links within the QCS Area that are already provided for by Local Services operating wholly within the QCS Area, or Local Services which travel within neighbouring areas to a lesser degree.

In both cases the operator of such excluded cross-boundary services would also need to agree to abide by certain conditions.

### 1.5.3 Fares and Ticketing

- (a) A simple ticketing structure for adults will be implemented that consists of single trip, all day, weekly, four weekly and annual tickets (including corporate discount schemes). The ticketing structure and the cost of fares will be exactly the same for all bus services, Metro and other public transport services.
- (b) Each type of adult ticket will be available for bus only, Metro only, or multi-mode. Adult ticket pricing will be based on a zonal system consisting of five large zones.
- (c) Discounted tickets will be available to children under 16, young people aged 16 to 18, and students in full-time education. All ticket types for these groups will be multi-modal and available to all within the age category regardless of their home address provided that they have registered for a smart photocard. Student pricing will be based on the zonal system, but pricing for children under 16 and young people aged 16-18 will be a 'flat fare' that will not depend on the distance travelled. The prices for weekly tickets for young people aged 16-18 will be the same as the prices for children under 16.
- (d) Customers eligible for free travel under the ENCTS will continue to be carried free of charge. There will be a new local enhancement to the ENCTS known as the 'Gold Card Plus', permitting all day travel on QCS Services, Metro, the Shields Ferry and Sunderland to Newcastle local rail for an annual fee of £25.
- (e) Any future changes to ticket structures and prices will be approved by the NECA following a process that will involve consultation with local people and other stakeholders. Any future price increases will take place only once each

year and will be capped at the level of the RPI, taken on average across all ticket types, in all but exceptional circumstances.

- (f) Smart Ticketing will be available on all QCS Services, Metro and the Shields Ferry and will include fare capping, providing customers with a 'best price guarantee'. This means that where they pay single fares as they travel, the daily fare is price capped to the cost of the equivalent day ticket.
- (g) Certain types of excluded services – mainly those that run along the same corridors as QCS Bus Services – will be required to accept all pre-paid day, weekly, four weekly and annual bus tickets. A mechanism will be established to reimburse the operators of such services.

#### 1.5.4 Procurement and contract standards

- (a) Quality contracts will be procured in two rounds currently timetabled over an 18-month period, and managed by Nexus on the NECA's behalf. All quality contracts will commence simultaneously and last for a 7 year fixed period, after which an extension of up to 3 years may be granted.
- (b) Following consideration of consultation feedback, Nexus has further developed the tendering structure for Round 1 consisting of 11 Lots, which cover 86% of the vehicle requirement. Each Lot will comprise of between 39 and 128 peak vehicles, based around groups of services from existing depots in the North East area (the actual allocation of services within each Lot will be determined at the point of QCS adoption so as to minimise disruption to the travelling public). Whilst the Lots will replicate established service provision from existing depot sites, the actual depot location from which provision of the QCS services are to be operated following award of a Quality Contract will be a matter for the successful Operator to determine.
- (c) Nexus will cluster the 11 Lots into 3 tranches each containing 3 or 4 Lots. Tranches will be tendered simultaneously with a phased deadline for completion of bids on a tranche by tranche basis. Critically all bidders will

be made aware of which Operators have been successful in the previous tranche before the deadline for submission of bids in the next tranche. Negotiation will take place as each tranche is let in order to revise and clarify the details of bidders' proposals. Although the award of the Quality Contracts will be phased, all Quality Contracts will commence simultaneously.

- (d) Round 2 of the procurement of quality contracts will cover 83 smaller contracts, including Scholars' and Taxibus services. It will take place following the Round 1 contracting process, these quality contracts will be tendered and awarded simultaneously.
- (e) Compliant Round 2 contracts will be evaluated on the basis of price only. The bidding process for Round 2 Quality Contracts will be similar to the current process for Secured Bus Service contracts with which all local Operators are familiar.
- (f) Operators will be required, by the second anniversary of the QCS, to have a fleet that is, as a minimum, fully compliant with Euro V engine emission standards. A dispensation will allow a maximum of 40% of buses within each quality contract to be at a lower emission standard (minimum of Euro III) for the first two years of the scheme only, to allow operators to use their existing buses whilst newer vehicles are procured. Bidders will be encouraged to introduce Low Carbon Emission Buses (LCEBs) by the awarding of additional marks in the bid evaluation process. All buses will be required to be fitted with smart electronic ticket machines (ETMs) and AVL, the system used to transmit bus location information to feed real-time information displays.
- (g) Operators will be required to maintain a fleet of buses which is, on average, no more than 7 years old for the duration of each contract, and no bus will be permitted to be older than 15 years. A dispensation will allow an average fleet age of 8 years for the first two years of the scheme, to allow

operators to use their existing buses whilst newer vehicles are procured. Where a contract is extended at the end of the initial seven year period (for up to three years), the fleet age requirements will be relaxed for that extension only, to allow the operator to continue the use of its existing vehicles.

- (h) Performance standards will include reliability, punctuality and customer satisfaction. A Performance Management Specification (PMS) will be included in each quality contract to incentivise operators to deliver a high quality, high value for money service.

#### 1.5.5 Employees

- (a) Existing employees primarily engaged in providing Local Services that are to be covered by the QCS will automatically transfer to the new operator of those services on their existing terms and conditions of employment, in line with the Quality Contracts Schemes (Application of TUPE) Regulations 2009. In addition the Quality Contracts Schemes (Pension Protection) Regulations 2009 protect transferring employees who are members of an occupational pension scheme such that any new employer is obliged to provide the same or broadly comparable pension rights.
- (b) The QCS regulations also require Nexus to prepare Allocation Arrangements. These describe which groupings of employees would be assigned to each Quality Contract. The Allocation Arrangements are found in Annex 5 to the Scheme have been prepared by Nexus in consultation with trades unions and employers. In order to support the Allocation Arrangements, a requirement will be placed on bidders that no employees engaged on QCS Services shall be made compulsorily redundant for a two-year period after the start date of the contract.
- (c) In the QCS procurement process, Operators will be encouraged to adopt high-quality employment standards such as a minimum hourly rate for driving staff and the living wage for non-driving staff. Bidders for Round 1

contracts will be required to provide an operational plan which includes their proposals in respect of employee engagement, including how they intend to develop, reward and motivate staff to deliver higher quality bus services.

- (d) Operators will be required to pay a travel allowance to employees whose primary workplace changes as a result of a TUPE transfer to a new Operator. This has been considered as an annual payment to an employee who has to travel further (set mileage to be fixed) to his/her primary workplace as an employee engaged on Quality Contracts work than he/she travelled previously. It is envisaged that the payment would be made for the first 2 years of the QCS.
- (e) A multi-employer pension scheme will be offered as an option for all contracting Operators to use as pension provision for transferring, future and existing employees. The scheme, which will be a defined contribution scheme, will be procured by Nexus provided that there is enough interest from Operators and employees to make the scheme viable. Such a scheme will offer stability to employees who have concerns regarding changing pensions when a Quality Contract is re-let.

#### 1.5.6 Customer information and branding

- (a) A Customer Charter will set out the service commitments and performance standards that customers can expect from QCS Services and will provide information on how to contact Nexus should customers be dissatisfied.
- (b) The identity for buses will be the already established red “Buses” brand across all customer facing marketing and information provision. The brand will also be displayed prominently on buses, but the exact livery and colour scheme will be a matter for the NECA to consider at a later stage.

### 1.5.7 Governance

- (a) The NECA will be responsible for overseeing the operation and development of the QCS Network, through the TWSC.
- (b) Local Bus Boards will be established in each Tyne and Wear council area to monitor the operation of QCS bus services in their local area, and to advise the TWSC regarding their development.
- (c) TWUCF will be established for the purposes of facilitating dialogue between Nexus, passenger representatives, local business, stakeholders and the general public in relation to the QCS.
- (d) Nexus will produce an annual report to the NECA, Local Bus Boards, and the TWUCF describing the financial and operational performance of the QCS Network.
- (e) The TWSC will manage an Annual Development Cycle to consider proposed changes to the QCS Network, consulting with Local Bus Boards, the TWUCF, Durham, Northumberland and other stakeholders as it does so. All proposed changes will be made available on the Nexus website, and detailed public consultation will take place where appropriate.
- (f) A procedure for emergency timetable and scheme variation outside the Annual Development Cycle will allow Nexus to respond to exceptional or extraordinary events in order to continue delivering the QCS Services within available resources. Such changes will be reviewed by the TWSC and either confirmed or amended as required.

### 1.5.8 Delivery of the QCS

- (a) The anticipated timescales for introducing the QCS are as follows:
  - Consideration By QCS Board: October 2014 to February 2015
  - Final NECA Decision: March 2015

- Contract Procurement: April 2015 to September 2016
- Transition: October 2016 to March 2017
- QCS Commencement: March 2017
- QCS Complete: March 2027

(b) Delivering the QCS will involve a series of steps:

- (i) Procurement: Quality contracts will be procured in two rounds currently timetabled over an 18-month period. The details of this process are set out in Section 1.5.4.
- (ii) Transition: once all contracts have been awarded, there will be a minimum period of six months (although the two-stage procurement process will mean that it will be a longer period for the bulk of contracts which have been awarded in the first round) during which the transition from commercial operation to QCS operation can take place. During this time the successful bidders will be expected to acquire and fit out their operational bases where required, obtain the necessary fleet of vehicles, prepare for staff transfers from existing operators where required, and plan for operational delivery of the specified timetables, Smart Ticketing and AVL equipment, and other service and performance standards. The transition phase will also see Nexus prepare timetables and establish performance regimes and contract management processes. Nexus will also upgrade its existing Smartcard systems so that it can manage the new ticket types associated with the QCS, and will prepare support processes and information to help customers to transition to the new ticketing system. The transition phase will extend for several weeks beyond the first day of QCS operations, as unexpected issues are resolved and the operating environment is optimised.

- (iii) Performance Management: once the QCS is in place a performance monitoring regime will be introduced so that operators meet the high standards expected of them by the NECA. Performance standards will include reliability, punctuality, vehicle quality and customer satisfaction. A Performance Management Specification (PMS) will be included in each quality contract to incentivise operators to deliver a high quality, high value for money service. Good performance will be rewarded through incentive payments and the likelihood of receiving contract extensions, while poor performance will lead to deductions being levied. Other performance measures will also be monitored to ensure that the contract specifications are being met.
  
- (iv) Contract Management: Nexus and Operators of quality contracts will regularly review contract performance through a series of meetings that will be specified in the contracts. Occurrences of poor performance will be discussed and, where they persist, remedial action plans will be required. Repeated failure to meet contract standards will be addressed through a series of escalating contractual remedies. Nexus has considerable experience of managing service delivery contracts in this manner. Should an Operator default on its contractual obligations such that the contract is terminated, Nexus will seek to re-tender and award the contract to a new Operator. If insufficient time is available to conduct a full tendering process, Nexus may consider using either emergency tendering powers or the 'operator of last resort' powers set out in the Transport Act 2000.
  
- (v) Exit Strategy: at the end of a contract, the Operator will be required to make available sufficient information and resources to allow a new quality contract to be awarded if appropriate, or for another bus service delivery mechanism to be introduced.

## 1.6 Analysis of the QCS - The Nexus Affordability Model

### 1.6.1 Introduction to the Model

(a) In order to analyse the QCS and ensure it meets the objectives of the Bus Strategy and the requirements of the Public Interest Test detailed in this document, an analytical tool called the Nexus Affordability Model has been developed. The purpose of this model is three fold:

- Demand Modelling: to forecast the demand for bus services in Tyne and Wear in the future, for the Do Minimum and the QCS scenarios;
- Financial Modelling: to assess in their totality the costs and revenues associated with QCS scenario in order that the affordability of the Scheme can be ascertained; and
- Value for Money Modelling: to provide a series of inputs into the assessment of the Scheme's value for money, including the measures that determine the economy, efficiency and effectiveness of the QCS. These matters are discussed further in Section 5.

(b) The model is outlined below.

### 1.6.2 Demand Modelling

(a) The Nexus Affordability Model includes a bus patronage forecasting tool whose structure and relationships were developed from principles contained within the National Bus Model (NBM). The NBM is an established demand forecasting tool that works at an aggregate level<sup>8</sup> to forecast the relationships between a range of network, price and quality changes, and patronage responses. The process of accounting for, and projecting, changes in passenger demand is based on the elasticity modelling in

---

<sup>8</sup> Influences on demand are modelled across the network equally, rather than examined at a route or stop level.

“Demand for Public Transport”<sup>9</sup> (typically known as the "Black Book elasticities") and subsequent updates. The Black Book elasticities are used by the DfT and across the transport industry and are a key feature of the established transport models used to plan bus network strategies and interventions at national and regional levels.

- (b) The Nexus Affordability Model incorporates a Tyne and Wear specific demand model, adapted by Nexus from the NBM, and is considered by Nexus an appropriate tool to use in forecasting the likely incremental patronage impacts of introducing a QCS in Tyne and Wear, compared with a Do Minimum base case.
- (c) The demand elasticity factors used by the model are set out below. Details of the forecasts used for these factors are set out in Inputs sheets within the Nexus Affordability Model:
  - (i) Population;
  - (ii) Employment – Work and Non-Work Journeys;
  - (iii) Car Ownership – Work and Non-Work Journeys;
  - (iv) GDP Growth;
  - (v) Fares and Ticketing – Short and Long term;
  - (vi) Customer and Service standards; and
  - (vii) Service supply (km run), including Secured Bus Services.
  - (viii) Generalised cost change

---

<sup>9</sup> <http://www.demandforpublictransport.co.uk/TRL593.pdf>

- (d) The Nexus Affordability Model uses patronage and average fare data derived from Nexus' Continuous Monitoring Surveys, which provide a statistically robust basis for annual estimates of current bus passenger demand and revenue on a Tyne and Wear basis and its outputs are used for the purposes of ENCTS reimbursement, multi-mode season ticket revenue sharing and for providing information to DfT. The methodology for Nexus' Continuous Monitoring survey was devised by the University of Southampton's Statistical Social Sciences Institute. The accuracy of the passenger estimate methodology and outcomes is also regularly audited by the University of Southampton<sup>10</sup>.
- (e) Continuous Monitoring data is used to establish the base patronage figures for the existing bus network within the Nexus Affordability Model. This base scenario is then used as a foundation for the future year forecasts of bus patronage and revenue in the Do Minimum Scenario and the QCS scenario. Comparison between the two scenarios provides the patronage and revenue differences that form the basis of assessing Criterion (a) (Section 2 of this document) as well as the QCS affordability analysis.
- (f) All patronage modelling in the Nexus Affordability Model has been undertaken at a Tyne and Wear level as this conforms to the statutory test under Section 124 of the Transport Act 2000 and also reflects the available data sets. In addition the data is statistically most robust at this level. Patronage data for individual bus routes was requested from the current commercial Operators in Tyne and Wear, but was not provided. Nexus nevertheless considers that it has sufficient information at the aggregate level to provide a robust basis from which to analyse current and future demand, a conclusion that respondents to the consultation (including their external consultants) have not challenged. Nexus' view is that without

---

<sup>10</sup> Statistical Audit of Nexus Continuous Monitoring System (2013), University of Southampton

comprehensive route-based patronage data from the commercial Operators, disaggregation to individual district, town or corridor level would increase the risk of inaccuracy without adding any material value to its analysis.

- (g) The Nexus Affordability Model also takes into account an anticipated increase in demand resulting from certain improvements for passengers that will be introduced by the QCS. These are collectively known as ‘Soft Measures’ and were examined in a DfT study<sup>11</sup>. The two Soft Measures incorporated in the QCS demand forecast, applicable from the first year of contract operation, are:
- (i) Customer Charter: the provision of a single, consistent and meaningful charter for customers whose requirements are built into the contractual relationship with QCS operators and whose benefits can be relied upon by all users of the QCS Network; and
  - (ii) Simplified Ticketing: the provision of a single, simple fare structure that covers all modes of public transport, is easily understood based on a simple zone structure and which effectively provides ‘flat fare’ travel for the majority of short and medium distance journeys.
- (h) Nexus has reviewed the validity of its assumption that demand will increase because of the introduction of these Soft Measures, following comments received from Operators during Statutory Consultation and Informal Stakeholder Engagement (see Consultation Report for details). Having taken into account of all comments made, as well as conducting additional detailed market research among target customers, Nexus remains confident that the demand assumptions arising from Soft Measures that it has applied in the Nexus Affordability Model are both robust and prudent.

---

<sup>11</sup> The Role of Soft Measures in Influencing Patronage Growth and Modal Split in the Bus Market in England (DfT 2009)

### 1.6.3 Financial Modelling

- (a) The second part of the Nexus Affordability Model allows Nexus to assess the overall costs and revenues for the QCS in order to assess its affordability over the life of the QCS. This affordability assessment has been the subject of risk modelling, as detailed in Section 5.
- (b) The revenues from the QCS have been estimated by applying average fares taken from Continuous Monitoring data to the patronage forecast described above. The average fares in a QCS are assumed to increase by RPI each year, in line with the commitment described in paragraph 1.5.3(e). In the Do Minimum Scenario the average fares are assumed to increase by 2% above the average increase in bus costs as discussed in paragraph 1.3.5(b). Further revenue to support the QCS comes from the annual levy on Tyne and Wear district authorities, as set out in Section 1.4.3.
- (c) The costs of the QCS in the Nexus Affordability Model have been established from a variety of sources, taking current costs of bus operation in Tyne and Wear and applying additional costs that a QCS would introduce, some of which were identified by Operators in response to consultation. The current costs of bus operation in Tyne and Wear were estimated by the TAS Consultancy, based on an analysis of the published accounts of the three largest operators in Tyne and Wear and taking account of a detailed analysis of the 2013 bus network. Additional costs have been included in the model to allow for a number of new or additional costs that would be introduced by a QCS, namely:
  - (i) the investment in vehicles to achieve a full fleet of vehicles with Euro V or better emission standards by 2019;
  - (ii) the requirement to provide all QCS vehicles in Nexus livery;
  - (iii) the additional staff that will be required by Nexus to manage and administer the contracts;

- (iv) for in-scope Operator staff, the cost of possible No Compulsory Redundancy, which is a requirement on Operators through procurement of quality contracts, and Basic Hourly Rate for drivers and Living Wage for all employees, which is not a requirement but would be included in quality contracts if offered; and
  - (v) the cost of other investments associated with the QCS, specifically Smart Ticketing infrastructure and the provision of improved information and marketing.
- (d) During the life of the QCS the costs of delivering the QCS will increase. Nexus has developed a blended forecast of various inflation rates that relate to the main components of bus operation (staff costs, fuel costs, vehicle costs, premises costs, etc) to forecast how the costs of operation year on year will grow. The components of this blended forecast of inflation will also be used, taking account of actual prevailing inflation rates rather than forecasts, to increase actual contract prices year on year during the QCS.
- (e) From this assessment the Nexus Affordability Model is able to compare the costs with the revenues associated with each year of the QCS, from which an overall analysis of affordability over the ten years of the QCS can be derived. A risk contingency has been included in this analysis in order to allow for unanticipated events that may adversely affect QCS revenue and costs.

#### 1.6.4 Value for Money Modelling

- (a) The changes in costs, revenues and patronage between the Do Minimum Scenario and the QCS scenarios drawn from the Nexus Affordability Model are used to undertake the assessment of Value for Money and the '3Es', as set out in Section 5.

### 1.6.5 Summary

- (a) The Nexus Affordability Model uses an established DfT modelling tool, the long-standing Continuous Monitoring process, and expert analysis to forecast the range of impacts that the QCS will have on demand for bus services, costs and fare revenues. During Consultation, Statutory Consultees and their advisers were provided with access to the Nexus Affordability Model so that they could verify the approach adopted by Nexus for themselves and make comment. Nexus has considered all feedback in detail and made adjustments where appropriate. As a result Nexus is confident that the model represents an appropriate and robust tool to model the QCS's effect on demand for bus services, Value for Money and the '3Es', as well as providing the NECA with assurance that the QCS is affordable in each of the proposed ten years of its operation.

Blank page

## 2. CRITERION (A) – BUS PATRONAGE

### 2.1 The Guidance

2.1.1 Section 124(1) of the Transport Act 2000 (as amended by Section 19(2) of the Local Transport Act 2008) states that in respect of this Public Interest Test criterion:

*“the proposed scheme will result in an increase in the use of bus services in the area to which the proposed scheme relates”*

2.1.2 Paragraph 53 of the Guidance provides further detail:

*“an important point to note is that the 2000 Act makes clear that “increase” here includes reducing, arresting or reversing decline in the use of bus services. In other words, for this criterion to be met, the LTA must be satisfied that bus usage will be higher under the quality contracts scheme than it would have been in the absence of the scheme. This means that the LTA will need to form a view of the likely future pattern of bus usage in two scenarios: first, assuming that current policies and plans are carried forward into the future; secondly, assuming the QCS is implemented. The relevant consideration here is the overall level of bus usage: a scheme that will increase patronage overall, while reducing patronage on a minority of routes, will meet the criterion.”*

2.1.3 Nexus has interpreted this Guidance in the following way to guide its assessment of this Criterion:

- (a) A forecast should be made of the demand for buses in a scenario where current policies and structures for managing and delivering the bus network in Tyne and Wear remain unchanged, in order to provide a comparator for the assessment of the impact of the introduction of the QCS. As set out at Section 1.4, this is the Do Minimum Scenario which has been modelled using the demand

modelling element of the Nexus Affordability Model (see Section 1.6);

- (b) The impact of the QCS (as set out in Section 1.5) on demand for bus services should then be assessed, using the demand modelling included within the Nexus Affordability Model. Nexus considers that, according to the Guidance, this Criterion is satisfied if as a result of the QCS either the forecast use of bus services is increased compared to a flat-line continuation of current demand, or if the forecast of declining demand set out in the Do Minimum Scenario is reduced, arrested or reversed by the QCS;
- (c) An aggregate assessment of the bus market in Tyne and Wear (the QCS Area) is an appropriate and robust way to assess the ability of the QCS to meet this criterion, rather than a detailed view on how each individual route and service will be affected. Nexus considers that, according to the Guidance, this criterion is satisfied if the QCS increases demand over the QCS Area taken as a whole, even if at a disaggregate level there may be localised reductions in patronage on certain services within the area.

## 2.2 Approach and Methodology

### 2.2.1 Trends in Bus Patronage

- (a) The current structure of the bus market is set out in paragraph 1.3. Bus patronage in Tyne and Wear is in long term decline. After sustained growth during the 1970s and 1980s, from the point of deregulation in 1986 the trend became one of decline that lasted until the introduction of free local bus travel for older and disabled people in 2006, followed by free national bus travel under the ENCTS in 2008.
- (b) The chart in Section 1.3.4 shows the long term trend in bus patronage since deregulation and highlights key milestones such as the introduction of free local bus travel for older and disabled people in 2006, followed by free national bus travel under the ENCTS in 2008. The chart highlights the exceptional growth in overall bus patronage resulting from the introduction of the ENCTS, and also shows that although the additional ENCTS patronage is being maintained, overall patronage has resumed its pattern of long-term decline because of reductions in demand in other passenger groups.

### 2.2.2 Key Drivers of Patronage

- (a) The key drivers of changes in bus patronage are set out in paragraph 1.4.2(a), along with the forecast impact that each factor will have in the Do Minimum Scenario over the intended ten-year period of the QCS.
- (b) Some of these factors are outside the direct control of the NECA and the bus industry (e.g. population characteristics, car ownership). However in the current deregulated environment other factors are within the sphere of influence of Operators (fare changes, ticketing

and vehicle quality), while the availability of funding to provide Secured Bus Services is determined by the NECA.

- (c) The QCS would have the effect of moving fare changes, ticketing and vehicle quality from the sphere of influence of Operators to the NECA, and the proposals for how these would work in the QCS are described in section 1.5. The table below repeats the assumptions in the Do Minimum Scenario, and shows where the QCS lead to material differences.

Factor	Do Minimum Assumption	QCS Assumption
Population	Population in the Tyne and Wear travel to work area will increase by 3.3% between 2017 and 2026 based on forecasts in the DfT TEMPRO <sup>12</sup> demographic model. This will grow demand for bus services.	No change from Do Minimum assumption
Employment	Employment amongst the working age population in the Tyne and Wear travel to work area will increase by 2.1% between 2017 and 2026 based on TEMPRO forecasts. This will grow demand for bus services.	No change from Do Minimum assumption
Car Ownership	The number of cars owned by people population in the Tyne and Wear travel to work area will increase by 8.5% between 2017 and 2026 based on TEMPRO forecasts. This will reduce demand for bus services.	No change from Do Minimum assumption
GDP	GDP in the Tyne and Wear travel to work area will increase as a result of growing economic activity. This will grow demand for bus services.	No change from Do Minimum assumption
Fare changes - adult	Commercial bus fares, taken as a whole, will continue to increase by 2% above bus costs. This will reduce demand for bus services.	Commercial bus fares will increase by the RPI on average. This will prevent losses in demand arising from fares elasticity among adult passengers.

---

<sup>12</sup> <https://www.gov.uk/government/collections/tempro>

Factor	Do Minimum Assumption	QCS Assumption
Fare changes – child under 16	Due to lack of available funding, Nexus anticipates that it will have to withdraw the Under 16 concession in 2017 in the DM scenario. This will make journeys more expensive and reduce the use of bus services by under 16s. Please note that withdrawal of this scheme is an assumption for modelling purposes that would require consideration and approval by the NECA before being put into effect.	The Under 16 child fare will be maintained. This will prevent losses in demand arising from fares elasticity among child passengers.
Fare changes – 16-18	Nexus is not aware of any proposals to amend ticketing for 16-18 year olds in the DM scenario, therefore the assumption for adult fare increases will apply.	New fares for 16-18 year olds will be introduced, at a significant discount compared to many existing commercial products. This will increase demand from passengers who are 16-18 years old. Future increases will be at the level of the RPI on average. This will prevent losses in demand arising from fares elasticity among 16-18 year olds.
Fare changes – student	Nexus is not aware of any proposals to amend ticketing for students in the DM scenario, therefore the assumption for adult fare increases will apply.	Simpler fares for students will be introduced. Future increases will be at the level of the RPI on average. This will prevent losses in demand arising from fares elasticity among students.
Fare changes – ENCTS	Nexus is not aware of any proposals to reduce or remove the ENCTS for the future, other than the gradual change to the eligibility age already announced by Government, and therefore no change to demand is anticipated as a result.	No change from Do Minimum assumption.

Factor	Do Minimum Assumption	QCS Assumption
Fare changes – elderly/disabled discretionary	Due to lack of available funding, Nexus anticipates that it will have to withdraw discretionary concessions for elderly and disabled people in the DM scenario. Please note that this is an assumption for modelling purposes that would require consideration and approval by the NECA before being put into effect. However Nexus does not have sufficient data to model the effect of this change and therefore demand is assumed to be constant as a result, thus understating the likely overall reduction in patronage to some extent.	Discretionary concessions for elderly and disabled people will be maintained. This will prevent losses in demand arising from these passengers. In addition, the new 'Gold Card Plus' product will permit all day travel on QCS Bus Services (and other Nexus services) for an annual fee of £25.00. This is likely to grow demand among these passengers on bus services. Nexus does not have sufficient data to model this effect and has therefore made the prudent assumption that those passengers who currently pay a commercial fare to travel before 0930 on weekdays will simply transfer across to the new product, thus understating the likely overall growth in patronage to some extent.
Simplified ticketing	Nexus is not aware of any proposals to simplify ticketing in the DM scenario, therefore no change to demand is anticipated as a result.	The QCS will introduce a single, simple fare structure that covers all modes of public transport, is easily understood based on a simple zone structure and which effectively provides 'flat fare' travel for the majority of short and medium distance journeys. This will increase demand.
Customer Charter	Nexus is not aware of any proposals to modify existing customer charters in the DM scenario, therefore no change to demand is anticipated as a result.	The QCS will introduce a single, consistent and meaningful charter for customers whose requirements are built into the contractual relationship with QCS operators and whose benefits can be relied upon by all users of the Tyne and Wear bus network. This will increase demand.

Factor	Do Minimum Assumption	QCS Assumption
Bus punctuality	Assumed to be a continuation of current performance in the DM, therefore no change to demand is anticipated as a result.	Punctuality will be a contract condition and will be monitored by Nexus. Financial deductions will be applied for poor performance and bonus payments made to incentivise good performance. Although this is likely to improve punctuality compared to the Do Minimum Scenario and may therefore increase demand, the punctuality targets themselves will be the same as those currently applied by the Traffic Commissioner and so no uplift in demand has been applied in modelling.
Smart ticketing	Nexus is not aware of any proposals to introduce Smart Ticketing in the DM scenario beyond that already achieved through NESTI and offered by operators, therefore no change to demand is anticipated as a result.	The QCS will ensure that Smart Ticketing will be available on all buses, Metro and the Shields Ferry and will include fare capping, providing customers with a 'best price guarantee'. Some passengers will pay cheaper fares as a result, leading to an increase in demand arising from fares elasticity, and some passengers will place a value on the simplicity that Smart Ticketing provides, also leading to an uplift in demand. However Nexus does not have sufficient data to model this effect and so no uplift in demand has been applied in modelling.
Vehicle quality	Nexus assumes that in the DM scenario operator fleet renewal programmes will continue in line with current practice with vehicles typically operational for an average of 15 years and then replaced by new vehicles, or by vehicles younger than 15 years of age cascaded in from other regions to help meet operational requirements - therefore no change to demand is anticipated as a result.	The QCS will change and improve the profile of vehicles in Tyne and Wear compared to the Do Minimum. However due to the assumed rolling programme of investment by Operators in the Do Minimum Scenario it is unlikely that the QCS will produce a significant uplift in demand in comparison.

Factor	Do Minimum Assumption	QCS Assumption
Secured Bus Services demand	Due to lack of available funding Nexus would progressively reduce its provision of Secured Bus Services between 2017 and 2025 (this withdrawal is an assumption for modelling purposes that would require consideration and approval by NECA before being put into effect). The journeys made by users of withdrawn Secured Bus Services will reduce by 46%, with an assumption that the remaining 54% of trips move to alternative commercial services.	Secured Bus Services will be maintained within the QCS Network. This will prevent losses in demand arising from users of these services.
Service supply (bus km operated)	The forecast declines in patronage arising from the other factors leading to reduced demand would lead to the withdrawal of further commercial services, simply because some services would become more lightly used and therefore less profitable or loss making (see chart below). However, Nexus has not modelled these because of the absence of detailed information on demand and service utilisation.	The effect described in the Do Minimum Scenario would not apply because patronage reductions would be halted.

### 2.2.3 Demand Forecasting Methodology

- (a) Details of the demand forecasting element of the Nexus Affordability Model are set out in Section 1.6.
- (b) The Nexus Affordability Model forecasts patronage levels annually for the period from 2014 until the intended end date of the QCS in 2027.
- (c) All patronage modelling has been undertaken at a Tyne and Wear level as this conforms to the statutory test under section 124 of the Transport Act 2000 and reflects Nexus' interpretation of Guidance as set out in paragraph 2.1.3(c).

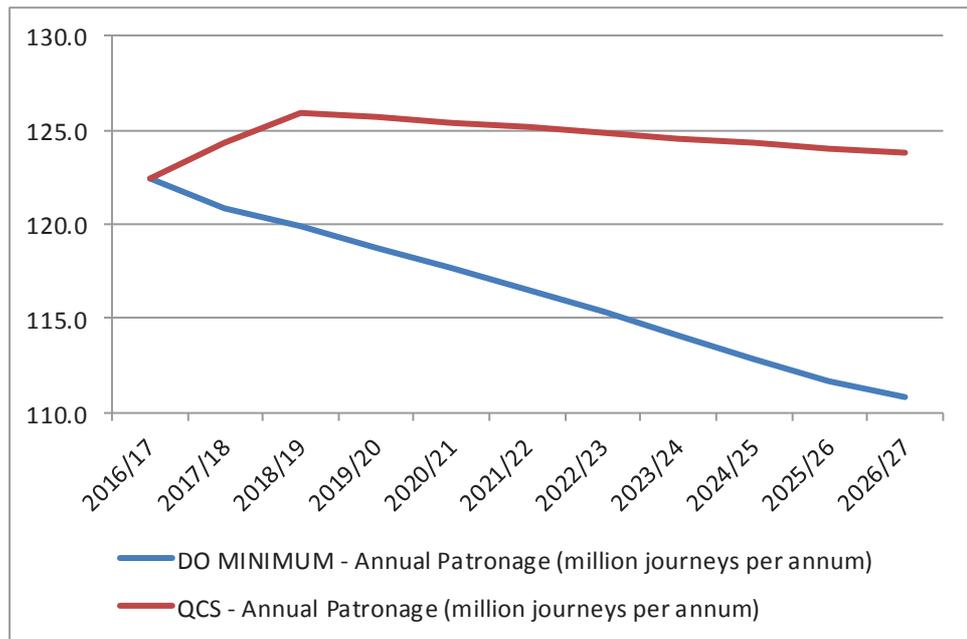
- (d) The Nexus Affordability Model forecasts the impact on bus patronage of changes to various factors introduced by the QCS as described in paragraph 2.2.2(c). This takes into account the anticipated patronage benefits from the QCS introducing Soft Measures as described in paragraph 1.6.2(g) and 1.6.2(h).
- (e) The introduction of a single simplified zoning system for QCS fares will mean that, based on a comparison discussed in the QCS Proposal, 67% of journeys will see reduced fares, 11% of journeys will remain at the same fare and 22% will see a fare increase. The net effect therefore is that the average fares paid decreases slightly, leading to a growth in patronage arising from fares elasticity.
- (f) While the majority of passengers will experience reduced fares or pay the same, a proportion of passengers will see an increase in their fare. Limiting fare increases to RPI will mean that passengers who initially experience an increase in fares when the QCS is introduced will see that increase quickly diminish and reverse, because comparative fares in the Do Minimum would rise more steeply.

#### 2.2.4 Assessment of Risk

- (a) As described in detail in Section 5.3.2, Nexus has undertaken a quantified assessment of risks in order to test the robustness of the forecast QCS outcomes in a range of risk scenarios. This assessment has been used to assess the likely impact on bus patronage across the most likely risk outcomes, in order to establish the robustness of the QCS.

## 2.3 Results

- 2.3.1 The estimated baseline annual bus patronage figure for 2016, the year preceding that start of the QCS, is 122.5 million journeys. This figure cannot be directly compared to the overall figure of present bus patronage as set out in paragraphs 1.3.1(b) as it does not include journeys made on services to be excluded from the QCS (which are forecast to amount to a further 11.4 million journeys in 2016), but includes a forecast of ENCTS journeys on cross boundary services included in the QCS, that board in either Northumberland or Durham.
- 2.3.2 The baseline figure for 2016 is 4.4 million journeys below the 2011 annual patronage levels of 126.9 million journeys, reflecting the forecast effects of fares increases and changing demographics that continue throughout the Do Minimum Scenario.
- 2.3.3 The chart overleaf shows the outputs from the modelling in terms of annual patronage for the Do Minimum and QCS scenarios on bus services included within the QCS. Bus patronage in the QCS is forecast to be greater than the Do Minimum Scenario in each year of its operation. By 2026, the anticipated QCS annual patronage will be 123.8 million journeys per annum, which is 1.3 million journeys greater than the estimated baseline forecast for 2016 annual demand and 13.0 million journeys more than the estimated Do Minimum Scenario for 2026. Over the ten years of the QCS a total additional 89.6 million journeys will be made on QCS services compared with the Do Minimum Scenario, based on the modelling of key drivers of patronage set out in Section 2.2.2.

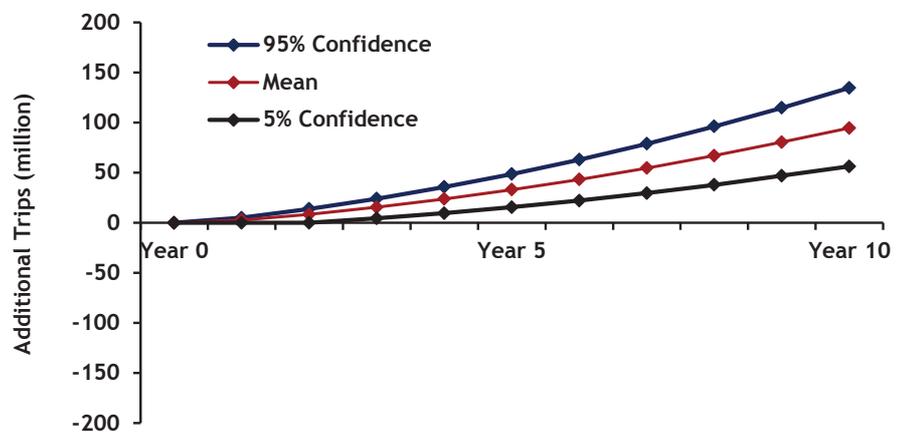


Note: chart shows journeys made on buses included within the QCS, see paragraph 2.3.1.

- 2.3.4 The QCS benefits from an uplift in demand in Years 1 and 2 due to the effect of changes to fares and the Soft Measures being implemented, and then decreases annually due to the influence of expected demographic changes within Tyne and Wear. Nexus considers that this is a conservative estimate, as a number of factors described in paragraph 2.2.2(c) are expected to lead to additional increases in demand which have not been applied in the modelling.
- 2.3.5 The Do Minimum Scenario sees a continuation of the current historical decline in patronage due to above-inflationary fare increases combined with the effect of the underlying demographics, but this will be significantly exacerbated by the anticipated withdrawal of Secured Bus Services.
- 2.3.6 A simulation of the key patronage risks has been undertaken allowing the presentation of an indicative range within which the outturn patronage is expected to fall. The key drivers of patronage risk are:
- Demand response to fares

- Benefit of Package of Soft Measures
- Delivery to Assumed Timescale
- Fare assumptions (assumed change in fares each year)
- Average Trip Duration
- Assumed Inflation rate

2.3.7 The chart below presents the impact of the QCS as the net increase in annual bus usage.



2.3.8 The central case described in paragraph 2.3.3 shows the net increase in patronage grows progressively between the Do Minimum and the QCS scenarios. By 2026 the net positive impact is forecast to vary from 9 million annual journeys to 20 million annual journeys for the most likely 90% of outcomes.

## 2.4 Conclusion

2.4.1 Criterion (a) is considered to be satisfied as the QCS will, in line with the provisions of the Transport Act 2000 and Guidance, result in a material increase in the use of bus services in the area to which the QCS relates of some 89.6 million passengers, compared to the Do Minimum Scenario where patronage is forecast to decline significantly over the anticipated life of the QCS. The patronage risk simulation exercise forecasts a high level of confidence that patronage will increase as a result of the QCS, showing an increase in patronage across the range of simulated scenarios.

Blank page

### 3. CRITERION (B) – BENEFITS FROM SERVICE QUALITY IMPROVEMENTS

#### 3.1 The Guidance

3.1.1 Section 124(1) of the Transport Act 2000 (as amended by Section 19(2) of the Local Transport Act 2008) states that in respect of this Public Interest Test criterion:

*“the proposed scheme will bring benefits to persons using local services in the area to which the proposed scheme relates, by improving the quality of those services”*

3.1.2 Paragraphs 54 to 57 of the Guidance provide further details:

*“54 ... “Quality” of services, in this context, is not defined in the 2000 Act, but the natural meaning of the term is capable of a broad interpretation. “Quality” of service is likely to include matters such as the standard of the vehicles used to provide services (e.g. accessibility for disabled persons, emissions standards, audio-visual information), the frequencies or timings of services, punctuality, reliability, standards of driver training (e.g. in customer care) and arrangements for integration of ticketing with other services or transport modes.*

*“55. By itself, a reduction in fares may not constitute an improvement in the “quality” of service (rather it is a reduction in the price which may benefit passengers) – but a QCS that reduced fares alongside improvements to service “quality” would be perfectly capable of meeting this criterion. The benefits arising from lower fares would be factored in to the assessment of other criteria, in particular the proportionality test ... But better integration of fares or ticketing, or the introduction of smart ticketing, could be viewed as an improvement in service “quality”.*

*“56. In some circumstances, a reduction in the total number of services*

*operating on a particular route could be consistent with bringing benefits to passengers, for instance if it results in a more coherent service pattern. For example, where services operate at xx00, xx05, xx30, xx35, passengers could benefit from rationalising such that services instead operate at xx00, xx20 and xx40 because maximum waiting times would be reduced.*

*“57. As with the first criterion, this criterion needs to be judged across the area of the proposed scheme as a whole. For example, the fact that service quality might be reduced on some services does not preclude the criterion being met overall.”*

- 3.1.3 Quality improvements introduced by the QCS have been considered and assessed across the QCS Area as a whole. As noted in paragraph 54 of the Guidance, quality of services is not defined in the Transport Act 2000, but the natural meaning of the term is capable of a broad interpretation. The Guidance states that quality of service is likely to include matters such as the standard of vehicle used to provide services, including access for disabled persons and emission standards, and the integration of ticketing with other services or transport modes.
- 3.1.4 In accordance with the Guidance, Nexus has therefore assessed both the increased simplicity of the ticketing offer and the introduction of multi-modal, multi-Operator Smart Ticketing as scheme benefits for the purposes of this criterion. On the other hand, the Guidance states that reductions in fares alone should not be regarded as an improvement to the quality of services and therefore Nexus has not assessed fare reductions as a benefit for the purpose of this criterion, although notes that the impacts of fare reductions are captured in other aspects of this report.
- 3.1.5 Further examples of benefits to passengers using services which fall within the QCS, in addition to those expressly mentioned by the Guidance and the ticketing benefits referred to above, include the benefits which Nexus

believes will flow from the simplification of customer contact and integrated branding.

## 3.2 Approach and Methodology

3.2.1 In order to determine the nature and extent of the benefits that Nexus expects the QCS to deliver to passengers, the following approach has been adopted:

- (a) In developing this assessment of the benefits that the QCS brings, Nexus has taken account of both the proposals contained within the QCS and also the responses to the Statutory Consultation. Where respondents have commented during Consultation on the presence, scale and likelihood of benefits, Nexus has considered those comments and, where appropriate, made suitable adjustments.
- (b) Quality benefits have been assessed across the QCS Area as a whole and have been structured around the key elements of the QCS, as set out in Section 1.5. The benefits relate to persons using Local Services in the area and will help to achieve the Objectives of the Bus Strategy for Tyne and Wear.
- (c) The assessment of benefits considers the key features of bus networks in the Do Minimum Scenario, how the key features would be different in the QCS environment and the consequential qualitative benefits that can be attributed to the QCS. The Do Minimum Scenario is detailed in Section.1.4.
- (d) The benefits that have been assessed as arising from the QCS have a high certainty of achievement either because they result from specific aspects of the QCS itself (with which Nexus and the NECA will be obliged to comply in order to remain consistent with the Transport Act 2000), or because they result from specific requirements of the individual quality contracts that will be entered into by successful bidders.

### 3.3 Results

#### 3.3.1 Introduction

- (a) The assessment of benefits of the QCS, compared with the Do Minimum Scenario, has been structured around the main elements of the QCS in order that the impacts on persons using Local Services can be easily referenced and explained. For each aspect of the QCS the element of the QCS is explained, the likely consequences of the Do Minimum Scenario and QCS scenario are detailed and the beneficial impacts of the QCS are provided.
- (b) For the purposes of this assessment Nexus has grouped the benefits into the following categories:
- the Bus Network;
  - Fares and Ticketing;
  - Standards for Buses and Bus Drivers;
  - Customer Experience;
  - Journey Information;
  - Governance of Bus Services; and
  - Wider Economic, Social and Environmental Implications

#### 3.3.2 Bus Network

- (a) The bus network incorporates the QCS services that will operate throughout the QCS Area, the key features of those services (routes, frequencies, times of day) and the infrastructure that those services use (bus stops, bus stations, highway infrastructure, see also section 1.5.2). It should be noted that the bus network available to the public will also comprise excluded services not defined by the QCS.

- (b) The Do Minimum Scenario has the following consequences in respect of the bus network:
- (i) Funding constraints will mean that Secured Bus Services will be progressively withdrawn from 2017 onwards, with Secured Bus Services will be fully withdrawn by 2022;
  - (ii) The withdrawal of Secured Bus Services will include the loss of Scholars and Works Services by 2025;
  - (iii) The continued increases in bus fares ahead of inflation will lead to buses becoming less affordable and demand for Commercial Services reducing (see Section 2.3 for details). This is expected to lead to further reductions in the Commercial Services network that Nexus will be unable to replace as Secured Bus Services, due to funding constraints;
  - (iv) Network planning will continue to be undertaken by Operators with each Operator seeking to maximise its own commercial returns. The current ability of Nexus to have some involvement in network planning by means of its ability to secure whole routes, parts of routes, or extensions to the commercial timetable, will be lost, as no funding will be available to secure services. This will lead to further losses in Accessibility, and further network fragmentation that will extend to cross-boundary services and services provided to serve new developments;
  - (v) Nexus will continue to manage and maintain all bus stops in Tyne and Wear and the majority of bus stations, in order that they are clean, safe and well maintained. Highway infrastructure that assists bus movements will be maintained by Local Highway Authorities and new facilities will be provided

where effective and viable schemes can be developed and funding becomes available.

- (c) The QCS has the following consequences in respect of the bus network:
- (i) All existing Secured Bus Services will become part of the QCS Network and will not be curtailed through lack of available funding. Any future changes to these services will be determined by the NECA through the Annual Development Cycle and with the full involvement of passengers, local councillors and other stakeholders;
  - (ii) All existing Scholars Services and Works Services will become part of the QCS Network and will not be curtailed through lack of available funding. Any future changes to these services will be determined by the NECA through the Annual Development Cycle and with the full involvement of passengers, local councillors and other stakeholders;
  - (iii) Existing commercial bus services that are in scope for the QCS will become part of the QCS Network and will not be amended or curtailed as a result of operators seeking to maximise their own commercial returns. Any future changes to these services will be determined by the NECA through the Annual Development Cycle and with the full involvement of passengers, local councillors and other stakeholders. Excluded services will not be afforded the same commitment to be retained and improved;
  - (iv) Network planning will be undertaken entirely by Nexus on behalf of the NECA for the duration of the QCS, enabling enhanced integration between all bus services and between all public transport modes. This integration will extend to cross-

boundary services included within the QCS, and to future new bus services that are considered through the Annual Development Cycle.

- (v) NECA Cross Boundary Bus Collaboration Protocol between Nexus, Durham, and Northumberland in conjunction with the implementation of the QCS, will extend some benefits of the QCS to Durham and Northumberland, and mitigate the risks to Durham and Northumberland that may arise from the introduction of the QCS in Tyne and Wear.
  - (vi) Nexus and Councils will continue to maintain all bus stops and bus stations, to ensure they are clean, safe and well maintained. Local Highways Authorities will continue to provide the existing highway measures that assist bus movements. The NECA and its constituent Councils will have a greater ability to plan for future highway measures to improve bus movements because of the far greater operational performance data that will be available to them, and will have a greater incentive to make bus operations more efficient in order to minimise the costs of operating the bus network.
- (d) The benefits of the QCS in relation to the bus network can therefore be summarised as follows:
- (i) Incorporating the current commercial network and Secured Bus Services (including Scholars Services and Works Services) into the QCS Network will provide accessibility benefits to passengers across Tyne and Wear compared to the Do Minimum Scenario, particularly in areas which have limited or no provision from commercial bus services. Through the NECA Cross-Boundary Bus Collaboration Protocol, these benefits will be maintained in Northumberland and Durham;

- (ii) The QCS will deliver a stable bus network that, other than in exceptional circumstances, will only change once a year through the Annual Development Cycle, ensuring that existing and new passengers can rely on bus services remaining largely unchanged year on year. Where people rely on buses as their primary means of transport, they will be able to make life choices (where they live, where they study, where they work, where they shop, where they obtain healthcare) with greater confidence;
  - (iii) Incorporating these services into the QCS Network will retain existing direct journey opportunities for all current passengers, including people with mobility impairments for whom walking long distances to bus stops and interchange between buses can be problematic;
  - (iv) Incorporating these services into the QCS Network will maintain their existing levels of use by passengers, avoiding a greater mode switch to the car and the accompanying traffic congestion, environmental and social impacts that would arise; and
  - (v) Nexus acting as the single agency for bus network planning, will allow greater integration between bus services and between bus services and other public transport modes. This, along with the greater availability of performance data, will help the NECA and local highway authorities to plan for improvements to highways that will speed up bus journeys and increase the efficiency of bus operations.
- (e) In summary, the QCS provides a stable network that is more comprehensive than in the Do Minimum Scenario, and which retains existing levels of Accessibility and provides future opportunities to

enhance it. Future network changes will be planned centrally in an integrated manner that ensures all bus services and all public transport modes work together to benefit passengers. The QCS brings significant benefits to all passengers in respect of the bus network.

### 3.3.3 Fares and Ticketing

- (a) Fares and ticketing includes the range of products available (but not the price of those products, in accordance with Guidance) that allow travel on buses and, in some cases, other modes of travel.
  - (i) Each bus Operator (as well as Nexus for Metro, Shields Ferry and Secured Bus Services) has its own distinct range of fares valid for travel on its own services. The result is that there is a very wide range of tickets available, which some passengers find confusing - particularly when they are irregular bus travellers - and can deter people from travelling. Furthermore all of the Operator multi-trip tickets are restricted to travel on that Operator only, and can be further restricted to certain bus services or corridors. This can also cause great confusion to passengers, particularly where more than one operator serves a particular corridor and the passenger is either not fully aware of the ticket restrictions or of the brand identity of different operators. Different Operators often charge different fares for the same journey.
  - (ii) Multi-Operator, multi-modal ticketing for travel within Tyne and Wear is provided by Network Ticketing Ltd, trading as Network One. Network One tickets are valid on the services of all its members, which include all main bus Operators and Nexus. Network One tickets are priced at a premium compared to Operator-only tickets, and can be purchased on-

board buses as well as at the outlets of agents of Network Ticketing Ltd. In addition, Operators offer a 'Transfare' which allows single-trip travel where an interchange is permitted between bus and Metro services. This ticket is priced at a significant premium compared to Operator single tickets.

- (iii) Bus Operators Stagecoach and Go North East, along with Tyne and Wear Metro owner Nexus, have all introduced their own Smartcards and commercial smart ticket products. These smart products do not allow interchange between operators (except where Metro products are valid on the Shields Ferry). At present Network One does not offer any Smart Ticketing products. The NESTI project, led by Nexus in partnership with operators and local transport authorities in the North East, will soon allow bus passengers to pay for Operator single and day tickets using the NESTI STR.
- (iv) Overall, the main commercial ticket products available to passengers comprise:
- Tickets for single and return journeys;
  - Tickets that allow unlimited travel for a period of time – for a day, a week, a month or a year. These can be available as paper tickets, on Smartcards or on mobile phones;
  - Discount tickets for various sections of society such as students and people in further education, subject to eligibility; and
  - Corporate and special tickets that provide discounted travel for people travelling to participating workplaces and leisure destinations.

- (v) In addition Nexus administers concessionary travel schemes that offer certain categories of bus passengers free or reduced fare travel. These are available for elderly and disabled people (through the mandatory free fare ENCTS, through the discretionary Companion Card Scheme and through the discretionary allowance of free travel for ENCTS pass holders travelling to weekday pre 09:30 hospital appointments) and for young people (through the discretionary Under 16 scheme). Each scheme offers eligible passengers with travel by bus at a reduced cost, compared with the cost of commercial ticket products.
  - (vi) Nexus offers a discretionary Taxicard scheme that allows discounted taxi travel for elderly and disabled people with mobility problems that are such they find it difficult to use buses.
- (b) The Do Minimum Scenario (see Section 1.3.5 for details) has the following consequences in respect of the fares and ticketing for bus travel in Tyne and Wear:
- (i) The range of Operator ticketing products is assumed to remain in place in the Do Minimum Scenario, along with existing Network One products. Fares may therefore continue to be inconsistent between different Operators in the same corridors or areas, and passengers will continue to have restricted choice of Operators on those corridors depending on whose multi-trip ticket they have purchased.
  - (ii) Operator-specific Smartcards and NESTI STR Smartcards are assumed to still be made available. As smart fare capping is not a feature of NESTI as agreed with Operators, NESTI will allow passengers to pay for bus tickets using Smartcards, but it

will not provide any form of financial incentive to them for doing so.

- (iii) Free travel for elderly and disabled passengers will be retained through the statutory ENCTS, with Operators continuing to be reimbursed for revenue foregone on a 'no better off, no worse off' basis (see paragraph 1.4.4(b)). However, discretionary concessionary travel schemes operated by Nexus will be withdrawn due to funding constraints – the Under 16 scheme is forecast to be withdrawn by 2017, and the Taxicard scheme and the Companion Card Scheme will have to be withdrawn at some point, as well local discretionary add-ons to the statutory ENCTS which are travel after 23:00 on weekdays and travel before 09:30am on weekdays for people with a doctor's appointment. The order and timing of the withdrawal of concessions will be a matter for the NECA to determine.
  - (iv) Operators will alter fares in relation to their commercial needs, balancing their investment requirements, cost base and profit expectations when determining fare levels. Fares can be increased at any time, although it is assumed that the current trend of only increasing fares once a year is retained in normal circumstances.
- (c) The QCS has the following consequences in respect of the fares and ticketing for bus travel in Tyne and Wear:
- (i) A single range of fares will be available for all bus travel on QCS services across Tyne and Wear, regardless of route or operator.
  - (ii) Single journey tickets will be available within the QCS Area, based on a zonal fare system that will provide flat fare travel for many journeys in Tyne and Wear. Under the zonal system some fares will increase compared to current prices, but these

will be counter-balanced by fares that decrease compared to current prices. Nexus has optimised the placement of zonal boundaries in order to minimise any negative effects of increased fares. Overall the average single adult fare will remain broadly the same as current.

- (iii) Transfares will no longer be provided. They will be replaced by a good value multi-modal day ticket.
- (iv) Excluded services will have their own range of fares determined by the operator of the service.
- (v) Daily, weekly, monthly and annual bus travel tickets will be available using the same zones as single tickets. These tickets will all be available as multi-modal tickets for an additional cost. Weekly, monthly and annual products will be available on Smartcards that allow travel across all bus services and all other public transport modes, where the add-on is purchased. These products will be valid for travel on excluded services within Tyne and Wear.
- (vi) A corporate scheme will be provided, where a discount will be offered in return for bulk purchases where employers administer ticket sales on behalf of their employees.
- (vii) Discretionary travel discount schemes (child fare, taxicard, Companion Card Scheme) will be retained and a new discount scheme will be introduced for young people aged 16-18 for whom travel will be significantly cheaper compared to current pricing. Student discounts will be simplified and extended. These discount schemes will extend into Northumberland and Durham on cross-boundary QCS Services. There will be a new local enhancement to the ENCTS known as the 'Gold Card Plus', permitting all day travel on QCS Bus Services, Metro, the

Shields Ferry and Sunderland to Newcastle local rail for an annual fee of £25.00.

- (viii) Smart Ticketing will be available on all buses, Metro and the Shields Ferry and will include fare capping, providing customers with a 'best price guarantee'. This means that where they pay single fares as they travel, the daily fare is price capped to the cost of the equivalent day ticket for the travel that the passenger has undertaken.
  - (ix) Any future changes to ticket structures and prices will be approved by the NECA following a process that will involve consultation with local people and other stakeholders. Any future price increases will take place only once each year and will be capped at the level of the RPI, taken on average across all ticket types, in all but exceptional circumstances.
- (d) The benefits of the QCS in relation to Fares and Ticketing can therefore be summarised as follows:
- (i) The fares proposition for the QCS will provide a transformation compared to the current situation. The range of fares will be greatly simplified and a single range of products will facilitate bus travel and multi-modal travel across Tyne and Wear.
  - (ii) A single Smartcard product will be available across Tyne and Wear to allow season ticket and pay as you go travel on all QCS buses as well as other public transport modes. Simplified corporate and leisure products will be available at discount prices, along with discretionary discounts for children, young people, students and the elderly and disabled wishing to travel on different modes at all times of the day. These discounts will be available to residents of Northumberland and Durham, as

well as Tyne and Wear, when they use cross-boundary QCS Services.

- (iii) The pay as you go Smartcard product will allow daily fares to be capped at the cost of the appropriate day ticket.
  - (iv) Fare increases will be applied only once a year, and decisions made will be subject to a process of democratic accountability.
  - (v) A small number of passengers will be disadvantaged by the withdrawal of Transfares. Nexus does not consider this disbenefit to be significant, as Transfares currently only represent 0.3% of bus journeys, and in any event 43% of current Transfare journeys would be cheaper if the equivalent QCS multi-modal day ticket was purchased instead.
- (e) In summary, the QCS provides a simpler fare structure that applies to all QCS services across Tyne and Wear. Existing concessionary fare schemes (statutory and discretionary) will be retained and enhanced with the addition of discounts for young people aged 16-18 who will enjoy a significant discount compared with current pricing, simplified and enhanced student fares and 'Gold Card Plus'. A single Smartcard proposition will offer season tickets and pay as you go travel with a smart fare cap.
- (f) The QCS therefore brings significant benefits to many passengers in respect of fares and ticketing.

#### 3.3.4 Standards for Buses and Bus Drivers

- (a) This section details the standards of vehicles and drivers that will be provided pursuant to the QCS.
  - (i) Buses of various sizes are provided by Operators, and will be selected having regard to the level of patronage on any given

route and any restrictions on vehicles imposed by highway geometry on routes. Buses are renewed by larger Operators on a rolling programme, generally as part of national fleet management programmes, and by smaller Operators on a needs basis. Newer vehicles when purchased are likely to achieve lower emission standards as required by European law. Newer vehicles are typically deployed on the most profitable routes, and older vehicles are then cascaded onto less profitable routes.

- (ii) As part of on-going fleet replacement programmes, all brand new vehicles purchased by Operators conform to EU Directive 70/220/EC (as amended). This Directive applies to all new vehicles throughout Europe and sets increasingly stringent standards for engine emissions such as Carbon Monoxide (CO), Hydrocarbons (HC), Nitrogen Oxide (NOx) and Particulate Matter (PM). A tier of standards (known as 'Euro' ratings) have been phased in over time, and progressively require the use of improved technology to reduce harmful emissions and therefore create an improved environment. The standards which must be met by each Euro rating are summarised below.

Tier	Date	CO	HC	NOx	PM	Smoke
Euro I	1992, < 85 kW	4.5	1.1	8.0	0.612	
	1992, > 85 kW	4.5	1.1	8.0	0.36	
Euro II	October 1996	4.0	1.1	7.0	0.25	
	October 1998	4.0	1.1	7.0	0.15	
Euro III	<i>Oct 1999 EEVs only</i>	<i>1.0</i>	<i>0.25</i>	<i>2.0</i>	<i>0.02</i>	<i>0.15</i>
	October 2000	2.1	0.66	5.0	0.10	0.8
Euro IV	October 2005	1.5	0.46	3.5	0.02	0.5
Euro V	October 2008	1.5	0.46	2.0	0.02	0.5
Euro VI	31 December 2013	1.5	0.13	0.4	0.01	

- (iii) As at 31 March 2014, the fleet of buses used by the three large incumbent Operators within Tyne and Wear comprised of the following vehicles:

Euro Rating	Number of Vehicles in Fleet	Percentage of Fleet (%)
Euro II	81	7%
Euro III	107	10%
Euro IV	445	42%
Euro V	437	41%
Euro VI	1	0%

- (iv) Operators within Tyne and Wear on average utilise vehicles for a period of 15 years and therefore approximately 7% of the fleet is replaced each year, although the actual number of new vehicles purchased fluctuates each year subject to operational and commercial requirements. Future investment in new vehicles within Tyne and Wear will progressively see vehicles which meet the lower Euro ratings phased out and replaced by new vehicles which meet the highest specification.
- (v) Some Operators within Tyne and Wear also operate LCEBs. These new vehicles reduce production of CO<sub>2</sub> by up to 30 and also significantly reduce the amount of fuel consumed, which can therefore reduce operational running costs for Operators. However, this new technology currently requires an additional up-front capital investment which to date has not been at a level which is commercially attractive to private bus operating companies. In England, the national government has therefore tried to stimulate demand by offering a matched-funding capital grant known as the Green Bus Fund (GBF) to assist Operators seeking to purchase them. It was envisaged by the government that the additional demand created by the GBF would lead to economies of scale for manufacturers (most of

whom are based in the UK) thus allowing them to further reduce unit costs for the new vehicles.

- (vi) Within Tyne and Wear, all three large incumbent Operators have been keen to adopt this new technology and as at August 2014, a total of 94 LCEBs were operational within the Tyne and Wear fleet. All of these vehicles were purchased with the assistance of GBF and are either diesel-electric hybrids or vehicles fuelled by biomethane.
- (vii) Alongside the investment in recent new vehicles has been a focus on investing in additional on-bus quality features to enhance the overall passenger experience. Within Tyne and Wear this has included, for example, the provision of free customer WiFi (in some cases installed with grant funding made available by Nexus), audio-visual 'next-stop' announcements, electrical charging points and more comfortable seats. Operators have also continued existing bus refurbishment programmes which generally see improvements as and when required.
- (viii) Nexus and operators are currently working in partnership to establish a Tyne and Wear-wide automatic vehicle location (AVL) system for all buses which would allow the provision of real-time information for all passengers with access to the relevant technology. This is discussed further below.
- (ix) PSVAR requires that all buses weighing up to 7.5 tonnes will be fully accessible to all passengers from January 2015. Single deck buses over 7.5 tonnes will be fully accessible by January 2016 while double deck buses over 7.5 tonnes must be fully accessible by January 2017. PSVAR also requires that buses display service number and destination on the front and

nearside of vehicles to aid passengers in identifying their service, with service numbers also displayed on the rear. Compliance with these requirements is assessed by DVSA/Traffic Commissioner spot checks. Taxibuses are excluded from this requirement.

- (x) Each Operator has its own standards for cleaning the interior and exterior of buses. Operators' fleets have various systems in place to heat and ventilate their vehicles in cold and hot weather. Each Operator has its own bus livery, many routes have specific liveries – this is known as 'route branding'. CCTV is not a legal requirement on buses, although most of the Tyne and Wear fleet is fitted with cameras and recording equipment to help reduce insurance costs and claims, as well as improve the passengers' perception of safety. Some vehicles are also fitted with screens showing scrolling live images from the cameras helping to further improve the passengers' perception of safety.
- (xi) Operators provide advertising space on the outside and inside of their vehicles, and often display notices about their own service changes and fare promotions.
- (xii) Operators are currently moving towards all buses being fitted with two-way voice and data communications. This will allow drivers to communicate with their depot as problems arise.
- (xiii) Drivers training and performance are matters for each operator, according to their own policies and procedures. Since September 2013 all bus drivers must, by law, hold a Certificate of Professional Competence (CPC). In addition most operators provide drivers with training on safe driving techniques, fuel efficient driving and customer care.

- (xiv) Nexus requires that all operators of school bus contracts provide assurance that drivers of school buses have a suitable DBS clearance.
  - (xv) Operators continue to explore the application of new technology and are incentivised to do so through the potential for a greater commercial return on their investment. The recent development of new 'Flywheel' Technology by the Go Ahead Group to help reduce fuel consumption and emissions provides a good example.
- (b) The Do Minimum Scenario has the following consequences in respect of the standards for drivers and buses in Tyne and Wear:
- (i) Vehicles will continue to be renewed by larger Operators on a rolling basis in accordance with nationally managed fleet cascade programmes. Newer vehicles are assumed to be deployed on the more profitable routes, in line with current practice. As new vehicles are introduced and older vehicles are scrapped or sold, the emissions levels will progressively improve with all new buses introduced meeting the highest Euro VI emissions standards, as will the introduction of quality benefits such as the provision of free customer WiFi, audio-visual 'next stop' announcements and electric power sockets for phones and laptops. Further innovations that benefit passengers may also be introduced on buses, subject to the commercial case being made or where public grants are available. It is estimated that by 2025 all vehicles will meet, or exceed, Euro V engine emissions standards, assuming that no vehicles of greater than 16 years of age remain in operation (which is a normal industry maximum age for most Operators' fleets). It is assumed that by 2017 up to 68% of the Operators' fleet will achieve Euro V emissions or better, rising to up to

75% by 2019. The average age of vehicles used within Tyne and Wear is likely to remain at current levels and therefore is likely to fluctuate between 7.5 and 8.0 years in line with recent trends.

- (ii) The existing situation in terms of bus cleanliness, bus liveries and heating/ventilation systems is assumed to continue. Existing PSVAR requirements for accessibility and service number/destination displays will remain, as will existing compliance spot check procedures. It is assumed that current high levels of installed CCTV camera and recording equipment will be retained, and that all vehicles will be fitted with two-way voice and data communications. Operators will continue to provide advertising space on the outside and inside of their vehicles, and often display notices about their own service changes and fare promotions.
  - (iii) Current driver training requirements are also assumed to be retained. Once Nexus-funded Scholars Services are withdrawn by 2025, the presence of mandatory DBS-checked drivers for school travel will not be retained. Drivers will wear the uniforms provided by each Operator.
- (c) The QCS has the following consequences in respect of the standards for drivers and buses in Tyne and Wear:
- (i) The QCS will mandate the use of a minimum standard of vehicle significantly that will mean 100% of QCS vehicles must achieve Euro V emissions standards or better by 2019 (60% must be Euro V or better on QCS day one in 2017). This will help ensure that good quality vehicles are used on all bus services, rather than the better vehicles focused on the more profitable routes. Nexus will incentivise, through the awarding

of quality scores during the QCS procurement phase, the affordable provision of vehicles offering on-bus quality enhancements such as free customer WiFi, electric power sockets, audio-visual 'next stop' announcements and screens displaying scrolling live images from on-board CCTV. Similar incentives will apply during the procurement process to the provision of LCEBs. Specific contractual provision has been made that allows Nexus to require operators to install new innovations on their vehicles in the future, potentially further enhancing vehicle quality, where funding is made available.

- (ii) No vehicle in operation will be greater than 15 years old, and the average age of the fleet operated by each contract will be no more than 7 years (8 years for the first two years of the QCS). Operators will be contractually obliged to maintain their vehicles and refurbish them when they reach an unacceptable level of wear and tear.
- (iii) The cleaning of buses will be made a contractual requirement for all QCS buses, ensuring that a high common standard of cleanliness is maintained across Tyne and Wear. All vehicles will be required to carry a common and easily identified local livery by the second anniversary of the QCS, with 50% of the fleet carrying that livery from the first day of operation under the QCS. Vehicles will be required to provide a decent standard of heating during cold weather and ventilation during warm weather.
- (iv) Compliance with PSVAR requirements will be retained in the QCS, in respect of accessibility and the display of service numbers and destinations. All service numbers and destinations will be shown using illuminated electronic displays (excluding taxibuses). Compliance with these requirements

will be monitored regularly by Nexus, which will ensure meeting these standards is incentivised through a deductions regime for non-compliance.

- (v) All QCS buses will be required to be fitted with CCTV cameras and recording equipment (as set out above, the fitting of screens on the bus showing scrolling live CCTV images will also be incentivised and delivered if affordable). All QCS vehicles must be fitted with two way voice and data communications equipment, as well as automatic vehicle location systems that will allow passengers access to real-time information about how their service is operating.
  - (vi) On-bus advertising will be managed by Nexus to a consistent, high standard, and vehicles will all carry notices advising passengers about service performance, up-and-coming improvements and public meetings.
  - (vii) In addition to the mandatory CPC requirement for drivers, Nexus will incentivise the provision of improved training through the awarding of quality scores during the QCS procurement phase and through the inclusion of customer satisfaction scores in the performance regime. This is likely to lead to improved standards of safe driving, efficient driving and customer care. All Scholars Services, which will be absorbed into the QCS Network, will continue to be operated by DBS-checked drivers. All drivers operating QCS services must wear an operator uniform.
- (d) The benefits of the QCS in relation to Standards for Buses and Bus Drivers can therefore be summarised as follows:
- (i) The QCS provides greater certainty as to the age of the bus fleet for the initial period of the QCS, and in particular reduces

the risk of older vehicles being maintained within the fleet, with newer vehicles offering lower emissions and a better travelling environment being likely. Good quality vehicles will be deployed on all bus services, rather than the better vehicles focused on the more profitable routes. Operators will be contractually obliged to clean and maintain their vehicles to a high standard, remove them from service after 15 years of operation and maintain an average fleet age lower than the Do Minimum Scenario.

- (ii) All vehicles will carry an electronic display showing the route number (front, side and rear) and destination (front and side), and by the second anniversary will all be painted in a common Nexus livery. Vehicles will be equipped with CCTV equipment and two-way voice and data communications. Compliance with these requirements will be incentivised through the QCS performance management regime (see paragraph 1.5.8(b)(iii)). On-bus advertising will be managed by Nexus to a consistent, high standard, and vehicles will all carry notices advising passengers about service performance, up-and-coming improvements and public meetings.
- (iii) Common branding will be present on all vehicles and QCS materials within two years of the introduction of a QCS. In branding and brand management great importance is placed on achieving consistency, so that the same attributes and characteristics are associated with a business' operations<sup>13</sup>. This assists customers and potential customers to understand the key benefits of the product or service. By introducing

---

<sup>13</sup> Designcouncil.org.uk, The power of branding, 22 June 2013

common branding on QCS vehicles, users and potential users will associate bus services with the key advertised benefits of a QCS ; a simplified fare structure, affordable ticketing and integrated information.

- (iv) Operators will be incentivised to improve driver training standards. All drivers will wear an operator uniform.
  
- (e) In summary, the QCS provides a newer, more modern, lower emission fleet of buses with a common livery compared to the Do Minimum position, and these benefits will be spread across all services, not just those that are most profitable. The vehicles will be cleaned and maintained to a high standard and will include a range of safety, journey quality and information features such as CCTV, automatic vehicle location, external electronic displays and on-board information notices as standard. Some vehicles may enjoy quality standards such as free customer WiFi, electric power sockets, audio-visual 'next stop' announcements and the display of on-board CCTV images. Operators will be incentivised to improve standards of driver training.

### 3.3.5 Customer Experience

- (a) This section details the customer experience that is offered to bus passengers across Tyne and Wear. At present commercial bus Operators each have their own customer charters (often contained within their conditions of carriage) that provide information about matters such as the expectations that passengers should have when travelling on buses, what they should do if they have a complaint and who they should speak to if they lose their property on the bus.
  
- (b) The Do Minimum Scenario will not change the current provision of customer experience standards compared to now, and so the existing customer charter provisions for each operator are assumed

to be retained. Currently enforcement of compliance with passenger charters is wholly managed by the individual operators themselves, providing limited recourse if an operator does act in breach of their charter although customers are referred to the non-statutory Bus Appeals Body if they are not satisfied with the manner in which a complaint has been handled. Refunds are normally available at the operators' sole discretion. Existing charter commitments do not cover operator performance in terms of punctuality or reliability, nor are these reported to customers. Customer satisfaction as measured by Passenger Focus is sometimes reported to passengers, although this differs by operator.

- (c) The QCS has the following consequences in respect of the customer experience on buses in Tyne and Wear:
  - (i) A single Customer Charter with a single point of contact for each channel of communication (telephone, email and letter) will be available for all QCS Services.
  - (ii) The Customer Charter will provide details of what passengers can expect on any QCS Service, as well as details of how to complain when they feel the charter has been breached. Refunds will be available for passengers in certain defined circumstances. Importantly, the Customer Charter will set out the expected standards of performance for punctuality, reliability and customer satisfaction, and updates on performance will be produced each period. Customers will therefore be able to see what operational standards they can expect from bus services, have confidence that those standards are contractually required to be delivered, and hold both Nexus and Operators to account on the occasions that performance does not achieve the required standard.

- (iii) Operators will have their level of complaints measured for each contract and examined during Contract Management meetings – where poor performance and/or recurring complaints are observed, corrective action will be required.
  - (iv) The QCS will provide a single central means of reclaiming property lost on all QCS Services.
  - (v) Where vulnerable passengers are not able to make their journey due to the failure of a QCS Service, an alternative means of travel will be provided as long as the passenger advises Nexus of their problem. This is an enhancement on the provisions within the customer charters of current Operators.
  - (vi) The Customer Charter will mandate all operators to display notices on their QCS vehicles that detail performance against key performance indicators, both of that operator and across the QCS as a whole.
- (d) The benefits of the QCS in relation to customer experience can therefore be summarised as follows:
- (i) A single Customer Charter will be set by the NECA and adhered to by all QCS services, which benefits passengers by providing a consistent and high quality set of expectations regarding the quality of their services and the courses of action they can take when their journeys do not meet expectations. Passengers will benefit from a single point of reference to submit complaints, make suggestions and seek lost property, rather than have to deal with the relevant individual operator on different occasions.
  - (ii) Refunds will be available in defined circumstances, rather than solely at operators' discretion, while vulnerable passengers let

down by a QCS Service will be provided with an alternative means of travel.

(iii) Operational performance will be reported on all buses, so that passengers can easily see how their services match up to QCS standards and wider QCS performance. Passengers will benefit from the greater transparency about how their services are performing, allowing them to address their concerns in an informed way through the Customer Charter procedures and governance processes set out below.

(e) In summary, the QCS brings benefits to passengers in respect of their customer experience.

#### 3.3.6 Journey Information

(a) Journey Information allows existing and future passengers to plan regular and occasional journeys in advance, track the progress of their buses during their journeys and receive information about fare offers and other promotions that may influence their decision to travel.

(i) At present printed bus timetable information is prepared by individual Operators for their own services with each using their own corporate format. Operators also provide some materials online and some provide maps of their own networks. Nexus provides a printed timetable at all 6,500 bus stops in Tyne and Wear that sets out all the bus departures from that stop. These printed timetables are updated regularly in response to changes to timetables introduced by Operators, or at the request of Nexus in relation to the provision of Secured Bus Services.

- (ii) Online journey planning tools are available on the Nexus website (to cover all bus Operators' services) and timetable search tools are available on Operators' own websites. There are also a number of national and regional websites and mobile applications that provide online bus journey planning, timetable and real-time service tracking information to passengers with a suitable mobile device.
  - (iii) All bus stops in Tyne and Wear are equipped with Next Bus text codes, NFC tags and QR codes that enable passengers with mobile devices to access timetable information specific to that bus stop. Information for all Operators serving that stop is provided.
  - (iv) Nexus is currently working with Operators to introduce a Real Time Information system to all bus passengers in Tyne and Wear and the North East region, based on real-time vehicle tracking for all scheduled services. This system will be delivered towards the end of 2014, and will feed online website and apps, as well as providing real-time bus service tracking information to users of the Next Bus text service and the NFC service provided at bus stops.
  - (v) Operators' own websites, and the Nexus website along with printed media, spoken media and outdoor poster campaigns are used to advertise promotions and special arrangements to bus passengers. These include fare promotions, arrangements for special events and announcement of new initiatives for passengers.
- (b) The Do Minimum Scenario envisages that the current situation will remain largely unchanged. Planned investments in real-time information will be completed and will provide live tracking of bus

services for passengers with an appropriate mobile device or online access to complement the existing range of online journey planning tools. The existing provision of printed timetables at bus stops will remain, subject to the funding for this service being maintained by the NECA. Individual Operators will continue to provide timetables and, in some cases, maps in print form and electronically on their own websites.

- (c) The QCS has the following consequences in respect of the bus journey information in Tyne and Wear:
- (i) The provision of journey information will be standardised with common branding and will be available through a range of sources. Operator-specific timetable and service information will not be provided, other than for excluded services.
  - (ii) A range of timetables and maps will be produced by Nexus for all QCS routes using a common brand and design that matches all other marketing materials. Bus stops will continue to be equipped with a printed up-to-date timetable that shows all services and departure times at that stop, along with fares information, a locality map and general information about how to contact Nexus and receive further information.
  - (iii) Printed timetables and maps for each service, and where relevant for groups of services serving a particular locality, will be designed, printed and distributed by Nexus using the common brand. Excluded services operating within the QCS area will continue to have their timetables prepared by the respective Operator. All service timetables (for QCS services and excluded services, if available) will be available in printed form from Nexus' travel shops and staffed bus stations, as well as a range of other convenient outlets such as public buildings,

major workplaces and major leisure and shopping destinations. All timetables will also be downloadable from a single source on the Nexus website.

- (iv) Journey planning tools will be available at the Nexus website, to cover all bus services and other public transport services across Tyne and Wear. Nexus will also work with third parties to develop mobile device apps to provide similar journey planning facilities for people prior to their journeys starting and while they are on the move.
- (v) Providing real-time information about bus locations will be made mandatory for all QCS vehicles, which will allow the provision of comprehensive and consistent real-time information about QCS bus locations and waiting times for all bus stops in Tyne and Wear (as well as those in Northumberland and Durham served by QCS services). This information will be available via SMS service, NFC technology and via mobile device apps. The real-time information will also be available from a single easily accessed location on the Nexus website.
- (vi) The Nexus website will also provide a single source of information about forthcoming service changes, promotions and events to enable passengers to make informed journey choices. These notices will also be provided on QCS vehicles, at bus stops, at bus stations, at Metro stations and at Nexus travel shop facilities. Nexus will conduct regular media campaigns to promote bus services in Tyne and Wear, employing a full range of media including on-bus advertising, advertising at bus stops and bus stations, printed media, online media, radio and TV.

- (d) The benefits of the QCS in respect of Journey Information come from the provision of a common, easily accessed and easily understood source of information about all aspects of bus travel in the QCS area.
  - (i) The QCS will provide benefits to passengers through enhancements to the current provision of journey information, by providing passengers with all the information they require from single, easily identified sources using a common brand to cover printed materials, at-stop materials, online information and mobile device apps. This integration and branding will replace the current numerous sources and formats of information and facilitate bus use.
  - (ii) These benefits will also be enhanced by the real time position and next stop arrival time of all buses also being available from the same integrated and accessible online and mobile sources.
  - (iii) Passengers will benefit from a comprehensive approach to marketing QCS services and promotions through a variety of media will be established, so that they have access through a variety of sources to information that will improve their knowledge of journey choices and encourage bus use.
- (e) The QCS therefore brings benefits to all passengers in respect of journey information.

### 3.3.7 Governance of Bus Services

- (a) Governance of bus services relates to the way in which the bus network is planned and delivered, how changes to the network are decided, how fare changes are decided and how performance of services and the network is measured. At present the bulk of the bus network in Tyne and Wear is provided by Operators, who make decisions about services, service changes and fares based on

commercial considerations (see sections 3.3.2 and 3.3.3 for details). This can lead to numerous minor service changes in the course of a year and often a number of more significant network changes and fares changes. Operators consult informally with Nexus, other public authorities and passengers regarding some changes. Fares are normally changed without consultation. Secured Bus Service routes, frequencies and fares are decided by Nexus, and changes normally take place only after structured consultation with local councillors and other appropriate stakeholders. Consultations and responses are published on the Nexus website.

- (b) In the Do Minimum Scenario, it is assumed that governance of bus services remains the same as now, with commercial considerations remaining paramount and Operators determining service configuration with some limited involvement of passengers and stakeholder, but with no consultation applicable to fare changes. The withdrawal of Secured Bus Services would lead to the absence of any formal involvement of councillors and other stakeholders in determining bus services.
- (c) The QCS would lead to significant improvements in the democratic decision making process relating to bus services.
  - (i) A formal democratic process will be established, through the TWSC and five Local Bus Boards, to receive and consider proposals for service improvements, within the budget set by the NELB. In addition Nexus will produce an annual report that sets out patronage levels, costs, revenues, customer satisfaction levels and any other information that Nexus, the TWSC or Local Bus Boards consider relevant to help understand the performance of the QCS Network.

- (ii) Local Bus Boards will be established in each of the five Tyne and Wear Council areas, with a locally selected chair for each Board, and will comprise local elected members and stakeholders (the precise make-up of each Local Bus Board will be determined locally, although Nexus will provide some initial guidance). The Local Bus Boards will monitor and work to improve the performance of local bus services, monitor the delivery programme of the parties involved in improving bus services and engage with local people and their representatives regarding bus services. Local Bus Boards will be consulted by the TWSC regarding relevant future changes to the QCS Network and fares, and formal consideration will be given to their response.
- (iii) Each financial year Nexus will produce a 'Draft Bus Network Business Plan' setting out expectations for the following financial year in terms of fares, network changes, subsidy expectations and other relevant matters. Subject to agreement from the TWSC, consultation will then take place over the draft Plan with Local Bus Boards, the Tyne and Wear User Consultative Forum and Durham and Northumberland County Councils, and the draft Plan will be placed on the Nexus website. Additional public consultation will take place where relevant. Feedback from consultees will be considered and adjustments will be made to the draft Plan where reasonable, affordable, and where consistent with other relevant aspects of the QCS. An escalation process will allow disputed matters to be resolved by the NELB.
- (iv) This democratic approach will also include the determination of fare changes for the QCS, so that the improvements to the

network and the affordability of the overall QCS can be considered together.

- (v) In the event of unexpected changes to land uses, bus demand generators and highway conditions (for instance a closure of a major employer, the re-opening of a dormant development site or unforeseen roadworks) an Emergency Network Change Procedure will be able to be invoked to vary the bus network. TWSC and Local Bus Boards will both have a role in managing changes made under this procedure.
- (vi) Alongside these formal decision making processes, the QCS will establish a Tyne and Wear User Consultative Forum (TWUCF) to allow for dialogue to take place between Nexus, passenger representatives, local business, stakeholders and the general public in relation to bus and other public transport services. The TWUCF will be chaired independently and will meet quarterly at different Tyne and Wear locations to explore public transport issues around different localities and themes, as well as provide a forum for passengers and other members of the public to make their suggestions to Nexus about how services can be developed. All issues raised at these forums will be considered by Nexus' network planning team and a report will be prepared that will be published on the Nexus website and, where appropriate, discussed at the next TWUCF meeting as well as at future Local Bus Boards.
- (vii) An important aspect of the work of the above groups will be to receive reports and make future recommendations in respect of QCS Network performance. Paragraph 1.5.8(b)(iii) explains the performance management regime that will be put in place to ensure that good quality operations across all contracts will be maintained and poor performance will be tackled. Reports

on performance will be a key feature of the work of the TWSC, the Local Bus Boards and the TWUCF

- (d) The QCS benefits in relation to the governance of Bus Services are considerable:
  - (i) The way in which bus networks and bus fares are changed will be transformed, with democratic decisions made by TWSC (within the context of a budget set by the NELB) that provide benefits to Tyne and Wear passengers rather than being focussed on achieving the commercial goals of Operators. Passengers will benefit from a stable network that is changed only once a year, except in exceptional circumstances.
  - (ii) Local Bus Boards and a passenger forum will be established alongside the existing TWSC to make suggestions, receive reports and make decisions about how the network will develop. This benefits passengers by giving them a direct way, as well as through their elected politicians, to influence the development of the services they use, or may wish to use in future.
  - (iii) Bus service performance will be widely reported based on a range of key indicators that reflect the matters most important to bus passengers, such as bus reliability and punctuality. Coupled with the benefits that are described in the Customer Experience section, this gives passengers access to information about how their services are performing and provides the chance to take informed views on how they wish to see services develop.
- (e) The QCS brings benefits to all users of local services, the wider public and business communities, in respect of the governance of bus services.

### 3.3.8 Additional Economic, Social and Environmental Implications

- (a) The above sections examine specific elements of bus network provision in the Do Minimum and QCS scenarios. However there is a wider context that arises from these network features, in terms of the environmental, social and economic implications of the QCS.
- (b) Section 5 of this report covering criterion (d) provides a detailed analysis of the monetised benefits associated with the QCS, in comparison to the Do Minimum. This analysis shows that a combination of all the features of the QCS gives rise to considerable monetised economic and social benefits to the users of local services in the QCS area.
- (c) It is noted that research commissioned by Greener Journeys in 2014 suggests that bus network improvements have a direct relationship with employment levels, which result in monetised direct transport benefits being increased by 10% (see paragraph 1.3.1(f)). There are social benefits of the improvements to bus networks envisaged in the QCS scenario that are additional to the monetised effect outlined in Section 5 alone.
- (d) The benefits that arise from the QCS are therefore not simply desirable in their own right, they are also expected to deliver a bus network that is a facilitator of additional social and environmental benefits to the local area – these benefits go beyond those that have been monetised and presented in Section 5. The structure of the assessment of these wider benefits has been based upon WebTAG and the components of the Appraisal Summary Table that DfT uses to assess the benefits of a transport intervention.
- (e) These benefits are not quantified and are described here in broad terms. However, it is important to reflect that retaining a good bus

service in the future that is accessible and affordable will facilitate this range of further benefits.

- (f) These include:
  - (i) Improved Access to Jobs and Training: as set out in Section 1.5.2, the QCS will retain a more accessible bus network than the Do Minimum Scenario, which will maintain and provide greater access to jobs and training than would otherwise be the case; while the benefits of this greater accessibility are captured in the economic appraisal of monetised QCS benefits in Section 5, there are wider benefits associated with improving the prospects of finding work and improving the rewards of work through training which are not captured through the monetised benefits. These benefits are a key finding of the Greener Journeys report on Buses and the Economy, as discussed at paragraphs 1.3.1(f) and 3.3.8(c). Young people and unemployed people of all ages have limited travel horizons in terms of the affordability of travel time and the length of journey time that is considered viable when seeking work and training. Therefore by maintaining (and improving) an affordable and accessible bus network the QCS will facilitate the wider economic benefits associated with an active and trained workforce that is able to access job opportunities. Furthermore the significant improvements that will be made to fares for 16-18 year olds and students will greatly enhance the affordability of bus tickets, allowing young people to study and work in locations that match their needs and abilities, rather than having to limit their range to a destination that they can afford to travel to.
  - (ii) Improved Health: public transport use can contribute to improving public health, by providing good access to a wide

range of healthcare facilities for people that do not have access to (or cannot use) a car and by encouraging physical activity through walking at either end of a bus journey and by having an active lifestyle. By maintaining a more accessible bus network and by reducing fares for young people, and maintaining discretionary concession schemes the QCS will therefore help to facilitate access for a greater number of people to such facilities, contributing to the health of public transport users in the QCS Area. An improved environment (see below) is also good for improving people's health;

- (iii) Environment: a number of direct environmental benefits associated with the QCS have been captured above, notably in relation to accelerating the introduction of Euro V/VI buses that emit lower levels of pollutants. However, the provision of the QCS has a wider impact on the environment establishing a stable and reliable network on which people can rely on bus services to base life choices, such as where to live and where to work. This in turn reduces car use and alleviates the need for some people to own a car. These effects have beneficial impacts on bus users (as well as the wider environment of Tyne and Wear) compared to a Do Minimum Scenario where buses will be withdrawn and become less affordable, thereby encouraging further use of the car. Further benefits will arise to bus users and other people resident in the QCS Area in relation to protecting the landscape and townscape of Tyne and Wear by limiting growth in car use and contributing to reducing the need for additional road space.
- (iv) Reliability: journey time reliability is not monetised or expressed in quantified terms, either in a typical WebTAG appraisal or the monetised appraisal of the QCS in Section 5.

Nevertheless, reliability of journey arrivals is a feature valued by the travelling public, which will be enhanced by the enforced contract standards that are a feature of this QCS. Currently, and under the Do Minimum Scenario, there are limited direct penalties for operators whose services are unreliable, although clearly in the long term such unreliability could impact on their ability to compete in an open market place. Under the QCS, unreliable operators will suffer performance deductions and could be terminated from their quality contracts and replaced.

- (v) Journey Quality: by accelerating the introduction of newer vehicles to the Tyne and Wear bus fleet the quality of journeys available to bus passengers is likely to be enhanced. This is a qualitative benefit that can influence the use of buses.
- (vi) Option Values: people place a value on the presence of a bus service as an option, even though they may not be regular users and therefore contribute financially to the operation of the service in a limited manner – the Greener Journeys report<sup>14</sup> calls this the “social insurance dimension”, and places a notional monetary value of £2.50 per household per week on this effect. By maintaining a stable bus network the QCS will offer travel options to a wider range of people than the Do Minimum situation.
- (g) The above assessment shows that there are additional benefits to bus users associated with the QCS.

---

<sup>14</sup> <http://www.greenerjourneys.com/2014/07/buses-economy-ii/>

### 3.3.9 Securing The QCS Benefits

- (a) Nexus has put a number of measures in place to ensure that the benefits of the QCS can be delivered with a high degree of certainty:
  - (i) A detailed Affordability Model has been developed that ensures the costs and revenues of QCS operation have been modelled based on robust assumptions for the life of the QCS. In addition, a significant amount of financial contingency has been set aside to allow for unexpected events throughout the QCS life. In combination, these features provide a high degree of certainty to Nexus and the NECA, and therefore bus users in the future, that the QCS is deliverable and robust.
  - (ii) The quality contract process allows Nexus to institute a consistent Contract Management regime across all bus services, which will allow Nexus to more effectively secure a high standard of delivery against the QCS specification. This regime will allow good performance to be rewarded and poor performance to be addressed quickly and effectively. This differs from the Do Minimum where operators' incentive to perform is driven by its effect on demand. Further details can be found at paragraph 1.5.8(b)(iv).
  - (iii) Allied to the Contract Management regime, a Performance Monitoring and Management regime will also be implemented. The Performance Management regime will provide financial incentives for good performance against QCS standards, and make deductions for poor performance. Further details can be found at paragraph 1.5.8(b)(iii).
  - (iv) In the event that external issues give rise to the need to change the bus network (for instance an unanticipated change in land use), an Emergency Network Change Procedure will be in place

that will ensure the QCS can remain appropriate and affordable despite unanticipated changes to bus demand.

- (b) The benefits are also deliverable under a wide range of risk scenarios, as set out in detail in Section 0.
- (c) Based on the above commentary, Nexus concludes that the benefits associated with the QCS have a high degree of deliverability and therefore can be given a commensurate high level of certainty.

### 3.4 Conclusion

- 3.4.1 This section demonstrates the extensive quality benefits that the QCS will deliver in comparison to the Do Minimum Scenario. This is coupled with a range of additional social and environmental benefits that arise as a consequence of the QCS being implemented.
- 3.4.2 The Guidance requires that the QCS must bring benefits to passengers by improving service quality. It is clear from this analysis that this requirement is met across a wide range of bus network elements. The analysis also demonstrates that the delivery of these benefits has a high degree of certainty, should the QCS go ahead, because the financial case that supports the QCS is strong.
- 3.4.3 It is therefore considered by Nexus that this criterion is passed by the proposed QCS.

#### 4. CRITERION (C) – LOCAL TRANSPORT POLICIES

##### 4.1 The Guidance

4.1.1 Section 124(1) of the Transport Act 2000 (as amended by Section 19(2) of the Local Transport Act 2008) states that in respect of this Public Interest Test criterion:

*“the proposed scheme will contribute to the implementation of the local transport policies of the authority or authorities.”*

4.1.2 The Statutory Guidance states:

*“This criterion will need to be considered with reference to the specific local transport policies published by the LTA. Local transport policies are the policies that LTAs must develop for the promotion and encouragement of safe, integrated, efficient and economic transport to, from and within their areas, and are normally published as part of the LTA’s local transport plan.”*

4.1.3 This criterion therefore makes reference to the specific local transport policies published by the LTA. Section 108 of the Transport Act 2000 defines such policies as those the LTA must develop for the promotion and encouragement of safe, integrated, efficient and economic transport to, from and within their areas.

## 4.2 Approach and Methodology

- 4.2.1 As a result of the introduction of the Durham, Gateshead, Newcastle upon Tyne, Northumberland, South Tyneside and Sunderland Combined Authority (the NECA) on 15th April 2014, the Tyne and Wear ITA ceased to exist. However, article 11(3) of the Combined Authority Order operates so that the transport policies of the ITA have effect as if they were made by the NECA.
- 4.2.2 In light of the area to which the QCS relates and the statutory requirements detailed above, Nexus considers this criterion should be primarily considered with reference to 'The Bus Strategy for Tyne and Wear' which is part of the Third Local Transport Plan for Tyne and Wear 2011-21 (March 2011) and its associated LTP Delivery Plan 2011 – 14 (March 2011).
- 4.2.3 Although it is anticipated that the NECA will review the transport policies of Tyne and Wear, Durham and Northumberland in due course, the Third Local Transport Plan for Tyne and Wear is intended to run until 2021. The accompanying delivery plan, which sets out spending plans to deliver the strategy together with a monitoring framework, will be refreshed in 2014.
- 4.2.4 It is also appropriate to consider other relevant transport policies for which the NECA is responsible. Whilst the QCS is not specifically designed to achieve the Third Local Transport Plan for Durham (2011 onwards), the Durham Bus Strategy (2009), the Third Local Transport Plan for Northumberland (2011-2026), or the Northumberland Public Transport Strategy (2011-2016, published in 2012) those policies have been assessed by Nexus. Nexus considers that the QCS does not conflict with or contravene the policies' goals and objectives and often contributes to their achievement.

- 4.2.5 The following analysis of this criterion will therefore address the components of the QCS that contribute to the implementation of the transport policies listed in paragraph 4.2.2.
- 4.2.6 The benchmark from which to assess whether or not in practice the QCS is likely to contribute to the implementation of local transport policies is the Do Minimum Scenario (detailed in section 1.4 of this report). This criterion does not require a comparison of whether alternative schemes might contribute more to the implementation of the relevant policies than the Do Minimum Scenario. Instead, the criterion is whether, compared to what would happen without the QCS, its introduction will contribute to the implementation of the transport policies of the NECA within the area covered by the QCS. In Nexus' view, for the reasons set out below, the beneficial contribution from a QCS in achieving the NECA's transport policies would be clear and significant whilst the long term negative impact of the Do Minimum on such policies would be equally clear and significant.

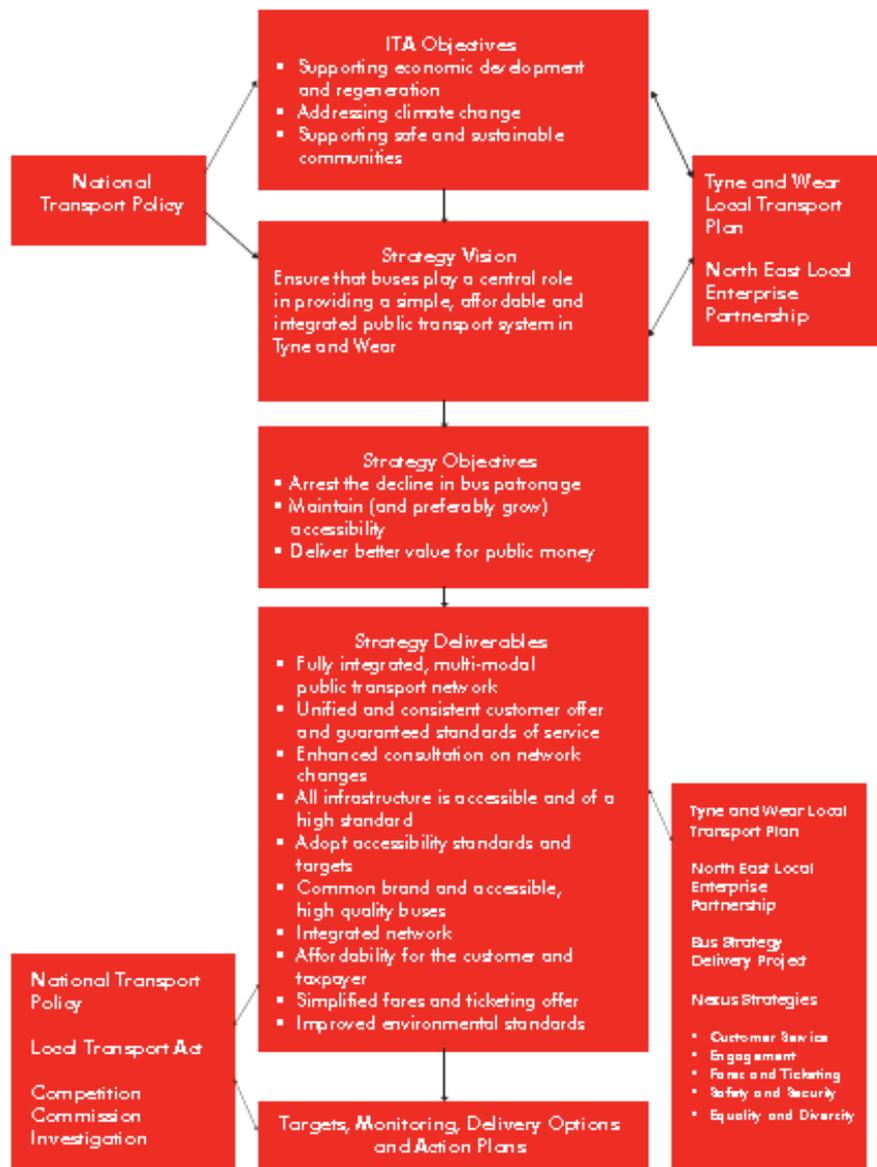
### 4.3 Results

#### 4.3.1 Introduction

- (a) The following sections analyse each policy in turn and outline the components of the QCS that will contribute to the implementation of that policy.

#### 4.3.2 The Bus Strategy for Tyne and Wear 2012

- (a) The structure and key principles of the Bus Strategy for Tyne and Wear 2012, as adopted by the NECA, are outlined overleaf.



(b) The relative benefits of the QCS compared to the Do Minimum Scenario are identified in Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS. The table provides an overview of the Do Minimum Scenario and the QCS when considered against the three objectives (arresting the decline in patronage, maintain accessibility and deliver better value for money) and the ten supporting deliverables of the Bus Strategy.

#### 4.3.3 Delivery of Bus Strategy Objectives

- (a) The first Bus Strategy objective is to arrest patronage decline. The QCS achieves this objective as demonstrated in Section 2.
- (b) The Bus Strategy goes on to identify four key deliverables that would arrest the decline in bus patronage by both retaining existing users and by attracting new users. These are:
  - (i) Introduce a fully integrated, multi-modal Tyne and Wear public transport network, built around a high frequency core strategic network. Measures to achieve this deliverable include:
    - (A) A simple range of affordable tickets that are widely available to buy both on and off the bus, can be used for travel on any bus in the QCS Network and allows transfers onto Metro, local rail and ferry services (see Annex 2 of the Scheme).
    - (B) A single Smartcard will be used to pay for travel on all forms of public transport.
    - (C) A network of high frequency bus services will complement Metro services and together link to key employment, educational, retail, health and leisure facilities. (see Annex 1 of the Scheme).
    - (D) The public transport network as a whole will, under the guidance of the NECA, be planned by one organisation and develop in a way that reflects the views of local people, customers and stakeholders. Service changes will be limited in nature and widely advertised (see Annex 7 of the Scheme).

(E) When comparing these measures to those contained in the Do Minimum Scenario), the QCS will achieve this deliverable due to a number of factors including:

- the simplification and integration of the ticketing and retailing structures;
- the governance and development of the fully integrated, multi-modal network resting with one body, ensuring a consistent and managed approach to network change and development.

(ii) Provide a unified and consistent customer offer and guarantee standards of customer service through the implementation of a 'Customer Charter'. Measures to achieve this are contained within the QCS Customer Charter.

(A) The Customer Charter is the mechanism by which Nexus will clearly state what customers can expect from a QCS service, set standards and improvement targets for performance, and measure and publicise performance against these targets.

(B) Standards, such as punctuality and reliability, will be advertised and enforced through contractual targets, backed by penalties for non-performance where the cause is within Operator control (see Annex 4 of the Scheme).

(C) The Charter will direct customers to a single point of contact, Nexus, to discuss their public transport needs, to provide feedback and to make complaints.

- (D) Accurate, clear and understandable information about fares, ticketing and schedules, available via a range of mediums but in standardised formats, will guarantee a unified and consistent customer offer.
  - (E) Common branding and standards will apply across the network, supporting the concepts of consistency and integration. Quality Contracts will allow Nexus to require the provision on all services of fully accessible vehicles, which are clean, well maintained and safe, staffed by drivers who are polite and courteous, and trained to provide extra assistance to those who need it.
  - (F) Improved network stability will provide enhanced consistency in the customer offer, with planned changes introduced only once each year rather than on one of the current six fixed changes currently allowed for each year .
  - (G) When comparing the QCS Customer Charter to those contained in the Do Minimum Scenario, the QCS will better achieve this objective due to the introduction of one single customer charter for the Tyne and Wear network. In the Do Minimum environment, each operator continues to offer their own charter and operate to individual standards which can result in both confusion for the customer and inconsistency in the customer offer.
- (iii) Ensure that bus users are fully consulted prior to network changes. Measures to achieve this (as referenced in Annex 7 of the Scheme) include:
- (A) During the Annual Development Cycle, Local Bus Boards will consult with local people and stakeholders regarding

any proposed route or timetable changes that affect their area before any changes are implemented. Nexus will support this consultation activity by providing materials and resources, and by ensuring that local bus passengers are made aware of the proposals. Depending on the nature and extent of changes proposed, Nexus may conduct a more wide-ranging or formal public consultation exercise. The application of fare increases will also be subject to public scrutiny.

- (B) In addition, a Tyne and Wear User Consultative Forum will be developed to provide greater direct dialogue between customers and the body responsible for commissioning services. The User Forum will ensure customers have an ability to influence, challenge and advise change proposals.
  - (C) When comparing these measures to those contained in the Do Minimum Scenario, the QCS will better achieve this objective as, at present, consultation Operators is sporadic. This is reflected in research which identifies Tyne and Wear residents do not feel consulted in advance of changes to services<sup>15</sup>.
- (iv) Ensure that all infrastructure is accessible and of a high standard and includes measures to improve safety.
- (A) The QCS assumes highway and shelter infrastructure will be delivered with or without a QCS. However, the QCS will provide greater certainty that services will use

---

<sup>15</sup> Evaluating Performance : Bus Priorities Research, March 2011, MVA Consultancy for Nexus

existing and new infrastructure, therefore the QCS will better achieve this objective.

- (B) All QCS vehicles will be equipped with CCTV.
- (c) The second key objective of the Bus Strategy is to maintain (or grow) Accessibility. Based on the evidence presented in the Bus Strategy three key deliverables have been identified in the Proposal to address Accessibility:
- (i) Adopt Accessibility standards and targets across the Tyne and Wear network which seek to maintain (or grow) the number of residents who have access to employment sites and essential services within 30 minutes when using public transport and frequent services within 400m of their home. Measures to maintain Accessibility, and for the NECA to measure the effectiveness of the network, are set out below and include:
    - (A) By adopting the existing network at the start of the QCS, the QCS will initially maintain accessibility standards. When considering future development of the QCS Network the NECA will consider the bus network as a whole to ensure the most effective distribution of resources to both meet demand and satisfy local accessibility requirements.
    - (B) This is contrary to the Do Minimum Scenario in which the decisions of the Operators will only consider the demand element of services within their control and critically, Nexus funding will decline significantly. As the Nexus funding declines, the opportunity to address accessibility issues will be significantly reduced compared to the QCS scenario.

- (ii) Introduce a common brand and accessible high quality buses.

Measures to achieve this include:

- (A) Common branding will be present on all vehicles and QCS materials within two years of the introduction of a QCS. In branding and brand management great importance is placed on achieving consistency, so that the same attributes and characteristics are associated with a business' operations<sup>16</sup>. This assists customers and potential customers to understand the key benefits of the product or service. By introducing common branding on QCS vehicles, users and potential users will associate bus services with the key advertised benefits of a QCS: a simplified fare structure, affordable ticketing and integrated information.
- (B) The Public Service Vehicle Accessibility Regulations (PSVAR) 2000 state that all single deck buses must comply with standards for disabled access by 1<sup>st</sup> January 2016 and all double deck buses by 1<sup>st</sup> January 2017. The QCS specifies and will contractually enforce that all vehicles must achieve this standard from commencement, currently scheduled for spring 2017, insuring compliance with the legislation.
- (C) The average fleet age will be comparable to or less than those that apply in the current market. The QCS will also mandate a mid-life vehicle refurbishment to maintain appropriate standards.

---

<sup>16</sup> Designcouncil.org.uk, The power of branding, 22 June 2013

- (D) Within the Do Minimum Scenario, confusion will persist from the many types of corporate and route service branding present in the market.
- (iii) Work with Operators to create a more integrated network through timetabling and ticketing initiatives. Measures to achieve this are set out below:
  - (A) A QCS will achieve integration of bus services and across modes. A multi-modal network will be governed by one body, customers will contact one organisation for information and assistance, and a single fares and ticketing offer will apply consistently to all services.
  - (B) This contrasts with the current position. Integration within the Tyne and Wear deregulated market, as regards the network and ticketing offer, is limited as each operator offers their own range of ticketing products and plans its network discretely. Even where operators are keen to prioritise integration they are often constrained by competition legislation. However, whilst it is accepted that competition law normally prevents network or timetable co-ordination, the operators have not exploited those provisions in the Local Transport Act 2008 which facilitate network co-ordination in certain circumstances. Network Ticketing Ltd offers a range of multi-modal tickets that can be used on all forms of public transport in Tyne and Wear but such tickets are generally priced at a premium.
- (d) The third key objective of the Bus Strategy is to improve value for money. Three key deliverables have been identified in the Strategy to address value for money:

(i) Ensure affordability for both the customer and the taxpayer.

Measures to improve affordability for the customer include:

- (A) The fares and ticketing offer of the QCS at commencement will seek to reduce the average fare of paying passengers by 1%. It will seek to maximise the number of trips whose price is either reducing or staying the same, whilst keeping any increased trip prices to a minimum.
- (B) A single Smartcard will be used to pay for travel on all forms of public transport, and will include a daily price 'cap' to offer better value to customers making multiple journeys.
- (C) Multi-modal discounted products are proposed for children under 16, young people aged 16 to 18 and students. Customers who are eligible for free travel under ENCTS will continue to be carried free of charge but a new local enhancement is proposed, permitting all day travel on bus, Metro, Shields ferry and Sunderland-Newcastle local rail for a fixed fee. This would replace the existing Metro Gold Card which is valid for off-peak travel only.
- (D) The weighted average fare increase will be no more than the RPI measured in October of the previous year.
- (E) As regards affordability to the taxpayer, the affordability case is set out in a separate report and demonstrates savings in public revenue funding as regards support of the local bus network.

(ii) Simplify fares and ticketing and improve integrated products.

Measures to achieve this include:

- (A) A new simple ticketing structure is proposed consisting of single-trip, all-day, weekly, 4 weekly and annual tickets. Each ticket type will have two variants: single-mode and multi-mode.
- (B) It is intended this structure will be adopted as the common approach to ticketing on all forms of public transport within the NECA's control.
- (C) This is in contrast to the Do Minimum Scenario in which the Operators each offer their own range of ticketing products. It is acknowledged that Network One offers a range of multi-modal tickets that can be used on all forms of public transport in Tyne and Wear but such tickets are generally priced at a premium, even for multi-operator journeys on bus.

(iii) Set improved environmental standards for the bus fleet.

Measures to achieve this include:

- (A) The QCS will improve overall emission standards across the Tyne and Wear region by requiring that all vehicles operating under a QCS contract will meet or better Euro V emission standards. A period of transition will be permitted during the first two years of the QCS (please refer to Annex 4 of the Scheme).
- (B) It is plausible to assume that the Do Minimum provision of Euro V vehicles will not exceed the offer proposed by operators in the VPA. Comparing the VPA offer to the QCS indicates that there should be 23% more Euro V

vehicles by the second QCS anniversary than under the VPA. A higher level of provision of Euro V vehicles should persist in the QCS for several years.

- (C) It is acknowledged that the QCS will not mandate Euro VI or hybrid vehicles but the procurement process will recognise and consider favourably any enhancements or proposed future enhancements over the term of the QCS to the basic vehicle specification in the quality evaluation.

#### 4.3.4 The Third Local Transport Plan for Tyne and Wear, 2011-21 ('LTP3')

- (a) Tyne and Wear's Third Local Transport Plan, 2011-21 ('LTP3') was published in March 2011. It was produced by the ITA, working together with the local authorities of Gateshead, Newcastle, North Tyneside, South Tyneside and Sunderland, and Nexus. It set a 10 year strategy for transport across Tyne and Wear, covering all modes of transport and is underpinned by a three year delivery plan.

- (b) The vision set out for transport in Tyne and Wear is:

*"Tyne and Wear will have a fully integrated and sustainable transport network, allowing everyone the opportunity to achieve their full potential and have a high quality of life. Our strategic networks will support the efficient movement of people and goods within and beyond Tyne and Wear, and a comprehensive network of pedestrian, cycle and passenger transport links will ensure that everyone has access to employment, training, community services and facilities".*

- (c) Five goals are then set out to benchmark achievement of this vision:

- (i) To support the economic development, regeneration and competitiveness of Tyne and Wear, improving the efficiency, reliability and integration of transport networks across all modes;
  - (ii) To reduce carbon emissions produced by local transport movements, and to strengthen our networks against the effects of climate change and extreme weather events;
  - (iii) To contribute to healthier and safer communities in Tyne and Wear, with higher levels of physical activity and personal security;
  - (iv) To create a fairer Tyne and Wear, providing everyone with the opportunity to achieve their full potential and access a wide range of employment, training, facilities and services;
  - (v) To protect, preserve and enhance our natural and built environments, improving quality of life and creating high quality public places.
- (d) The LTP3 Strategy Document condenses these five goals into three areas of focus:
- (i) Supporting economic development and regeneration;
  - (ii) Addressing climate change;
  - (iii) Supporting safe and sustainable communities.
- (e) The QCS will help to achieve the three focus areas set out above in general terms, by making local buses more attractive, by growing bus patronage, and by providing a stable bus network. Taking each of the focus areas in turn:

(f) Supporting economic development and regeneration

The QCS will introduce measures to ensure that the local bus network is stable, punctual and reliable, so maintaining current standards of accessibility. Supported by a simple range of affordable tickets that are widely available to buy both on and off the bus, and real-time information from all buses, more people will be able to travel to work in an efficient and sustainable manner.

(g) Addressing climate change

(i) The QCS will ensure that the Tyne and Wear bus fleet deploys modern vehicles with low-emission engines on all routes. All the fleet will be of a minimum Euro V standard for engine emissions within two years of the commencement of the QCS.

(ii) The growth in bus usage relative to the Do Minimum Scenario will see a relative reduction in current bus customers switching to car usage, and some car trips removed by travellers switching to bus use. This will reduce congestion over the term of the QCS and contribute towards carbon reduction.

(h) Supporting safe and sustainable communities

(i) The QCS will introduce stability into the local bus system in a way that is not currently possible. The QCS sets out the network to be provided (Annex 1 of the Scheme) and together with QCS Governance (Annex 7 of the Scheme) it establishes the means by which local communities will be involved in service development, and through which a stable bus network will be maintained.

(ii) By introducing measures to make the network more stable, the QCS seeks to at least maintain peoples' access to key facilities, services and employment sites over the life of the QCS. In the

absence of the QCS, the NECA would have only limited influence over the continued achievement of Accessibility, by using public funds to secure services where they are not offered on a commercial basis and where there is still sufficient funding available to secure such services.

- (iii) The QCS and current practice also sets out how buses and bus stops will be fully accessible for older and disabled people, and people with additional needs, and how personal security will be protected through CCTV in all buses and bus stations, driver training, staffing at main bus interchanges, and lighting and CCTV at a number of bus shelters.

#### 4.3.5 Analysis of Relevant LTP3 policies

The specific policies set out in the Local Transport Plan that a QCS should have a positive impact on are set out below, along with a reference to the relevant section of the Proposal:

- (a) Policy 1 - 'We will help people make informed travel choices by giving them accurate information'
  - (i) Real-time information from all buses can be accessed at key stops and interchanges, via text and QR codes/ NFC links to connect users to the Nexus 'myjourney' web page for the bus stop.
  - (ii) Accurate, clear and understandable information about fares, ticketing and schedules will be available via a range of mediums but in standardised formats
  - (iii) Customers will be able to easily contact Nexus to discuss their public transport needs, to provide feedback and to make complaints;

- (iv) A single standard Customer Charter will provide a range of detail relating to performance, complaints and general service information.
- (b) Policy 6 - 'We will enhance personal safety and security for all transport users.'
  - (i) The development of Local Bus Boards and the User Consultative Forum (please see Annex 7 of the Scheme) ensures passengers, local groups, agencies and organisations can highlight approaches to improve bus service delivery. This may include on and off bus measures to improve safety and security. As an example, Local Bus Boards will play an important role in overseeing the development and delivery of local investment programmes which can enhance and improve bus waiting areas.
  - (ii) CCTV mandated on 100% of QCS fleet.
- (c) Policy 7 - 'We will keep all our transport networks in good condition.'
  - (i) Buses will be of high quality and clean (please see Annex 4 of the Scheme).
- (d) Policy 8 - 'We will help people to reach key services, such as healthcare, employment and education, easily and safely by ensuring that access issues are given due consideration for service and land use planning.'
  - (i) The QCS will maintain and, when compared to the Do Minimum Scenario, should improve peoples' access to key facilities, services and employment sites over the life of the QCS. It will also create a link between long-term planning and

bus service delivery through the introduction of Local Bus Boards (see Annex 7 of the Scheme).

- (e) Policy 9 - 'We will promote developments which reduce the need to travel, allow low car dependency and are accessible to existing walking, cycling and public transport networks or where effective new connections could be made to the existing sustainable transport network.'
    - (i) The Annual Development Cycle (see Annex 7 of the Scheme) will take account of developments affecting the level of demand for public transport, and will introduce a formalised process allowing for engagement between planning authorities and the NECA.
- (f) Policy 11 - 'We will seek to achieve greater uptake and delivery of effective Travel Plans'
    - (i) As is current practice, the QCS will commit to developing partnerships with travel planners at business parks and key employers, and to develop a bespoke travel planning service available to employers.
- (g) Policy 18 - 'We will seek to improve air quality.'
    - (i) The QCS will ensure that the Tyne and Wear bus fleet deploys modern vehicles with low-emission engines – a minimum standard of Euro V for engine emissions will apply within two years of the commencement of the QCS. This will reduce emissions of Particulate Matter and NOx helping to improve air quality and bringing associated benefits to health.
- (h) Policy 19 – 'We will support low carbon transport initiatives'

- (i) Through the QCS procurement evaluation process, Nexus will reward proposals to offer low carbon vehicles (defined by the Government as those buses producing 30% less emissions of greenhouse gases (GHGs) than a normal diesel bus). However, low carbon vehicles will not be mandated.
  
- (i) Policy 20 - 'We will support the use of priority measures on key road corridors to encourage the use of sustainable modes.'
  - (i) Through the creation of Local Bus Boards, the QCS commits to the creation of bus punctuality plans in each Tyne and Wear District. This will require close partnership working between the Operators who are contracted to provide Quality Contract services, the local highways authority, the NECA and other bodies whose actions or omissions may influence bus punctuality and reliability. The progress of the partners in delivering the measures identified in the bus punctuality plans will be monitored by the Local Bus Board through a standing agenda item.
  
- (j) Policy 22 - 'We will seek to reduce car dominance in residential areas.'
  - (i) The QCS will promote a high frequency core strategic network and introduce measures to ensure that buses that are stable, punctual and reliable. Supported by these commitments, which include the effective use of Automatic Vehicle Location data to analyse causes of poor punctuality, to manage services so as to preserve headways and reduce the impact of late running, bus patronage will grow compared to the Do Minimum Scenario and will work towards the achievement of this objective.
  
- (k) Policy 24 - 'We will give priority to and invest in public transport.'

- (i) Through the TWSC and Local Bus Boards, investment in the bus service and in highways improvements to promote bus priority in highway planning will be prioritised through the QCS. Local Bus Boards will be required to develop a plan for improving punctuality. This will require close partnership working between the Operators, the local highways authority and other bodies whose actions or omissions may influence bus punctuality and reliability. Progress will be monitored through a standing agenda item. The provision of information through the Real-Time system to monitor highways congestion points that are disruptive to bus services will aid this process.
  
- (l) Policy 27 - 'We will seek to increase bus use.'
  - (i) Please refer to Public Interest Test criterion (a).
  
- (m) Policy 34 – 'Where resources permit, we will seek to maintain current travel concessions'
  - (i) Nexus, under the QCS, will maintain existing discretionary travel concessions for the duration of the Scheme subject to no changes to the ENCTS in the period.
  
- (n) Policy 38 - 'We will improve integration between all transport modes.'
  - (i) The QCS will improve integration by introducing a simple range of affordable tickets that are widely available to buy, and can be used for travel on any bus in the QCS Network. There will also be a simple-trade up amount for each ticket type to make it valid for use on all public transport modes.

- (ii) A single Smartcard will be used to pay for travel on all forms of public transport, and will include a daily price 'cap' to offer better value to customers making multiple journeys.
- (iii) Information will be better integrated, providing accurate, clear and understandable information about fares, ticketing and schedules in a range of standardised formats.

#### 4.4 Conclusion

4.4.1 It is considered that the QCS will contribute to the implementation of the local transport policies, and that it would do so more effectively than the Do Minimum Scenario.

## 5. CRITERION (D) – ECONOMY, EFFICIENCY AND EFFECTIVENESS (3ES)

### 5.1 The Guidance

5.1.1 Section 124(1) of the Transport Act 2000 (as amended by Section 19(2) of the Local Transport Act 2008) states that in respect of this Public Interest Test criterion:

*“the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective”*

5.1.2 The DfT Statutory Guidance<sup>17</sup> on Quality Contracts Schemes provides guidance on how the economy, efficiency and effectiveness of a QCS can be assessed at paragraphs 59 to 62.

5.1.3 Paragraphs 59 and 60 describe how economy, efficiency and effectiveness ("the 3Es") are addressed in the National Audit Act and the Local Government Act, and provides a National Audit Office definition of the 3Es at paragraph 60:

- (a) economy: minimising the cost of resources used or required;
- (b) efficiency: the relationship between the output from goods or services and the resources used to produce them;
- (c) effectiveness: the relationship between the intended and actual results of public spending.

5.1.4 With regard to the National Audit Act 1983, the Guidance references Section 6 of that Act:

*"...which confers power ... to carry out examinations into the economy,*

---

<sup>17</sup> Quality Contracts Schemes: Statutory Guidance, DfT, December 2009

*efficiency and effectiveness with which certain bodies use their resources when discharging their functions."*

- 5.1.5 In respect of the Local Government Act 1999, the Guidance refers to Part 1 of that Act which contains:

*"...the duty on local authorities to secure continuous improvement in the 'economy, efficiency and effectiveness' with which they deliver services and meet standards."*

- 5.1.6 It is apparent from the above paragraphs that the context of the National Audit Act, both in terms of the description of the Act and the descriptions of each of the 3Es, is to take a retrospective view on the economy, efficiency and effectiveness of past decisions. This means that taken alone, these descriptions have technical limitations when considering a proposed intervention in the future. The reference to the Local Government Act 1999 suggests both a retrospective and a forward looking view is taken on delivering services in the context of continuous improvement in economy, efficiency and effectiveness.

- 5.1.7 Paragraph 61 builds on these definitions and introduces the *"widely recognised concept of 'value for money'"* as an overall measure of the 3Es, and requires the scheme promoter to satisfy itself that value for money will be achieved by implementing a QCS. The Guidance states that the 3Es:

*"61 ... taken together are closely associated with the widely-recognised concept of 'value for money'. It is envisaged that an LTA would satisfy itself that a proposed QCS meets this criterion in the same way as it would show that any proposed action in other fields of its work would deliver good value for money, which it would generally do by assessing carefully the costs and benefits that can reasonably be expected to arise from the proposals."*

Value for money is assessed by compiling the costs and benefits that will arise from the proposal, and of alternative proposals that may achieve the same intended goals. This is an approach that is established practice when making investment and funding decisions across national and local government, in particular investment in transport where well established approaches to assessing and comparing costs and benefits of transport schemes have been in place since the 1960s. The approach to assessing value for money is set out in considerable detail within the DfT's Transport Appraisal Guidance, also known as 'WebTAG'.

- 5.1.8 Paragraph 62 states that the DfT does not anticipate that each of the 3Es is considered in isolation, as:

*"... for example, the most 'economic' (lowest-cost) option will not necessarily be the most 'efficient' or 'effective'. Satisfying this criterion does not require a LTA to select the lowest-cost option: quality, risk and other matters are also important considerations. The three 'E's need to be considered in the round, to form an overall judgement of whether the proposed QCS offers good value for money."*

## 5.2 Approach and Methodology

### 5.2.1 Approach

- (a) Taking full account of the Guidance, Nexus has paid particular attention to the following for its assessment of the 3Es:
- (i) The NECA's objectives. These objectives are set out in the Tyne & Wear Bus Strategy and detailed in Section 4. Where possible Nexus has sought to express the Bus Strategy objectives using measures that can be quantified and monetised, so that they can be fed into a value for money assessment that examines the monetised costs and benefits of the QCS. A consistent approach can then be used to compare the proposed QCS to other options under consideration. It should be noted however that a number of Bus Strategy Objectives and indeed benefits delivered by the QCS cannot be monetised and compared in this way;
  - (ii) The assessment of 3Es should include an appraisal of the overall costs and benefits of the scheme in order to assess whether the QCS offers "good value for money".
  - (iii) The most appropriate methodology for undertaking this assessment is the guidance set out in DfT's WebTAG, which is well established and has direct relevance to a transport intervention such as the QCS. The Guidance states that *"WebTAG guidance is a requirement for all interventions that require government approval. For interventions that do not*

*require government approval ... [WebTAG] ... guidance would serve as a best practice guide*<sup>18</sup>; and

- (iv) WebTAG will need to be adjusted in certain areas to allow for the fact that the QCS has certain features that differ from a typical transport investment scheme, which often involves capital investment in assets, for example the remodelling of a road junction or the construction of a railway station. By contrast, the QCS has a lifespan that is limited to ten years by the Transport Act 2000, whereas the value of physical assets can be calculated over the length of their expected useful life. The QCS includes a sizeable transfer of revenues, ongoing costs and risks from private to public sector, which is often not the case with a capital scheme. Finally, the QCS is, in government parlance, a revenue funded intervention rather than a capital scheme<sup>19</sup>.
  
- (b) Nexus' approach to assessing the value for money of the QCS is consistent with HM Treasury's Green Book<sup>20</sup> which at paragraph 2.3 recommends cost-benefit analysis, which *"quantifies in monetary terms as many of the costs and benefits of the proposal as feasible"*. This is to be contrasted with a cost-effectiveness analysis, which *"compares the costs of alternative ways of producing the same or similar outputs"*.

---

<sup>18</sup> Paragraph 1.2.2, "Transport Analysis Guidance: An Overview of Transport Appraisal", Department for Transport, January 2014

<sup>19</sup> This latter point is relevant to the footnote to paragraph 62 in the guidance, which describes the need to take account of risks in the project by making an allowance for "optimism bias" - optimism bias is a concept specific to the capital construction schemes, where account should be taken of the tendency to underestimate capital costs in the early stages of scheme development. It is part of, but also somewhat distinct from, a wider assessment of project delivery risks, which can fluctuate either side of a central outturn forecast.

<sup>20</sup> [www.hm-treasury.gov.uk/greenbook](http://www.hm-treasury.gov.uk/greenbook)

- (c) The approach to this assessment has been the subject of detailed scrutiny during Consultation for the QCS, and Nexus has carefully considered all responses from Statutory Consultees, including the current bus Operators in Tyne and Wear who raised a number of concerns about the approach Nexus was proposing to take. In formulating its approach to this criterion, Nexus instructed its economic advisors to discuss the Operators' feedback with their own economic advisors in the areas where further clarity was required. These discussions have informed alterations and refinements to Nexus' approach.
- (d) Furthermore, Nexus has sought clarification from DfT regarding its approach, which builds on the "3Es" guidance provided in paragraphs 59 to 62 of the DfT document. A letter from DfT to Nexus dated 20<sup>th</sup> June 2014 stated as follows:

*"This [the QCS] guidance can of course only provide general advice, not address specific proposals. It is for individual local transport authorities to decide how the combination of legislation and guidance should be applied and interpreted when considering and pursuing individual schemes. Although local authorities should take the views of local stakeholders into account as part of that process, and have regard to the opinions given - and any recommendations made by the QCS Board - it is ultimately for the local transport authority to satisfy itself that the criteria have been met before making a decision on a proposed scheme.*

*In view of this, we do not believe that it would be appropriate for the Department to give the advice requested in your letter."*

- (e) As a result of these discussions a number of adjustments were made to the way Nexus associates outputs from the monetised appraisal of

the QCS with each of the 3Es and the overall assessment of 'value for money'. This was to ensure that certain issues, including the transfer of revenues when assessing the efficiency of the scheme, were more appropriately modelled.

### 5.2.2 Methodology

- (a) As set out above, and in line with paragraphs 59 to 62 of the Guidance<sup>21</sup>, economy, efficiency and effectiveness, when considered collectively, are closely associated with the concept of public sector value for money.
- (b) As noted in the Guidance, a local transport authority should satisfy itself that the QCS meets this criterion in the same way as it would show any other proposed action delivers good value for money, by carefully assessing the cost and benefits that can reasonably be expected to arise from the proposals. It is also expected that the assessment will include some discussion of alternative options that have been considered and why they have been dismissed. Alternatives considered by Nexus are the previous iterations of the QCS developed over the last three years and culminating in the Proposal that was subject to statutory consultation during July to November 2013 and Supplemental Consultation during April to June 2014. The proposed Voluntary Partnership Agreement has also been considered, this is explained further in Section 6.
- (c) Nexus has examined whether the QCS is capable of delivering the objectives set out in the Tyne and Wear Bus Strategy (see Section 4 for full details) and has undertaken an assessment of value for money in line with paragraph 61 of the Guidance. The value for

---

<sup>21</sup> Quality Contracts Schemes: Statutory Guidance, DfT, December 2009

money appraisal informs the assessment of whether the QCS can deliver economy, efficiency and effectiveness, at an acceptable and sustainable level of cost and delivery risk, while providing sufficient certainty of meeting the objectives.

- (d) The value for money appraisal framework developed for this proposal is based on the Nexus Affordability Model described in Section 1.6. It includes the aspects of the QCS which have been quantified within that model, comparing them to the Do Minimum Scenario. Nexus considers that this represents a balanced and robust assessment of the costs of setting up and operating the QCS for a ten year period, and the benefits that arise from the QCS, insofar as these have been monetised. The results of this appraisal have been used to inform Nexus' judgement and recommendation to the NECA.
- (e) The appraisal methodology follows insofar as possible established DfT WebTAG as well as established good practice while recognising that the approach applied to capital schemes is not directly applicable to the assessment of Partnership and Quality Contract approaches. Nexus' use of WebTAG has been developed such that the level of detailed analysis performed is commensurate with the scale of impact that the QCS will give rise to. This has resulted in certain standard practices within WebTAG being tailored to the ten year contract-based revenue focussed scheme that forms the QCS option, such as:
  - (i) appraisal over a 10 year period rather than the typical 60 year period for a WebTAG capital scheme;
  - (ii) DfT's formulation of the benefit cost ratio (BCR), as described in more detail in subsequent paragraphs, to accurately represent the impact of transferring costs and revenues between operators and Nexus; and

- (iii) the treatment of optimism bias (see footnote to paragraph 5.2.1(a)(iv) above), which are specific to the requirements of assessing capital investments.
- (f) However, the overall approach remains consistent with all key principles of the January 2014 release of WebTAG.
- (g) The approach includes passenger travel time and fare change impacts, in addition to the costs and revenues represented in the Nexus Affordability Model. Time savings in this context can include: journey time improvements; wait or walk time savings (from frequency or bus stop location changes); and time saving 'equivalents' for other interventions, for example the quality package representing Customer Charter and Simplified Ticketing proposals, as specified in appraisal guidance. The impact represented is the 'net benefit', taking into account reductions and increases in units of 'in-vehicle travel minutes' and also the balance with any changes in the fare paid. The total benefit is a function of the scale of all the benefits (and disbenefits) and the number of passengers receiving them. Time impacts are converted into monetary terms by the application of appropriate values of time (£ per hour) as set out in WebTAG, which vary by journey purpose and change over time.
- (h) A light-touch approach is used to derive the net impact of the scheme on highway users. While the mode shift from car to bus that results from introduction of the QCS is significant, a high level assessment is considered proportionate given the modest contribution of such benefits to the overall total impact. The impact is based upon changes in the number of vehicles on the road i.e. additional bus and reduced car journeys (in comparison to the status quo). The valuation of this effect uses 'impact per km' monetary values specified in WebTAG.

- (i) It is noted that some benefits are either not capable of being monetised or have not been quantified due to the limitations of the data available. These are described in more detail in the assessment of criteria (b) and (e) of the Public Interest Test. In this respect, it should be noted by the NECA that the amalgamation of the full range of benefits derived from the QCS, is greater than the benefits monetised using this approach. This discussed in more detail in Section 6 and its discussion of well-being benefits arising from the QCS.
- (j) The approach to appraisal explicitly considers the risks associated with the realisation of costs and benefits and consideration of these risks forms part of the Value for Money assessment. The approach is typical and is consistent with WebTAG.
- (k) Comparing the QCS scenario with the base case 'Do Minimum' scenario the appraisal considers:
  - (i) The benefits enjoyed by existing users of buses due to changes in bus service provision and the fares they pay;
  - (ii) The benefits enjoyed by additional travellers who start to use buses because of the enhanced quality of service and reduced fares. WebTAG specifies that a new bus passenger receives half of the 'existing passenger' value of the benefit which is the cause of their change in behaviour;
  - (iii) Benefits to non-users due to fewer vehicles on the road (as some of the new users would otherwise be car users and the volume of buses using the highway differs between scenarios), leading to less congestion, fewer road traffic accidents, lower emissions, less traffic noise, changes in revenue from fuel duty and lower maintenance costs;

- (iv) The costs incurred and revenues accruing to the public sector;  
and
  - (v) The costs incurred and revenues accruing to bus operators.
- (l) The appraisal is undertaken looking at the ten year life of the Proposal. In line with the HM Treasury Green Book, discounting is applied to allow the impacts in different years to be summed, the total being expressed as a 'present value'. Discounting is based on the general preference to receive goods or services now rather than later; it is a separate concept to inflation. The appraisal is undertaken in real terms, values in the appraisal exclude general inflation but do take account of items, for example wages, which are forecast to change over time at a different rate to inflation. The appraisal is undertaken in 2010 real prices discounted to 2010 present values. This approach complies with WebTAG.
- (m) All costs and benefits included within the appraisal are specified in consistent units ensuring that any sum or comparison of these impacts is robust. This includes conversion of the impacts on businesses into 'Market Prices', which accounts for the difference in indirect taxation (for example VAT) as paid by businesses and individual consumers. This approach complies with WebTAG.
- (n) With respect to the individual components of Criterion (d), the following methodology has been adopted.

### 5.2.3 Economy

- (a) The Guidance defines Economy as "*minimising the cost of resources used or required*". Consistent with this, Nexus has considered Economy by looking at the net incremental monetised costs of establishing the QCS, in comparison to the Do Minimum Scenario. This approach, which has been amended in response to consultee

feedback, accords with Guidance. It is noted that the measure on its own provides no indication of the benefits that arise from that expenditure and therefore is in effect a form of cost-effectiveness analysis (see paragraph 5.2.1(b)). Incremental monetised costs of operating the QCS, compared with the Do Minimum, include:

- (i) The costs to Nexus of implementing the QCS;
  - (ii) The net additional costs to Nexus of managing the QCS (some management costs that transfer to Nexus already reside in Operators' accounts and will be offset in a QCS environment through commercial bids, so are not net costs to the QCS compared with the Do Minimum Scenario);
  - (iii) the additional costs to QCS Operators associated with achieving the minimum standards set by the QCS (for instance the cost of accelerating the introduction of vehicles achieving Euro V emission standards or better, and repainting vehicles in Nexus livery);
  - (iv) the additional costs to Operators associated with the transition from a deregulated to the QCS environment (for instance the costs of additional employment commitments to QCS staff);  
and
  - (v) the cost of operating the Secured Bus Services that are retained in the QCS scenario, but would be lost in the Do Minimum Scenario.
- (b) A number of further incremental costs were identified by operators during consultation. These included the additional costs of vehicle leasing over vehicle purchase, vehicle disposal costs, higher operator profit expectations than Nexus has modelled, and operators' views

on the cost of operating the network, compared to the estimates prepared for Nexus by its consultants.

- (c) In respect of many of the additional costs identified by operators, Nexus considers that in an open market, making commercially rational decisions, operators can and would avoid these costs in order to submit a competitive bid. That said, a number of additional costs (as set out in paragraph (a)(iii) above) have been added to Nexus' affordability analysis as a result of Operator feedback.
- (d) Nexus notes that paragraph 60 of the Guidance defines Economy as minimising the cost of resources "used or required". In relation to that particular definition, Nexus considers that economy is not concerned with choosing the cheapest intervention but with minimising the cost of resources used or required to achieve the desired aims, a consideration supported by paragraph 62 of the Guidance.
- (e) Nexus has considered all of these issues carefully and having revised its assessment in the light of the Consultation responses, Nexus now considers that its assessment of operating costs is robust.

#### 5.2.4 Efficiency

- (a) The Guidance defines Efficiency as "*the relationship between the output from goods or services and the resources used to produce them*". Consistent with this, Nexus has assessed Efficiency by looking at the ratio of the monetised benefits and revenues of the QCS (i.e. 'effectiveness') to the cost of delivering them (i.e. 'economy') – the 'Efficiency Ratio'. The derivation of the Efficiency measure has been reviewed in light of consultation responses and the allocation of costs and benefits between the different sides of the ratio has been amended, this has resulted in a material increase in the ratio, compared to that reported in the QCS Proposal. Specifically revenue

received and contract payments made by Nexus under the QCS are now represented on the same side of the ratio.

- (b) Incremental monetised benefits arising from the QCS environment, compared with the Do Minimum, include:
  - (i) The net increase in fare revenue that arises from introducing lower fares and implementing a package of soft measures (simplified ticketing and an improved customer charter), all of which attract more ridership. This greater ridership offsets the farebox revenue reductions that accrue from existing passengers as a result of lower fares;
  - (ii) The journey time benefits associated with bus patronage growth, the retention of Secured Bus Services and avoiding the increase in car traffic delays that would arise in the Do Minimum Scenario (the Do Minimum Scenario assumes some bus passengers would switch to car use as bus services decline); and
  - (iii) Changes in public sector payments that result from the QCS environment, in comparison to the commercial operation in the Do Minimum (the ability of Nexus to retain bus subsidies and manage operator profit margins).
- (c) In addition to these monetised benefits, it is noted that there are further non-monetised benefits that it has not been practical or possible to model, as set out throughout Section 3.

#### 5.2.5 Effectiveness

- (a) The Guidance defines Effectiveness as *“the relationship between the intended and actual results of public spending”*. Consistent with this, Nexus has assessed Effectiveness by looking at the level of

confidence that the present value of monetised benefits and revenues of the various proposals will be delivered and the range of outcomes which could result. The derivation of the Effectiveness measure has been reviewed in light of consultation responses and amended for consistency with the efficiency measure. The numerator in the calculation of the efficiency ratio (see 5.2.4) is the central case measure of effectiveness.

- (b) In order to reflect the effectiveness of the QCS, Nexus has undertaken a structured assessment of risks by:
  - (i) Identifying areas of risk in relation to individual 'risk components' associated with the underlying assumptions behind the individual costs and benefits of the Do Minimum Scenario and the QCS;
  - (ii) Considering the breadth and likelihood of extreme outcomes surrounding the central value for each risk component, either side of Nexus' central case forecast;
  - (iii) Considering the form of relationship between likelihood of alternative outcomes arising, compared with the central case. These relationships reflect the fact that the central case forecast is considered most likely to occur, while progressively more extreme outcomes that diverge further from this central case are progressively less likely;
  - (iv) Undertaking a control assessment that models the range of potential outcomes in terms of overall costs and benefits, based on the assessment of numerous risk scenarios developed at random. This random element is tempered when risk components are inter-dependent; and

- (v) Concluding the work with a probability curve of outcomes for costs, benefits and value for money around the central case forecast, with confidence limits identified so that the range of outcomes in 90% of risk eventualities can be assessed. Nexus judges that 90% is an appropriate indicator to provide a reasonable spread of probable outcomes.
  
- (c) Nexus' considerations of the 3Es and Value for Money include explicit representation of risk within the modelling and appraisal, where multiple iterations of the model have been run with different combinations of input assumptions. Variation in these inputs is based on defined risk distributions. Some of these assumptions have been amended in the light of consultation responses, in order to ensure that the best available representation of risk is obtained. Details of the approach to risk modelling can be found at Appendix 1 –Approach to Risk Assumptions.
  
- (d) A pragmatic approach to defining risk distributions has been taken to provide sufficient detail using an appropriate and proportionate amount of data. Input risk distributions are either specified allowing variation only within defined limits (triangular or uniform distribution risks) or allowing a small number of incidences where wider variation can occur (normal distribution risks). It is noted that the choice of input distribution type (i.e. normal or triangular) rarely has material influence on the output of the simulation process, as the critical factors are the central value of the distribution and the range over which variation occurs. The wider variation allowed under a normal distribution in comparison to a triangle occurs only for a small proportion of iterations, the wider the variation is from the central value the less probability that it will occur. Over the more probable range of results the two distributions are broadly comparable.

- (e) Input risk distributions have been defined to represent three broad areas of uncertainty:
  - (i) Where there is uncertainty in the input value for any reason, for example in the base number of passengers, or in total bus operating hours. In the case of all options this also covers the risk associated with the delivery of the benefits contributing towards meeting Bus Strategy objectives;
  - (ii) Where the model at an aggregate level across Tyne and Wear level may not wholly accurately represent the market response. For example, where use of an average fare may not wholly accurately replicate the fare structure applicable to individual passengers; and
  - (iii) Inputs defining future year forecasts, for example the change in market size in response to demographic changes or fares changing at a different rate to general inflation.
- (f) Outcomes of the Do Minimum Scenario and the QCS are represented simultaneously to ensure that comparisons represent the same base market characteristics and response to demographic changes. The output of the risk simulation is expressed as a probability range rather than as a single 'central case' value.
- (g) When considered in the round, this risk assessment shows the overall breadth of how risks might affect the costs and benefits of the QCS, either detrimentally or advantageously, and provides an illustration of how likely it is to be that the QCS can be considered 'effective' across a range of scenarios.
- (h) A further consideration is the fact that the QCS transfers revenue risk from Operators to Nexus. Nexus accepts that there would be a financial downside if revenue does not meet expectation. However

Nexus' patronage modelling is cautious in several areas, meaning that the central case forecast represents a prudent scenario. It is consequently considered more likely that patronage will exceed the forecast levels, resulting in less financial risk to Nexus. The risk modelling then informs Nexus' judgement on the range of potential outcomes around that central case, good and bad, and the financial implications of those outcomes.

- (i) A parallel consideration is whether Nexus and the NECA are able to manage the revenue risk that currently resides with Operators. It is noted that Nexus already manages a multi-million pound railway and is delivering a £389 million investment strategy on that railway, while the NECA and its component counties and districts collectively manage revenue budgets of £1 billion or more – giving them the financial leverage to accept financial risks to an extent that may exceed what operators can accept. Operators have an obligation to make a profit, but only have a limited range of levers to pull when they face adverse financial situations – they can increase fares, cut services and to a lesser extent cut costs. Local Authorities however can consider a much wider range of interventions across their portfolio of expenditure for a limited period of time in order to address financial issues should they arise, as Nexus has demonstrated in its medium term financial strategy.

#### 5.2.6 Value for Money

- (a) In addition to the 3Es, Nexus has assessed value for money using the net present value, which represents the absolute difference between the benefits of the QCS and the cost of delivering it. This measure was previously used by Nexus to measure 'Economy', an approach altered in response to feedback from consultees. Nexus considers that when considered alongside the efficiency ratio, which itself is formed of the representation of economy and effectiveness, the net

present value is an appropriate method of assessing costs and benefits. The net present value takes into account the adverse financial impact on the Operators and measures the scale of the overall impact of the QCS as a whole. The overall contribution in delivering an economic, efficient and effective scheme is then considered in the context of the risk assessment.

- (b) As indicated earlier certain standard practices within WebTAG have been tailored by Nexus for the purpose of this assessment. In particular the consideration of costs and benefits that informs the overall Value for Money assessment cannot be directly compared with the benefit cost ratio ('BCR') for a DfT-funded capital scheme. This is because a different appraisal period is employed and also because the efficiency ratio derivation necessarily differs from the DfT approach to BCR calculation for a capital scheme, which cannot usefully represent the outcomes of the QCS.
- (c) Furthermore it is noted that unlike the assessment of this Criterion, the WebTAG approach to capital schemes prioritises projects achieving the highest central case benefit:cost ratio. However, this ratio does not measure the likelihood of each option making the forecast contribution to achieving the requisite strategic objectives, so should not be deployed as a sole measure for assessing what is the "best" option when there are differences in the level of certainty that can be associated with the outcomes of each.
- (d) Further detail of the derivation of the Value for Money appraisal and the assumptions underpinning the Value for Money appraisal are contained in Appendix 2 – Value for Money, Economic Appraisal Derivation.

## 5.3 Results

### 5.3.1 Key Findings

- (a) The table and charts below summarise the core findings of the 3Es assessment for the QCS. The first set of tables show the monetised costs and benefits (costs are shown as negative figures) that arise from the QCS over a ten year period in terms of the public (bus users and other transport users), operational (bus operators and Nexus, who will retain Secured Bus Services in the QCS) and public sector (the net additional income and expenditure that Nexus will attract as a result of the QCS). Alongside the central case results, the cumulative impacts over the ten year period are shown for the central case, the 95% percentile of outcomes and the 5% percentile of outcomes.

Impact on:	Point Estimate	Probability Range of Cumulative Impact
<b>Public:</b>	Net Monetised Bus Passenger Impact: <b>£287m</b>  Net Monetised Public Impact (other): <b>£7m</b>  Net Monetised Total Public Impact: <b>£294m</b>	
<b>Operational:</b>	Present value change in income: <b>-£11m</b>  Present value change in costs: <b>-£59m</b>  Net operator impact (income - costs): <b>-£70m</b>	
<b>Public Sector:</b>	Present value change in income: <b>£107m</b>  Present value change in expenditure: <b>-£58m</b>  Net public sector impact (income-expenditure): <b>£46m</b>	

(b) The second set of tables show the results of the 3Es analysis and the overall Value for Money assessment. These results are accompanied by charts that show the spread of the 90% most likely outcomes for each 3Es and Value for Money indicator.

Impact on:	Central Case and Range	Probability Range
<b>Effective (present value of benefits)</b>	95% confidence: £514m <b>Present Value of Benefits: £373m</b> 5% confidence: £247m	
<b>Economic (present value of costs)</b>	95% confidence: £128m <b>Present Value of Costs: £100m</b> 5% confidence: £72m	
<b>Efficient (efficiency ratio = [effective] / [economy])</b>	95% confidence: 5.62 <b>Efficiency Ratio: 3.73</b> 5% confidence: 2.41	
<b>Value for Money (net present value)</b>	95% confidence: £413m <b>Net Present Value: £272m</b> 5% confidence: £149m	

### 5.3.2 Explanation of Impacts

- (a) PUBLIC: the public impact includes net economic benefits at an aggregate level from the proposals to bus users and to others. The majority of the benefit is for existing and new bus users.
- (b) The public impact represents:
  - (i) reduced fares and reduced fare growth, valued directly in monetary terms as the summed reduction in the average fare paid per trip for all passengers;
  - (ii) impact of changes in Secured Bus Services, represented as the average impact on travel times for passengers – effectively a combination of wait and walk time savings from having an alternative to using a less frequent bus and/or a more distant stop under the Do Minimum. The total passenger minutes saved are converted into monetary terms using the appropriate values of time;
  - (iii) the introduction of a quality package representing the introduction of a Customer Charter and Simplified Ticketing valued as the sum for all passengers of the equivalent time saving for the benefit converted into monetary terms using the appropriate values of time;
  - (iv) The modest ‘other’ public impact represents the benefits of mode shift from highway to public transport and changes in bus services operated, so affecting the number of vehicle km travelled on the roads. This benefit is derived from the net monetised impact per change in highway km values set out in WebTAG and includes reductions in:
    - (A) congestion;

- (B) highway accidents;
  - (C) air pollution;
  - (D) noise;
  - (E) climate change;
- (c) As set out in paragraphs 5.2.2(e), 5.2.2(l) and 5.2.2(m) the calculation of these benefits follows the January 2014 WebTAG release, including being specified as 2010 real market prices and values. The central value of this benefit for the QCS Proposal is £294 million over the ten year assessment period, the majority of which being benefits to bus passengers (£287 million) and the remainder the net impact on non-users (£7 million). The risk assessment process applied derives a range from £148 million to a maximum of £439 million excluding the least likely 10% of outcomes (that is the most extreme 5% of outcomes at each of the lower and higher ends of the spectrum).
- (d) OPERATIONAL: the aggregate impact on bus operations comprises changes in service operating costs and income resulting from the scheme.
- (i) The main sources of changes to income are farebox revenues and, for the QCS Proposal, contract payments, which have a fixed margin and higher certainty.
  - (ii) The service operating costs represent the impact of changes in Secured Bus Services operated (within the Do Minimum they reduce). The appraisal excludes any impacts which result from the award of contracts to operators and cannot be estimated in advance of the proposal being made.

- (iii) The central value of operating cost change for the QCS Proposal is an increase of £70 million compared to the Do Minimum Scenario. Essentially this is the value of maintaining Secured Bus Services which are cancelled without the QCS. The central value of income received is £11 million less over ten years than that expected without the QCS. The net impact is forecast to vary from a value of -£275 million (loss) to +£95 million (gain) for the most likely 90% of outcomes, the central case being a loss of £59 million.
  
- (e) PUBLIC SECTOR: the public sector impact includes the changes in revenue and expenditure resulting from the QCS. Revenue to be received by Nexus under the QCS Proposal includes both fare paying and concessionary passengers. Nexus costs include:
  - (i) QCS set-up and on-going costs;
  - (ii) contract payments under the QCS;
  - (iii) changes in Concessionary Travel funding and Secured Bus Service funding;
  - (iv) the reduction in indirect taxes received by HM Treasury from increased consumer spend on (untaxed) public transport fares and reduced spend on fuel from the net change in vehicle km travelled relative to the Do Minimum (where highway (car) travel is forecast to increase in comparison to existing levels as supported services are cancelled, itself a reduction in highway (bus) travel);
  - (v) the small saving in Tyne & Wear Districts highway maintenance spending as a result of the same net change in highway km travelled is also taken into account; and

- (vi) the cost to Nexus of developing and implementing the QCS Proposal is included in the economic appraisal as a 2010 present value of £1.3 million. The on-going costs to Nexus over the ten-year appraisal period total to a 2010 present value of £4.6 million.
  - (vii) The central value of net change in public sector expenditure for the QCS Proposal is an increase of £58 million over ten years, more than offset by a change in income of £107 million. The net impact is forecast to vary from a net loss of £114 million over ten years to a net gain of £262 million, excluding the 10% least likely outcomes, the central case being a present value gain of £46 million. It is noted that the discounting applied within the economic appraisal means that the results are not fully comparable with the affordability assessment and include changes in Central Government indirect taxation receipts resulting from changes in consumer spending on untaxed public transport fares.
- (f) VALUE FOR MONEY
- (i) The Economic measure represents the net incremental cost of introducing the QCS, compared with the Do Minimum. The central estimate of net cost is £100 million over ten years. The range derived from the probability assessment shows that this is forecast to be between £72 million and £128 million for 90% of outcomes.
  - (ii) The Efficiency measure represents the benefit 'return' from spending the costs of the QCS and allows a comparison between different uses of the same resources. The central estimate of this value is 3.73:1, meaning that the scale of benefits outweighs the scale of costs of delivery by a

considerable multiplier. The probability assessment gives a range between 2.41 and 5.62 over the 90% most likely outcomes. This measure shows that the benefits of the QCS consistently exceed the costs of delivery across a wide range of probable outcomes; the proposed QCS is efficient.

- (iii) The Effective measure represents the level of confidence that the present value total of public benefits and revenues will be delivered. The central estimate of total benefit is £373 million over ten years. The range derived from the probability assessment shows that this is only forecast to reduce below £247 million 5% of the time and increase above £514 million 5% of the time. This measure shows that the QCS delivers material net benefits over a wide range of probable outcomes and therefore is effective.
- (iv) The overarching 'value for money' measure represents the net benefit delivered by the QCS, that is the present value difference between the total benefit and the costs of delivering that impact. The central estimate of net benefit is £272 million over ten years. The range derived from the probability assessment shows that this is forecast to be between £149 million and £413 million for 90% of outcomes. This measure shows that the benefits of the QCS exceed the costs of delivering them across a wide range of probable outcomes; therefore the proposed QCS is capable of delivering value for money with a high degree of certainty.
- (v) An important point to note is that on the three measures for Efficiency, Effectiveness and Value for Money, the central case shows a positive benefit over a range wider than the 90% most likely modelled outcomes, when compared to current projections and assumptions. The Net Present Value,

representing the overarching Value for Money measure, is above zero for 100% of modelled outcomes.

(g) Important Risks

(i) The risk simulation software allows the identification of which of the input risk components have the greatest influences on the forecast distribution of the outputs. Sensitivity testing has been used to illustrate the impact of variations in these individual inputs on the effective, economic, efficient and Value for Money measures. Nexus considers that the input assumptions that this analysis identifies as being the most important are in line with its expectations and its understanding of the impacts of the proposals. The following text summarises the impact of the key risks that may influence the outcome of the economic appraisal, listed in broad order of the likely scale of their influence:

(A) Benefit of Package of Soft Measures (Simplified Ticketing and Customer Charter): defined to allow a distribution of responses reflecting differing passenger perceptions of this element of the QCS Proposal. A reduction in this variable reduces both the number of additional passengers forecast to be generated in response to this measure and reduces the level of benefit calculated per passenger. An increase has the opposite effect.

(B) Average Trip Duration: defined to represent the difference of individual passenger bus journey lengths from the average represented within the model. This assumption is used in the derivation of the impact of the soft measures package on passengers. An increase in the variable reduces the proportional impact of, and

therefore the effect of, these benefits resulting in a reduction in the forecast of additional passengers.

- (C) Assumed Network Efficiency: defined to represent the potential for the efficiency of the allocation of available bus service resource to vary. A negative value of this variable represents improved efficiency, ie that the same passengers and benefits can be delivered for a reduced resource input. A positive value of this variable has the opposite effect. The impact of this variable is cumulative, variation in each year of the scheme being applied to the net combined impact (in any iteration) up to the previous year.
- (D) Delivery to Assumed Timescale: defined to represent the risk of potential delays in delivering the forecast benefits of the Proposal. The impact of this risk is prudently represented as a reduction in the duration of the Proposal rather than as simply a delay in the start of the ten year assessment period. Delays of up to 3 years are represented, the probability of incurring such delays being progressively smaller.
- (E) QCS Bus Hours Operated: represents the potential for variation in the estimated operating cost of the QCS option. A positive correlation has been defined with the risk on Peak Vehicle Requirement limiting any variation in hours operated per vehicle. A positive value of this variable increases the cost increment represented in the appraisal and therefore reduces the value for money for the scheme. A negative value has the opposite effect. The impact of this variable is cumulative, each year being based on the risk adjusted value from the previous year.

- (F) DM Bus Hours Operated: represents the potential for variation in the estimated operating cost of the DM option. A positive correlation has been defined with the risk on Peak Vehicle Requirement limiting any variation in hours operated per vehicle. This variable has the opposite effect to its QCS equivalent, a negative value of this variable reduces the DM cost in the appraisal and increases the incremental cost of the QCS scheme. A negative value has the opposite effect, increasing the value for money for the scheme. The impact of this variable is cumulative, each year being based on the risk adjusted value from the previous year.
- (ii) The table overleaf presents the impact of assuming the full extent of possible variation in these variables separately against the effective, economic and efficient measures. The cumulative impact of these risks, in combination with the impact of all other defined risks, is included within the forecast 90% most likely outcomes as presented within this proposal:
- (iii) The results show that even under these tests the lower end of the range of the potential outcomes shows that the QCS Proposal remains "effective, economic and efficient". It therefore continues to represent value for money and Nexus is justified in recommending that it should proceed.
- (iv) These tests allow for extreme outcomes which are unlikely to occur, including multiple risks occurring at the same time. The results of these tests do not in any way detract from Nexus' confidence that the QCS Proposal satisfies the "effective, economic and efficient" criterion and hence is an appropriate and justified way to proceed.

Key Risk	Range	Effective (£M)	Economic (£M)	Efficient	Net Present Value (£M)
	Central Case	£373	-£100	3.73	£272
Benefit of Package of Soft Measures	Min	£215	-£100	2.14	£115
	Max	£562	-£100	5.59	£461
Average Trip Duration	Min	£344	-£100	3.43	£244
Assumed Network Efficiency	Min	£373	-£107	3.50	£267
	Max	£373	-£94	3.99	£280
Delivery To Assumed Timescale	1 year delay	£367	-£97	3.79	£270
	2 years delay	£322	-£90	3.58	£232
	3 years delay	£278	-£84	3.31	£194
QCS Bus Hours Operated	Min	£375	-£91	4.11	£284
	Max	£373	-£109	3.42	£264
DM Bus Hours Operated	Min	£373	-£103	3.64	£271
	Max	£375	-£98	3.82	£276

## 5.4 Conclusion

- 5.4.1 The central case forecast analysis undertaken by Nexus demonstrates that the QCS is capable of delivering significant benefits at a manageable cost, thereby delivering a QCS that is efficient (an efficiency ratio is 3.7) and is able to deliver Value for Money (a net benefit of £272 million over ten years).
- 5.4.2 These benefits are secure in all risk outcomes, including very extreme and unlikely risk scenarios. The net benefits are greater than zero in 100% of risk outcomes.
- 5.4.3 Nexus therefore concludes that the QCS is capable of delivering Value for Money, and passes the requirement to be an Economic, Efficient and Effective proposal.

Blank page

## 6. CRITERION (E) - PROPORTIONALITY

### 6.1 Introduction

#### 6.1.1 The Guidance

- (a) Section 124(1) of the Transport Act 2000 (as amended by Section 19(2) of the Local Transport Act 2008) states that in respect of this Public Interest Test criterion:

*“any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraphs (a) to (d).”*

- (b) The Guidance, to which regard must be had under section 134A of the Transport Act 2000, explains that criterion (e):

*“63 This criterion is a key safeguard for the legitimate interests of existing bus operators who are working within the area of a proposed scheme. Its inclusion in the five ‘public interest’ criteria recognises that a QCS could have a substantial adverse impact on these operators; in the most extreme case, an existing operator might not be awarded any quality contracts and might therefore have to cease providing local services within the area of the scheme. The criterion is designed to ensure that the LTA has properly considered any adverse impacts on operators, taking them fully into account by weighing them up against the relevant benefits when determining whether to proceed with a QCS.”*

- (c) As noted by the Guidance at paragraph 64, the most direct impact of introducing a QCS is that Operators can no longer continue to run their existing services when the QCS comes into operation, but must

instead operate services in accordance with any Quality Contracts they are awarded. The Guidance also notes that in a more extreme case an existing Operator may not be awarded any Quality Contracts and so will no longer be able to operate local services within the area of the QCS (subject to certain limited exceptions).

- (d) To comply with criterion (e) and to inform its assessment of the proportionality of the QCS, Nexus has carefully considered the adverse impacts of the QCS. Nexus has taken into account the possibility of no contracts being awarded to existing Operators, referred to as the 'maximum detriment', as well as the impacts in the event that existing Operators win some contracts under the QCS. In the event that each Operator wins the relevant contracts covering all of its existing business, this is referred to as the 'minimum detriment'. An explanation of the approach Nexus has taken to assessing proportionality is given later in this chapter.
- (e) It should be noted that when assessing adverse effects Nexus has not given any weight to the costs associated with existing Operators winning new business in the QCS Area. This is because adverse effects relate to impacts on existing business operating in the QCS Area. Where an Operator wins new business this will result in a mitigation of that Operator's loss, and as such the costs associated with achieving that mitigation are not adverse impacts of the QCS on that particular Operator. That Operator's mitigation will however inevitably result in another Operator's loss of the latter's existing business. That loss is taken into account in Nexus' assessment.

#### 6.1.2 Limitations in assessment

- (a) Paragraph 64 of the Guidance acknowledges that there is a degree of subjectivity associated with assessing adverse impacts and benefits. Paragraph 68 (which gives some guidance on the role of the QCS

Board) suggests that the LTA is expected to make a reasonable assessment of the potential severity of impacts and the likelihood of them arising, and to approach the assessment of likely benefits in a similar way.

- (b) Nexus wishes to emphasise that the actual impacts of the QCS will depend upon a number of uncertain and unknown outcomes. The uncertainty applies not only to the outcome of the QCS procurement process but also to the commercial strategies that Operators will adopt in bidding for Quality Contracts. For reasons explained below, there are several aspects of the potential adverse effects of the QCS which are impossible to accurately or reliably predict. Where this is the case Nexus has highlighted the issues and the consideration which it has given to them, and explained why it has been unable to predict a particular adverse effect with any greater reliability. This uncertainty is inherent in the predictive nature of the statutory test – which is inevitably forward looking – and has been taken into account by Nexus when considering the proportionality of the QCS.
- (c) This limitation applies not only to the likelihood and quantification of certain adverse effects but also to identifying on which particular Operators the adverse effects may fall. Nexus acknowledges that the adverse effects arising from the QCS will vary from Operator to Operator. Indeed, Operators have varied materially in their consultation responses on such matters.
- (d) Additionally, it has not always been possible to monetise accurately every adverse effect, either at all or in enough detail to monetise its impact on individual operators. Where there are limitations on Nexus' ability to predict and monetise adverse impacts these are explained in the discussion below.

- (e) Furthermore, as discussed for criteria (b) and (d) of the Public Interest Test, there are certain benefits that it is not possible to monetise and other benefits where, due to risks that may occur, a range of outcomes may in practice be realised but Nexus has established a central case based on the most likely scenario that may occur.

### 6.1.3 Quality assurance

- (a) Nexus has engaged SYSTRA to provide quality assurance on the QCS Public Interest Test. SYSTRA were also engaged to review an assessment of the QCS as against the VPA Proposal.
- (b) This has involved:
  - (i) Sense-checking emerging documents;
  - (ii) Reviewing internal spreadsheet modelling undertaken by Nexus; and
  - (iii) Reviewing external consultants' contributions, most significantly that regarding the economic case.
- (c) SYSTRA's external analysis has concluded that Nexus is likely to have:
  - (i) correctly identified the nature of any adverse impacts of its QCS Proposal on Operators, considered the likelihood of those adverse impacts arising, and considered the scale of the impacts; and
  - (ii) identified the nature and broad scale of benefits arising to people living or working within the area and the likelihood of those benefits arising.
- (d) Having satisfied itself that Nexus has properly identified those key issues, SYSTRA has reviewed Nexus' assessment of proportionality

and is satisfied that the benefits to persons living or working within the QCS Area could reasonably be considered to justify the scale of adverse impacts identified, even under a range of adverse assumptions.

#### 6.1.4 Outline of approach

- (a) This part of this chapter gives an outline of the structure of the approach set out in the rest of the chapter. In what follows Nexus sets out:
  - (i) The assumptions that it has made in assessing the adverse effects and improvements in well-being that will flow from the QCS;
  - (ii) The nature, scale and likelihood of the adverse effects on Operators;
  - (iii) The improvements in well-being that will arise from introduction of the QCS;
  - (iv) An assessment of the VPA Proposal as an alternative means of delivering the objectives of the Bus Strategy for Tyne and Wear, in terms of the scale of benefits available and the likelihood of those benefits arising;
  - (v) An assessment of the proportionality of the QCS in light of those adverse effects and improvements and well-being; and
  - (vi) Finally, its conclusion on whether criterion (e) is satisfied.

## 6.2 Assumptions

### 6.2.1 Introduction

(a) In assessing the adverse effects of the QCS Proposal, Nexus has made certain assumptions as to how that Proposal will be formulated and introduced, and how Operators will respond. This part of this chapter explains those assumptions. In short, Nexus has made assumptions about:

- (i) The procurement strategy;
- (ii) The revised specification; and
- (iii) Operators' behaviour.

(b) Nexus explains the reasons for each of those assumptions below.

### 6.2.2 Procurement strategy

(a) In response to Consultation, Nexus has revised the procurement strategy as set out in Section 1.5.4 in order to mitigate the potential adverse impacts of the QCS while also retaining its benefits. Nexus' assessment under criterion (e) has therefore assumed that this revised procurement strategy will be implemented.

(b) The structure of the revised tendering process has been modified to ensure that the proposed procurement environment is fairer to existing Operators given their existing assets and employees. The result is that tendering for Quality Contracts should be attractive for both existing Operators and new entrants, and the risk of any of the existing Operators failing to win any Quality Contracts is further reduced. This proposed structure of the QCS gives ample opportunity to existing Operators to bid on terms that should be commercially acceptable to them, in particular because each Operator will have an

incumbency advantage in respect of the contracts that cover routes operated from their existing depot(s).

#### Round 1 Contracts

- (c) The revised depot-based structure for Round 1 Quality Contracts mitigates the risk of depots and assets becoming 'stranded' and of depots being of the wrong size or location. It may also be possible for Operators to operate other services in the North East (both inside and outside of the QCS Area) from existing depots, thus mitigating adverse impacts of the QCS. Should an incumbent Operator fail to retain business at a given depot, it is likely to be able to mitigate adverse effects by leasing or selling its depot to the successful bidder. Nexus considers stranded assets further below.
- (d) The Round 1 procurement design reflects the concerns expressed by Operators that the lots in the QCS Proposal were too big and needed to be split into smaller Lots. Under the QCS the likelihood of the maximum possible adverse impact (i.e. complete exclusion of existing Operators from the market) is now more remote.
- (e) The Round 1 procurement design also simplifies the Allocation Arrangements for existing Operators' employees. As the contracts reflect existing large depots, the employees assigned to routes running from the existing depots will be able to transfer as a grouping to the contract which is aligned to that depot.
- (f) Nexus is of the view that:
  - (i) The phased process will mitigate concerns regarding excessive costs for both bidders and Nexus of drafting and evaluating distinct delivery plans for each individual Lot simultaneously;

- (ii) The phased process will enable bidders to prepare, and Nexus to evaluate, delivery plans with greater knowledge of how their assets will be deployed. The three tranche structure will allow bidders to take account of the results of the previous tranche(s) before finalising their submissions for subsequent tranches allowing bidders to base their delivery plans for later lots on their knowledge of whether they had won any contracts in previous tranches.
- (iii) Due to the reduction in complexity of the process required to consider the credibility of multiple delivery plans submitted simultaneously, the negotiated phase of the procurement will be limited to include only one phase of negotiation for each Lot. Areas for negotiation will be prescribed in advance and negotiation sessions will be tightly controlled and time restricted. The revised process will enable a more meaningful assessment of the credibility of Operator's delivery plans and mitigate the risk bidders overbidding.
- (iv) The negotiation sessions will allow bidders an opportunity to fine tune their bids. It is not anticipated that Bidders will make radical changes before final submission of their tenders and only a modest increase in timescales is required.
- (v) Bidders successful in earlier Lots will be able to reduce overhead costs and obtain efficiencies in later bids, for example through optimising the use of depot capacity. Other potential costs savings include set-up costs and shut-down costs; shared administrative costs such as finance, HR and payroll.
- (vi) The 3 tranche structure makes the procurement procedure more attractive to bidders, particularly the opportunity to

learn from tranche-to-tranche as they gain experience from bidding, receive feedback from Nexus on their bid and gain more of an insight into other bidder's strategies. This is expected to result in bidders pricing more competitively in later tranches.

- (vii) In particular it will enable incumbent Operators to respond to the loss of contracts by adjusting their bidding strategy for later Lots.
- (viii) The revised contract structure simplifies the Allocation Arrangements for employees as it is based on the routes running from existing depots.

#### Round 2 Contracts

- (g) Section 1.5.4 explains the approach to procurement for Round 2 Contracts. The contracting requirements for Secured Bus Services currently procured by Nexus, which will form the Round 2 Contracts, will not be materially affected by the introduction of the QCS, other than the term of such contracts will be longer and the contract standards required may in some cases be enhanced.

#### 6.2.3 Operator behaviour

- (a) The outcome of the QCS Proposal, if made, will depend in large part on the decisions of Operators during the procurement process. In carrying out its assessment Nexus, has assumed that all Operators will act rationally and prudently to minimise the adverse impacts of the QCS on their business. This assumption applies to the assessment of all impacts. Nexus has assumed that all existing Operators would bid in the procurement process. In the event that an Operator chose not to compete in the tendering process (so that its existing business was entirely lost and no business was retained

or gained) this would only make sense from a business perspective if the Operator had concluded that its losses would be less through not bidding and deploying its assets elsewhere, than would arise from bidding and potentially securing some or all of its existing business. Given the relatively low bid costs, and the potentially high costs of exiting the market, Nexus considers the 'non-bid' scenario to be highly unlikely.

#### 6.2.4 Revised specification

- (a) Nexus has also revised the specification in order to mitigate the likelihood of the QCS creating stranded assets for incumbent Operators. Nexus' assessment under criterion (e) has therefore assumed that this revised vehicle specification will be implemented.

## 6.3 Adverse Effects on Operators

### 6.3.1 Introduction

- (a) Nexus recognises that the adverse impacts on Operators are predominantly financial. Nexus has attempted to separate out the adverse impacts into the following heads of impact:
  - (i) Loss of profits (including those caused by increased costs) and loss of business value;
  - (ii) Operational losses under QCS contracts;
  - (iii) Costs of complying with higher specification;
  - (iv) Stranded assets;
  - (v) Cross boundary operations;
  - (vi) Wasted bid costs;
  - (vii) TUPE and Redundancy costs; and
  - (viii) Pensions.
  
- (b) Nexus considers each of these below. In each case, Nexus has sought to:
  - (i) identify the nature of the potential adverse effects of the QCS on Operators;
  - (ii) consider the likelihood of the identified adverse effects arising; and
  - (iii) consider the likely scale of impact of the adverse effects identified, with consideration given to:

- (A) actions Operators may take to mitigate the effects of any adverse impacts;
- (B) the mitigating effect of strategies adopted in the QCS to limit any dis benefit on Operators; and
- (C) benefits to Operators of the QCS.

### 6.3.2 Different impacts on different Operators

- (a) Within Tyne and Wear, three large Operators (Arriva North East, Go North East and Stagecoach (Busways Travel Services Ltd)) dominate the local bus market. To provide some context there are also 11 small Operators who (together with the three larger Operators) actively participate in the delivery of Secured Bus Services on behalf of Nexus. One of these small independent Operators additionally delivers a Commercial Bus Service operating wholly within Tyne and Wear, this being the only Commercial Bus Service to operate in addition to those provided by the three larger Operators.
- (b) The likely impact of the QCS will not be uniform across all Operators as their businesses differ significantly in size, profitability and geographical coverage. Nexus considers that there are likely to be winners (Operators who will benefit overall from the QCS for example by increasing their margin compared to existing operations) as well as losers (Operators who will overall suffer dis-benefit from the QCS for example by suffering a reduction in current operating margins).
- (c) Further, the potential concerns and interests of the 3 large Operators who are currently active in the Tyne and Wear bus market are distinct from those of the smaller Operators who are wholly or

predominantly active within the Secured Bus Services market. It follows that the potential impact of the QCS has to be considered separately in respect of each Operator.

### 6.3.3 Loss of profits/business value

- (a) The Guidance notes in paragraph 64 that:

*“Clearly the most direct impact is that Operators can no longer continue to run their existing services when the scheme comes into operation, but must instead operate services in accordance with any quality contracts they are awarded. In a more extreme case where an existing operator is not awarded any quality contracts, the operator will no longer be able to operate local services within the area of the scheme. (...)”*

- (b) Nexus has considered this part of the Guidance very carefully, and acknowledges the potential impacts on Operators that are described. When assessing the adverse impacts that result from the loss of ability to operate some or all local services in the QCS Area, Nexus considers that it is appropriate to quantify the range of potential effects of the QCS on existing Operators' profits and business value, at a regional and, in the case of the larger Operators, a national level.
- (c) The position in terms of impacts as regards loss of profits and business value as between the large Operators is not uniform and will also depend on a range of commercial decisions by those Operators and third parties (such as potential new entrants to the local bus market) that cannot be easily modelled in advance. For successful incumbent bidders the adverse impact will include the difference in profitability of their regional businesses pre QCS compared with their regional profitability post QCS.

- (d) Nexus has inspected the published accounts of the three largest Operators in order to gain some understanding of their profitability. However, it acknowledges that their corporate structures and accounting may be arranged in such a way that the declared profits of their local operating companies do not necessarily reflect the entire financial benefit to them of operating the bus services in Tyne and Wear. During Consultation, Nexus sought information from the Operators that would help assess the profitability of their businesses.
- (e) The information supplied by the Operators, as summarised below, was based on the procurement structure set out in the QCS Proposal, which entailed 3 large contracts in Round 1. Nexus carried out Supplemental Consultation regarding the revised procurement process consisting of 11 contracts in Round 1 (which it has subsequently adopted with a phased introduction), and Operators responded to this Supplemental Consultation. However Operators did not supply any revisions to their valuation of lost profits or business value in their responses to Supplemental Consultation. Nexus therefore considers that it can take into account the Statutory Consultation responses when estimating the adverse effect on lost profits and business value. However Nexus cautions that those estimates relate to a different procurement structure.
- (f) In addition, it should be noted that the financial information supplied by Operators in feedback responses is not necessarily calculated on an equivalent basis by all Operators.

#### Stagecoach

- (g) Oxera on behalf of Stagecoach has stated that the loss of business value (including lost profits) to Stagecoach in Tyne and Wear (registered company name Busways Travel Services Ltd) over the life

of a QCS is estimated to be between [REDACTED] (at 2012/13 prices) depending on whether Stagecoach is forced to exit the market.

#### Go North East

(h) [REDACTED]<sup>22</sup>

#### Arriva

- (i) Arriva did not comment on the loss of business value it could suffer in a QCS. Nexus assumes that whilst a loss of profits would occur in the event Arriva did not tender for Quality Contracts, or failed to be successful in the tendering process, it is likely that any successful tender in a QCS would result in no detrimental effect, and could lead to an improved operating margin because of Arriva's limited existing profitability.

#### Small Operators

- (j) Small Operators did not respond to Consultation.

---

<sup>22</sup> [REDACTED]

## Analysis of adverse effects on profits and business value

### *Maximum and minimum detriment*

- (k) Nexus accepts that the theoretical maximum detriment to all incumbent Operators in terms of lost profits is the sum of all lost profits for the period of the Scheme based on the Do Minimum Scenario. However, Nexus considers that there is also a minimum detriment valued at the difference between current margins for each operator's existing business and the projected QCS margins for each such business. The maximum and the minimum detriment are both considered unlikely to occur. It is considered more likely by Nexus that the actual detriment is likely to lie between the two extremes, depending on how many contracts are won by Operators and at what margin. Nexus has attempted to materially reduce the probability of the maximum detriment occurring by proposing to increase the number of contracts that are available for incumbents to bid for, and restructuring the contracts themselves, whilst maintaining a competitive procurement process.

### Large Operators

- (l) The introduction of a QCS would inevitably lead to a material financial loss to one or more of the large Operators. The QCS procurement process gives the Operators the opportunity to retain all or a part of their existing network of services and to further extend their market share (though an increase in market share by one would necessarily have a detrimental effect on another, which would be a dis-benefit to that other). However, if an existing Operator wins new Quality Contracts covering business it does not currently operate, its "gain" would, in accordance with the Guidance, not be a benefit of the QCS for the purposes of assessing proportionality, nor would the costs associated with such contracts

be considered an adverse effect. The likelihood of incumbent Operators retaining their existing network of services has been enhanced by the revised depot based procurement approach.

- (m) Overall, in the QCS, some Operators are likely to benefit from the QCS by increasing their margin and overall profits compared to existing operations and some Operators may suffer dis-benefit from the QCS by suffering a reduction in current operating margins.
- (n) It follows that the NECA must recognise that the introduction of a QCS may have a material adverse impact on profitability and hence business value of each of the large Operators but the precise impacts will depend on the outcome of the QCS contract tender process. Each Operator may have to take strategic decisions in terms of its business and assets in the region which mean that it might not be in a position to fully return to its current business at the end of the QCS period (if there is then a return to an unregulated bus market). There is potential for this to result in a long term and even permanent loss of value in the local business in addition to any loss of profits for the duration of the QCS.
- (o) If, in the worst case scenario, any of the larger Operators fails to secure a contract or a single contract is insufficient to properly utilise all their assets in the Tyne and Wear region then they will still retain the capital assets on which their business was based. Nexus considers stranded assets below and believes that it is reasonable to assume that major incumbent Operators will: (a) have the corporate ability to deal with transitional events; and (b) absorb local adverse impacts within their wider businesses and thus substantially mitigate adverse impacts on assets such as depots and vehicles should they fail to win Quality Contracts or secure insufficient contracts to utilise fully existing assets.

## Smaller Operators

- (p) If no QCS is introduced then, based on current budget projections, there will be insufficient funding available to Nexus to continue the operation of Secured Bus Services. The withdrawal of all Secured Bus Services in Tyne and Wear would mean that certain smaller Operators may go out of business whilst in other cases Operators may have to scale back or re-align their businesses to survive. The QCS therefore represents a potential lifeline to smaller Operators as it is the only realistic option that means smaller Operators will have an opportunity to bid for contracts to deliver the services that they currently provide. For some small Operators, the ability to bid for a greater range of Lots could present an opportunity to grow their business without incurring the significant costs and risks of competing on-street in today's deregulated environment. However Nexus accepts that there may be a financial loss to smaller Operators resulting from the introduction of the QCS leading to their existing contracts being terminated earlier than they would be under the Do Minimum Scenario. In addition the one small Operator that currently operates a Commercial Sservice in Tyne and Wear would be subject to the same considerations of adverse effects as the larger Operators.
- (q) The way in which the Round 2 Quality Contracts will be tendered broadly reflects current practice and hence smaller Operators should be familiar with the procurement process and able to engage with it. Whilst the service standards of some Round 2 contracts will exceed those standards for comparable existing Secured Bus Service Contracts, it is considered that the certainty provided by winning a Quality Contract for a minimum of seven years will enable smaller Operators to justify the necessary investment in vehicles to meet the QCS specification. However the higher profile tender process arising

from the QCS covering a greater proportion of services within Tyne and Wear may encourage new entrants to bid for the smaller Quality Contracts or for other Operators to bid for a broader range of business than hitherto. This may increase competition for these services and reduce the likelihood of smaller Operators securing such work. In addition the fact that all contracts will be awarded in one procurement process and last for at least seven years, compared to current practice where contracts are tendered on an on-going basis, will introduce a change from the current environment.

- (r) Smaller Operators are considered well placed by Nexus to bid for 'Round 2' Quality Contracts. They have knowledge of the local market, ownership of infrastructure (e.g. depots, office space) and vehicles. It is acknowledged that a failure to secure any Quality Contracts would likely have a substantial impact on small Operators but this is a commercial risk they already face and is what would happen in any event if those Secured Bus Services were discontinued under either the Do Minimum Scenario or VPA Proposal scenario. To mitigate this risk and safeguard the business interests of small bus companies, the QCS has been structured to include contracts consisting of a smaller number of buses in 'Round 2'. Sub-contracting is permitted in both rounds of procurement and consortia bids will be permitted. This structure is intended to give all small Operators a fair opportunity to retain existing business or bid for new business.
- (s) 'Taxibus' services represent a very small proportion of the overall business provided by local taxi Operators and thus any current work they may lose is likely to have a minimal impact. Nevertheless, local taxi Operators will be well placed to bid for Round 2 Taxibus Quality Contracts and therefore will have opportunities to bid for new business.

- (t) Nexus is aware that there are a number of persons who hold an operators' licence but do not in fact operate Local Services under that licence in Tyne and Wear. Such persons will not suffer any material impact on their profits or business value. They will however have the opportunity to bid for Quality Contracts.

Effect on company value or profits at UK level and shareholder loses

- (u) Nexus is clear that any adverse impacts on Operators need to be primarily assessed at the level of the operating unit (which may be a subsidiary of a larger company) where that operating unit is affected by the introduction of the QCS. This is consistent with the requirements of the statutory proportionality test under section 124 of the Transport Act 2000.
- (v) Certain Operators have identified in Consultation that the introduction of the QCS may have a consequential adverse impact at shareholder level. Whilst the larger Operators have subsidiaries set up on a regional basis, the practical reality of their businesses is that they operate on a UK wide basis. Therefore the national picture is potentially relevant especially in terms of Operators' ability to mitigate certain potential dis-benefits that might flow from the QCS in terms of buses no longer required for use within the QCS Area.

(w) [REDACTED].



- (x) Stagecoach asserted in its Consultation feedback that in circumstances where Stagecoach is forced out of the Tyne and Wear bus market in whole or in part, Stagecoach's business would be subject to significant financial adverse effects. It was stated that there was also the potential for further adverse effects on Stagecoach Group which are not directly quantifiable at this stage but which may nonetheless be significant, for example additional loss of shareholder value arising from an expectation that further quality contracts schemes might potentially be implemented elsewhere in the UK. This latter matter is dealt with by Nexus at Section 6.3.11.
  
- (y) Stagecoach has also asserted in Consultation feedback that the "threat" of a successful QCS in Tyne and Wear leading to further QCSs being introduced, and that this could have a current adverse effect on share value. As Nexus has explained above, the introduction of future QCS's elsewhere would not be a product of the QCS, and therefore Nexus does not consider that this is a potential adverse effect that it must consider.

## Nexus' conclusions on impacts on profits and business value

### *All Operators*

- (z) Nexus recognises that the loss of operating profits and business value Operators would suffer as a result of the implementation of the QCS is the principal adverse effect on incumbent Operators.
  
- (aa) In its assessment of adverse effects on profits on individual Operators, Nexus has taken into consideration the estimated value of lost profits which have been provided by GNE and Stagecoach. Arriva and smaller Operators did not provide any figures for adverse effects on profit. However, Nexus considers that the most appropriate and consistent methodology by which the loss of profit margins at an aggregated Tyne and Wear level should be calculated is through the Affordability Models. This takes into consideration all Tyne and Wear Operators rather than only those who have provided their own calculations of lost profits and should reduce inconsistencies within the methodologies used by Operators in their consultation responses. The following values of impacts on profits over the life of the QCS are discounted to a 2010 price base.
  
- (bb) The estimated value of the maximum theoretical detriment on all Operators assessed by Nexus, which is detailed in the table below is £187 million over a period of 10 years. As explained in Section 5 in respect of criterion (d), the minimum detriment as regards reduced operating profits is calculated as the difference between the forecast for estimated operating profits earned under the Do Minimum Scenario and that for estimated profit margins achieved under the

QCS. This results in an estimated minimum detriment of £81 million for all Operators on aggregate over a period of 10 years<sup>23</sup>.

#### *Individual Operators*

- (cc) In order to assess adverse effects on profits on individual Operators, Nexus has sought to allocate the minimum and maximum adverse effects.

#### Maximum Adverse Effects on Profits

- (dd) Maximum adverse effects on profits are calculated on the basis that all incumbent Operators have been awarded no Quality Contracts. In this scenario Nexus has calculated the maximum adverse effect on profits as being equal to the amount of profits that Operators could have earned if a QCS was not implemented (Do Minimum Scenario).
- (ee) The maximum adverse effects on profits have been allocated across Operators based on the current profit levels earned within Tyne and Wear. Profit levels for the three larger Operators have been derived from published accounts for the financial year ending in 2013. Due to a lack of available information, an assumption has been made with regard to smaller Operators that a profit margin equivalent to the average earned (14%) across the larger Operators is earned. Assuming that Operators maintain their existing shares of Tyne and Wear profits for the duration of the QCS enables Nexus to estimate the total adverse effect on profits at individual Operator level.

---

<sup>23</sup> This illustrative value is not subject to the risk assessment used to measure the financial impact on Operators conducted within criterion d). As a consequence, this proportionality assessment must take into account that the £81m minimum financial impact on Operators is potentially overstated when compared to the risk adjusted value within criterion d).

Operator	Arriva	Go North East	Stage-coach	Smaller	Total
2013 Profit Levels (£ million)	0.3	6.7	13.3	1.1	21.4
Share of Tyne and Wear Profit	1%	32%	62%	5%	100%
Allocation of Maximum Adverse Effect (£ million)	2.5	58.9	116.2	9.3	186.9

#### Minimum Adverse Effects on Profits

- (ff) Minimum adverse effects on profits are calculated on the basis that all incumbent Operators have won Quality Contracts equivalent to their existing business. The minimum adverse effect on profits is calculated as the difference between the profits that would be earned under a QCS £106m and the theoretical profits that could be earned in the Do Minimum Scenario £187m. The minimum adverse effects are therefore calculated at £81m.
- (gg) It is not possible to allocate the minimum adverse effect on profits in the same way as described above. This is because in a QCS it is assumed that all Quality Contracts will return an equal profit margin of 8%. It is therefore considered more appropriate to calculate the minimum adverse effects on profits based on the proportion of network costs (as at November 2013) attributable to each Quality Contract.

Operator	Arriva	Go North East	Stage-coach	Smaller	Total
Share of Network Cost as at November 2013	6%	54%	37%	3%	100%
Share of QCS Profit (£ million)	6.4	57.1	38.9	3.2	105.6
Maximum Adverse Effect (£ million)	2.5	58.9	116.2	9.3	186.9
Allocation of Minimum Adverse Effect (£ million)	-3.9	1.8	77.3	6.1	81.3

#### Limitations to allocation of adverse effects on profits

(hh) Nexus is aware of the limitations to allocating the adverse effects across the individual Operators. These include:

- (i) the inherent difficulties with attempting to forecast future behaviours of the economy, policies and competitive behaviour; and
  - (ii) an inability to accurately predict the order of future reductions in discretionary expenditure.
- (ii) In the light of the above and the additional points made below, it must be recognised that the figures given for individual impact are very much estimates and should not be treated as identifying a precise level of impact. Nexus has done the best it can using the amount of information available to it, while acknowledging the inherent uncertainties that arise from the assumptions that it has used and the difficulty of future prediction, as well as recognising the limitations of the methodologies that it has employed. Uncertainty

is a matter that Nexus has taken into account when carrying out its proportionality balance.

- (jj) Below, Nexus explains some of the more significant difficulties in identifying adverse effects at an individual operator level in the Do Minimum Scenario.

#### Discretionary Expenditure

- (kk) The Do Minimum Scenario assumes that from 2017/18 there are annual cuts in Nexus' discretionary expenditure in providing such schemes as the child Concessionary Travel scheme and Secured Bus Services (including Scholars Services). As the order for the cuts to the discretionary expenditure is not known it is impossible to apportion reduced profits in respect of these services at this point in time. Nexus has therefore based its estimate of adverse effects on profits on the Operators' current share of the total Tyne and Wear profit.
- (ll) The removal of the discretionary expenditure is unlikely to have affected the overall assessment of the QCS at an aggregate level. However, the distribution of the adverse effects on profits is inevitably imprecise as the reductions in discretionary expenditure are not factored into the adverse effect calculations.
- (mm) For example, the adverse effect on profits of smaller Operators is overstated as they are predominantly funded through discretionary expenditure, and as a result are likely to have a greater reduction in their profits over the course of the Do Minimum Scenario compared to the Operators as a whole. As a result, the adverse effect on large Operators, as a whole, is likely to be understated, as they will retain a larger proportion of the profits in the market.

#### Allocation of benefits

- (nn) There is no process by which Nexus could allocate the Scheme benefits against the individual Operators. Therefore the assessment must be done at the aggregate level.

#### Other methods of allocation

- (oo) As discussed above Nexus has used network costs in a QCS as a proxy for allocating the adverse effects on profits. However there are potentially other methods of assessing the allocation of adverse effects on profits, for example operating hours or PVR, which would give a different allocation at individual Operator level. As network costs incorporate both PVR and bus operating hours Nexus believes that this is the most appropriate method of allocation.

#### 6.3.4 Operational losses under QCS contracts

##### Large Operators

- (a) Feedback received from the larger Operators during Informal Stakeholder Engagement and Statutory Consultation identified concerns that the Original QCS Proposal and QCS Proposal could lead to Operators running services at a loss. It was also suggested that if an incentive scheme was put in place, any incentives received by Operators would still be less than the full marginal revenue that Operators would otherwise receive from additional patronage.
- (b) It is expected that bidders for Quality Contracts will take account of their full costs as part of their contract bid price. Nexus assumes that bidders will add a profit margin to their operational costs which will vary according to Operators' commercial expectations and approach to the tendering process. It is not reasonable to assume Operators will bid at a loss over the duration of the QCS and Nexus would have

concerns about the sustainability of any bid that was considered to be abnormally low and potentially loss making. The contracts are intended to transfer day to day revenue and cost risk to Nexus. The risk of a loss for the Operators will only arise if they materially misjudge the pricing of their tenders during the contract tender process, or if costs increase significantly during the operation of contracts due to external factors – although to an extent this will be mitigated by inflation clauses contained within each Quality Contract. These are risks that cannot be wholly eliminated but they can and will be managed by Nexus, for example, through the proposed diligence that will be applied during the procurement process and robust costings prepared by Nexus against which bids will be compared.

- (c) Nexus considers that the procurement process has been structured fairly and that it will give all Operators an opportunity to make a fair commercial return. If Operators misjudge the cost of their tenders then any operating losses would have been caused by that misjudgement rather than by the QCS. In any event Nexus believes, as a result of its analysis above, that the likelihood of any of the large Operators actually being forced to operate at a loss in terms of the QCS is so remote as to justify its not being given any weight.

#### Smaller Operators

- (d) In terms of the smaller Operators both Nexus and the existing small Operators have considerable experience of tendering for and operating a range of Quality Contracts for Secured Bus Services. Compared with the larger Operators the QCS does not represent as significant a change for small Operators from the environment in which they already operate. It follows that whilst it is possible that a new entrant to the market might misjudge the pricing of a tender and win a Quality Contract at a level which proves to be loss making,

this is not a risk that arises exclusively from the QCS, as new entrants are already free to enter the existing market for similar contracts.

- (e) Nexus therefore considers that operational losses under Quality Contracts are unlikely, and would in any event be of a very limited scale. Again, if small Operators misjudge the cost of their tenders then any operating losses would have been caused by that misjudgement rather than by the QCS. In any event Nexus believes, as a result of its analysis above, that the likelihood of any of the small Operators actually being forced to operate at a loss in terms of the QCS is so remote as to justify its not being given any weight. Nexus has not therefore sought to quantify any adverse effects from operating losses.

#### 6.3.5 Additional costs of higher specification requirements

- (a) Feedback received during Consultation highlighted concerns that Operators would have to bear the costs of meeting new vehicle quality standards should they win a Quality Contract.
- (b) It is acknowledged that the minimum standards required following introduction of the QCS will, depending on their respective current performance standards, place additional obligations on Operators. However, Nexus does not expect that such minimum standards will have a different impact on tenders compared to the current position, save that to the extent that minimum standards are higher this may have an adverse effect on Operators who cannot meet those standards with their current national fleet of vehicles.
- (c) Nexus is conscious that in the current deregulated environment there is already a discrepancy between best and less good practice in terms of vehicle quality standards and other related quality standards across the region. As an example, the Commercial Service 21 operated by Go North East between Newcastle and Durham is

operated using a fleet of new high specification Euro V compliant hybrid double deck vehicles which are fitted enhanced customer facilities such as with free customer Wi-Fi, audio-visual 'next-stop' announcements, internal CCTV display screens and high backed coach style seats with leather headrests. In contrast, the Commercial Services 8 and 78 (The Lime) operated by Go North East between Sunderland and destinations in County Durham are currently operated using a fleet of Euro II single deck vehicles, some of which have been in operational use for in excess of 16 years and which are fitted with a standard internal specification with no enhanced customer facilities (other than internal CCTV screens). Nexus understands that these buses are due for replacement shortly.

- (d) Often in the deregulated environment it is those routes which are the most profitable that typically receive the most investment and therefore offer the highest standards to passengers. Buses on the less profitable routes are typically upgraded only when cascades become available following investment in the more profitable services. One of the benefits of a QCS will be to break this link and to ensure an improved set of minimum standards and quality of service across the network.
- (e) The extended term of the individual contracts is intended to provide a sufficiently secure environment to enable Operators to invest, if necessary, in vehicles of the appropriate standard, and will reduce residual value risks for smaller Operators who win contracts, compared to the current shorter Secured Bus Service contracts, by allowing them to assume a minimum contract term of seven years, when tendering. The experience of Nexus from tendering Secured Bus Service contracts supports the theory that smaller Operators will be prepared to invest in new higher specification vehicles when the term of a contract is increased, with several examples of new

vehicles being purchased for Secured Bus Services with a contract of 5 years in duration.

- (f) Nexus' view therefore is that to the cost of increased standards on Operators will be mitigated by the proposed seven-year minimum Quality Contract term, because this gives Operators significant certainty in respect of their future revenue streams. They will therefore be able to build in to their tenders any additional investment costs and to recoup the cost over the term of their contract(s). The length of the contract term also provides certainty from which decisions to redeploy to Tyne and Wear vehicles that meet the standards requirements from their national fleets can be made.
- (g) In Statutory Consultation feedback, Operators highlighted the following additional concerns:
  - (i) the requirement to have all vehicles meeting Euro V engine emission standards would in practice require Operators to purchase new Euro VI compliant vehicles. This would require additional capital costs to be incurred which would make the QCS Proposal unaffordable;
  - (ii) the specified maximum age of vehicles (no greater than 12 years throughout the initial 7 year term of each contract) failed to take into account the full depreciation/life cycle of each vehicle;
  - (iii) the fixed standards that would apply throughout each contract term would not permit the gradual phased introduction of new vehicles with new and emerging technologies to be adopted;

- (iv) that it would be difficult for Operators to mobilise an operationally compliant fleet in an affordable manner within the prescribed timescales; and
  - (v) the QCS Proposal did not facilitate the delivery of LCEBs.
- (h) Nexus saw force in some of those comments. Nexus is mindful of ensuring that new entrants to the market, together with existing Operators in Tyne and Wear, can assemble compliant vehicles in a manner which is affordable and achievable. Consequently Nexus recommends to the NECA amendments to the fleet requirements in the QCS, to provide all Operators with enhanced flexibility to assemble a fleet able to operate the Quality Contracts in accordance with the required standards and which can be delivered in an affordable manner.
- (i) The proposed relaxations in fleet standards will still ensure a global standard of vehicles in Tyne and Wear greater than is currently seen, while providing Operators with the opportunity to manage their fleets more affordably and efficiently during the early and later years of the QCS. This will allow Operators to bid for Quality Contracts more economically, minimising adverse impacts on successful incumbent bidders.
- (j) Furthermore, Nexus will make provisions within the Quality Contracts such that future technologies and innovations can be introduced to the QCS fleet where they are seen as giving passenger benefits and are affordable. In this regard, the situation with the QCS will not differ materially from the current operating environment.
- (k) Nexus considers that the additional cost of delivering those increased standards is likely to be passed on to Nexus through tender prices, but Nexus acknowledges that there is a risk of such

Operators having non-conforming vehicles that may become stranded assets. These are dealt with separately below. Nexus therefore does not consider that this issue gives rise to an adverse impact of the QCS, Nexus has therefore not sought to quantify it. In any event Nexus would attach no weight to additional costs to Operators flowing from increased standards in its proportionality assessment.

#### 6.3.6 Stranded Assets

- (a) In Consultation feedback the incumbent large Operators argued they would suffer adverse effects arising from the forced sale of “stranded assets” such as vehicles and depots. Forced sale can arise through a failure to win sufficient contracts to utilise the Operator’s existing fleet or depot or where existing vehicles do not comply with contract specifications.
- (b) It is accepted that such possible adverse impacts may arise, although the likelihood of all vehicles and depots being stranded is subject to the bidding strategies and the ability of Operators to dispose of any assets which are not required for delivery of services either within or outside the QCS.
- (c) Consequently, while Nexus fully accepts the possibility of stranded assets arising from a QCS, Nexus does not accept that the forced sale value for all such assets should be adopted for the purposes of the calculation of the likely adverse effect.

#### Large Operators

- (d) The revised procurement approach should ensure that the large incumbent Operators will not be disadvantaged in terms of opportunities to retain some of their existing business. As explained above, the proposal to split the Round 1 procurement of 11 Lots into

three tranches will provide Operators who are unsuccessful in early Lots with an opportunity to bid for later Lots using assets that may otherwise not have been utilised, thus reducing the risk of leaving operators with stranded assets. The more business the incumbent Operators retain, then subject to their buses meeting the QCS standards requirements, the fewer buses each Operator would have to transfer to other parts of their groups to mitigate their potential losses making it easier to absorb them.

- (e) Operators could, for example, sell or lease depots as a going concern (especially under the reconfigured procurement structure) or use them as an operating base for another Quality Contract in Tyne and Wear they may have secured.

(f) [REDACTED].

It is the view of Nexus that mid-life vehicles could realistically be cascaded within the national group resulting in fully depreciated assets elsewhere being disposed of instead of buses with a higher book value. [REDACTED].

(g) [REDACTED].

Nexus accepts that Operators can only mitigate the adverse effects of the QCS to the extent that it would be both lawful and commercially rational to do so, but concludes that nonetheless a significant element of mitigation is likely to be possible. [REDACTED].

- (h) In reality, each of the major Operators in the region [REDACTED] has national businesses which means that they should, in practice, be able to mitigate their position by re-allocating resources within their group or cascading vehicles to other areas or the permanent or temporary disposal or letting of depots - the viability of which has been materially enhanced by the adoption of the depot based contract lot structure. Nexus considers it reasonable to assume that most large Operators will balance the possible re-allocation of resource to other areas against the profitability of bidding for one or more tenders when pricing their bids for Quality Contracts.
- (i) Such a process of reaction and readjustment has been commonplace in the deregulated market as Operators pursue their commercial goals to maximise profits and release value within their assets. In some cases this has seen wholesale disposal of parts of their

businesses deemed to be under performing, recent examples including Arriva (disposal of its whole Scottish business unit and its Aberystwyth depot including outstations at New Quay, Lampeter and Dolgellau), and Go Ahead Group (Go West Midlands), whilst Stagecoach has recently announced the closure of its depot in Brynmawr and has previously disposed of its Darlington operations to Arriva. Go North East and Arriva were also recently involved in the rationalisation of routes and depots in Northumberland.

- (j) At a smaller scale, over the past 20 years major Operators have closed and rationalised numerous depot facilities to improve efficiency, e.g. Sunderland, Philadelphia and South Shields (Go North East), and Whitley Bay (Arriva). Go North East has recently combined the work of a number of depots into a single operation at Gateshead Riverside Depot. This demonstrates that Operators have the ability to adapt to changing circumstances in respect of their assets.

- (k) 

Nexus would note that there are a number of mitigating factors which should also be taken into account as discussed above, including:

- (i) Retro-fitting buses to meet the full Euro V engine emission standard. It is accepted this will have cost implications and will be a commercial decision for Operators when assembling a QCS fleet;
  - (ii) The natural improvement in fleet profile prior to implementation of the QCS. Natural investment in compliant vehicles in place of older vehicles will reduce the impact on incumbent Operators of higher QCS standards;
  - (iii) The redeployment of non-compliant vehicles on services excluded from the QCS; and
  - (iv) Cascading non-compliant mid-life vehicles to other fleets elsewhere in the UK resulting in fully depreciated assets elsewhere being replaced and disposed of instead, thereby reducing any losses flowing from the early disposal of vehicles consequent on the introduction of the QCS.
- (l) Operators with significant exposure to mainland European contracts, such as Arriva, have experience of dealing with bus service contract transition. Furthermore the parent groups of the three large Operators in Tyne and Wear all have experience of bidding for and operating bus service contracts in London and in bidding and operating rail services. It follows that they are resourced and capable of managing the bidding process, transitioning to operate routes where they win, and exiting markets where they lose.
- (m) Consequently, while Nexus accepts that the introduction of the QCS may leave Operators with stranded assets, it considers that the scale of that adverse impact has been overstated by Operators. As is outlined above, there are a number of steps Operators would be expected to take if they were to be left with surplus assets which would be expected to reduce their losses.

## Small Operators

- (n) Small Operators did not provide feedback on this matter. However the risk of vehicle and depots assets becoming 'stranded' is already a consideration for these operators when bidding for contract work for Secured Bus Services.

## Assessment of stranded assets

### *Losses from vehicle disposal*

- (o) Should existing operations be retained by incumbent Operators then there may be minimal adverse effects with regard to stranded vehicles. Stagecoach has estimated this [REDACTED].

Neither Arriva nor the smaller operators provided a figure for minimum detriment or any information to allow Nexus to make an assessment.

- (p) Should all incumbent Operators exit the market there is potentially a detriment resulting from the write-down of existing vehicles. [REDACTED].

Stagecoach has estimated this at [REDACTED], although Nexus is aware based on its published company accounts, that Busways Travel Services Ltd, does not currently own any bus vehicle assets but instead leases them from Stagecoach Group PLC, and therefore any loss would be incurred by Stagecoach Group PLC (or the relevant subsidiary company that own the vehicles). Arriva has not provided a figure although they have recognised the possibility of an adverse effect. Nexus has not attempted to estimate the adverse effect to take account of Arriva's fleet due to the subjectivity of such data and lack of information surrounding the book value of assets.

- (q) Should existing operations be retained by incumbent Operators then there should be minimal adverse effects with regard to stranded vehicles.

*Losses from Depot Disposal*

Large Operators

- (r) Incumbent Operators are considered unlikely to face any write-down costs of their depots which could be attributed to the QCS if they retain their existing business. However, as stated above, Nexus considers it possible that existing Operators will lose some of their existing business and as the Quality Contracts have been structured to reflect the route networks from individual depots it follows that those depots that relate to contracts lost by incumbent Operators may become redundant in terms of that Operator's own business. Nexus assumes that whilst it is unlikely that all depots will become redundant it is possible that some might do so.
- (s) Stagecoach has estimated that in terms of its four depots a maximum adverse effect of [REDACTED].

Nexus assumes that this figure relates to a total loss of all depots which is unlikely. Further, in putting forward these estimates [REDACTED] has indicated what they would or would not do in terms of selling or leasing any of these depots depending on whether they lost or retained certain business or what other steps might be taken to mitigate any potential loss. As a result, the basis on which these figures have been estimated is unclear to Nexus. Arriva has not included an adverse effect valuation for its depot. Nexus has not attempted to estimate the adverse effect to take account of Arriva's depot due to the subjectivity and lack of information surrounding the book value of assets or what Arriva would propose to do if it lost its

routes. The NECA should therefore bear this factor in mind when assessing the potential effect of this adverse impact.

- (t) It follows that whilst Nexus recommends to the NECA that it should assume that it is possible that a proportion of the existing Operators' depots will become redundant following the procurement process for QCS contracts, Nexus considers that it is unlikely that the loss suffered by individual Operators in respect of such depots will actually equate to the estimates provided by GNE and Stagecoach. As a result whilst Nexus has included these estimates in its 'maximum adverse effects table' below, it recommends that the NECA attach little weight to that figure. A precise prediction of the level of impact is not possible. However, Nexus considers that the losses should be judged at a materially lower figure, for the reasons given above.
- (u) Should all existing operations be retained by incumbent Operators then there should be no adverse effects with regard to loss on disposal of depots.

#### Small Operators

- (v) Nexus considers that the QCS does not introduce additional depot impacts on small Operators, compared with the Do Minimum Scenario. However the risk of vehicle and depots assets becoming 'stranded' is already a consideration for these Operators when bidding for contract work for Secured Bus Services.

#### *Losses from equipment disposal*

- (w) Feedback from only one Operator, Stagecoach, suggests that losses on disposal of  of equipment could materialise from winning no contracts under a QCS. Nexus has not attempted to estimate a figure for the adverse effect to take account of GNE and Arriva's

equipment. This is because there are numerous possibilities for utilising equipment elsewhere or disposing of equipment, avoiding or mitigating any adverse effect. The NECA should therefore bear this in mind when assessing the potential effect of this adverse impact.

- (x) Small Operators did not provide any information on losses from equipment disposal.
- (y) Incumbent Operators are unlikely to face any material write-down costs of equipment if they retain their existing business, as it can be used for the Quality Contracts.
- (z) Nexus does not accept for the reasons analysed above that all depots are likely to be lost by incumbent Operators or that plant and moveable equipment could not be re-deployed at any retained depots or leased or sold to any operator taking over a redundant depot or even cascaded to other depots within the Operators' national businesses.
- (aa) Should all existing operations be retained by the incumbent Operators then there would be no adverse effects with regard to loss from equipment disposal.

#### 6.3.7 Cross-boundary operations

- (a) Concerns were raised by Operators during Consultation in respect of the treatment of cross boundary services in relation to the QCS. Operators considered that the incorporation of cross boundary services, in general, in the QCS would have had a major adverse impact on Operators. The concerns included:
  - (i) Nexus' cross boundary services proposals would have resulted in Nexus' fare regime and vehicles standards applying to

sections of the bus network which are entirely outside of Tyne and Wear, which would affect Operators disproportionately;

- (ii) Category B excluded services, due to the conditions that will be placed upon them in the QCS, will experience many of the adverse effects of the introduction of a QCS in terms of expenses and loss of commercial flexibility;
  - (iii) Where the same vehicles and drivers are used to provide services that are in scope for the QCS as well as services that are out of scope, the introduction of the QCS, with its potential for contracts to be awarded to a different Operator to the current Operator of the services, may lead to the out-of scope service becoming uneconomic to provide in its own right, leading to potential adverse effects on Operators in terms of lost profits, redundancy costs, and stranded assets;
  - (iv) Cross boundary routes could be lost due to failed Quality Contract bids and the loss of cross boundary routes could lead to the loss of an Operator's wider business in certain areas and the closure of depots that are currently used to provide both cross-boundary services and services that are wholly out of scope for the QCS.
- (b) Nexus carefully considered the alternative options of excluding all cross-boundary services from the QCS Network, terminating cross-boundary services at the cross-boundary points, and not applying any conditions to Category B excluded services. However, Nexus has concluded that overall these options would not be in the best interests of passengers in either Tyne and Wear or in adjacent areas, for the following reasons:
- (i) If the cross-boundary services were terminated at the boundary point it would lead to the loss of direct cross-

boundary links that are important for the well-being of people living and working in the areas affected, and also create a risk that the section of route wholly outside the QCS Area may not be commercially viable to run without the contribution of the Tyne and Wear element. This would potentially mean that the Local Transport Policies of Tyne and Wear and adjacent areas would be undermined; and

- (ii) A large number of Tyne and Wear residents and communities are served predominantly or even exclusively by bus services that are cross-boundary services, and if those services were excluded from the scope of the QCS then those residents and communities would not enjoy the benefits afforded to other bus users in Tyne and Wear by the QCS, thereby failing to deliver the Bus Strategy in a uniform and consistent manner.

#### Effect of QCS fare regime and service standards outside the QCS Area

- (c) Nexus has considered the potential effects of the introduction of the QCS fare regime and service standards outside the QCS Area, on existing Operators at the individual level.
- (d) As set out in Section 1.5.3, the QCS will provide a set of fares and service standards, reinforced by a single Customer Charter, that apply to all services in the QCS Network. The QCS Network comprises of services that operate both wholly within Tyne and Wear, and services that operate across boundaries to adjacent areas ('Cross-boundary services'). When QCS Cross-boundary services are operating outside the QCS Area, they will not be operating under the QCS provision in the Transport Act 2000 ; instead they will be operating as Secured Bus Services using powers afforded to the NECA by the Transport Act 1985. Nevertheless, the QCS fares and standards will be applied throughout the route.

- (e) Outside the QCS Area, there will be no restrictions on Operators' ability to provide services on a commercial basis (as is the case today), however the introduction of QCS Cross-boundary services will mean that in some areas such commercial services may find themselves in competition with a QCS Cross-boundary service. Because the NECA will not be co-ordinating fares and service standards outside the QCS Area, there is clearly the potential for the fares and service standards to be greatly different between a QCS Cross-boundary service and a non-QCS service.
- (f) In Consultation feedback, Operators have identified examples where the fares charged on a QCS service would be significantly lower than existing commercial fares, and the potential for QCS service standards to be higher than non-QCS service standards.
- (g) Lower fares or higher service standards may give rise to customers choosing to use the QCS service in preference to the non-QCS service, leading to the potential for reduced profitability for the non-QCS service. This in turn may lead to either: the non-QCS service being compelled to change their fares or service standards to better compete with those offered on QCS cross-boundary services, leading to reduced profitability; or the Operator of the non-QCS service reducing its level of service provision, or curtailing the non-QCS service in its entirety, giving rise to potential losses arising from lost profits, redundancy costs and stranded assets (see below).

*Arriva and Go North East*

- (h) Arriva's existing bus network includes a large number of services in the North East that will not be in scope for the QCS Network. Some of those services will be potentially affected by the introduction of QCS Cross-boundary services in the manner described above. In particular services on the corridors between: Seaton Sluice and

Blyth; Corbridge and Hexham; Chester-le-Street and Durham; Sunderland, Peterlee and Hartlepool.

- (i) GNE's existing bus network includes a large number of services in the North East that will not be in scope for the QCS Network. Some of those services will be potentially affected by the introduction of QCS Cross-boundary services in the manner described above. In particular services on the corridors between: Corbridge and Hexham; Stanley, Consett and Chester le Street; Chester-le-Street and Durham.
- (j) In considering existing fares and service standards on the corridors referred to above, Nexus accepts that there are significant differences between existing fares and those proposed under the QCS (in most cases QCS fares are lower), as well as some differences in service standards (both where QCS standards will be better than existing, and where existing standards match or exceed those proposed under the QCS). Nexus therefore considers that the likelihood of this adverse effect arising in respect of each of Arriva and Go North East is high.
- (k) Nexus considers that it will affect a relatively small proportion of the overall operations of each of Arriva and Go North East – bearing in mind that the affect is on non-QCS routes that operate in parallel to QCS Cross-boundary services when they are operating *outside* Tyne and Wear (note: the effect of the QCS on the operation of Category B excluded services is considered separately below). Nexus therefore considers that the scale of this adverse effect in respect of each of Arriva and Go North East is low.

#### *Stagecoach*

- (l) Stagecoach's existing Tyne & Wear bus network does not include any services in the North East that will not be in scope for the QCS

Network. Therefore Nexus considers that Stagecoach will not be affected by this adverse effect.

#### *Smaller Operators*

- (m) Nexus is not aware of any services that are currently provided on a commercial basis by smaller Operators that would be affected by this adverse effect.

#### Effect of the introduction of certain conditions on Category B Excluded Services

- (n) Nexus has considered the potential effects of the introduction of conditions upon Category B Excluded Services, such that when operating inside the QCS Area they must comply with those conditions, on existing Operators.
- (o) As set out in Section 1.5.2, the QCS allows for a number of existing commercial cross-boundary services to be excluded from the QCS Network, known as 'Category B exclusions'. In order for them to be considered as excluded services the QCS requires that certain conditions are met by Operators of these services, in respect of the service when operating within the QCS Area. These conditions limit the ability of the Operator to change the route without prior permission from the NECA, require that low-floor vehicles be provided, and require that the Operator accepts multi-trip QCS tickets for travel within Tyne and Wear for which Nexus will provide a payment based upon a share of the revenues earned from the sale of such tickets.
- (p) In consultation feedback, Operators asserted that the introduction of these conditions will place restrictions upon their ability to operate efficiently and effectively, and will therefore experience many of the same adverse effects in terms of expenses and loss of commercial

flexibility as for those services that will be in scope for the QCS, despite these services not being part of the QCS Network.

- (q) Nexus makes the following observations regarding the application of Category B Exclusions:
- (i) Operators will be able to flex their routes and timetables outside the QCS, provided that the portion of the route and timetable within the QCS Area is unchanged. Where an Operator wishes to vary the portion of the route and timetable within the QCS Area, they may do so provided that the NECA considers that the change will not be detrimental to any QCS Services.
  - (ii) The PSVAR requires that all public service vehicles provide low floor access by 1<sup>st</sup> January 2017, prior to introduction of the QCS. Nexus considers therefore that there is no adverse effect attributable to this issue.
  - (iii) Operators of Category B Excluded Services will be permitted to determine their own ticket prices (single and multi-trip) as today, and there is no requirement to accept QCS multi-trip tickets for travel outside the QCS Area.
- (r) Nonetheless, Nexus accepts that in certain cases the introduction of conditions upon Category B Excluded Services when operating inside the QCS Area will have a potential adverse effect on some Operators. This will arise from:
- (i) The limitation on such Operators' ability to flex routes and timetables leading to some increased costs and lost revenue. This adverse effect cannot be quantified as it depends entirely upon future commercial strategies of Operators; and

- (ii) The requirement to accept QCS multi-trip tickets leading to the potential for revenues earned from such passengers to be less than would otherwise have been earned. This adverse effect could in theory be quantified, however Nexus does not have access to the relevant route-level commercial data that would be required, despite having requested it from Operators.

*Arriva and Go North East*

- (s) Arriva's existing bus network currently includes 20 services in the North East that will be Category B Excluded Services and GNE's network includes 9 such services. Most of these services carry some passengers who travel wholly within the QCS Area. Nexus therefore considers that the likelihood of adverse effects arising in respect of Arriva or Go North East, related to both the limitation on future timetable and route changes and the requirement to accept QCS multi-trip tickets, is high.
- (t) As stated above it is not possible to speculate on the future commercial strategies of Operators that may lead to them wishing to change timetables and routes. However this restriction applies only to the Tyne and Wear portion of each of the 29 routes, and in any event a procedure will exist for reasonable changes to be considered provided that they do not have a detriment on QCS services. Nexus therefore considers that the scale of this adverse effect in respect of Arriva or Go North East are low.
- (u) Whilst as stated above it has not been possible to quantify the proportion of Arriva or Go North East's revenues that would be affected by the issue arising from multi-trip tickets, Nexus considers that it will affect a relatively small proportion of the overall Arriva and Go North East operations. The effect is on revenues earned from those passengers travelling wholly within Tyne and Wear on

the Arriva and Go North East services that will be Category B Excluded Services. It is not possible to quantify whether the revenues earned from such passengers will in practice be lower or higher under the QCS than currently, however Nexus acknowledges that there is a risk that it may be lower. However, as noted above, in any event the affected passenger numbers are such a small proportion of overall patronage levels on these Category B Excluded Services that Nexus therefore considers that the scale of this adverse effect in respect of Arriva and Go North East is likely to be low.

*Stagecoach and Smaller Operators*

- (v) There are no services currently operated by Stagecoach in Tyne and Wear or by smaller Operators that would be Category B Excluded Services. Therefore Nexus considers that Stagecoach and smaller Operators will not be affected by any adverse effects under this heading.

Effect of QCS on out of scope services reliant upon sharing drivers and vehicles with services that are in scope

- (w) Nexus accepts that some routes that are 'in scope' for the QCS are currently operated using the same vehicles and drivers as other routes which are 'out of scope' for the QCS (whether as a Category B excluded service, services wholly outwith the QCS Area, or as those services provided under contract to third parties that are 'out of scope'). There is a risk that where an operator of such 'out of scope' routes fails to win the relevant Quality Contract covering the 'in scope' services, this could impact on the ability of those Operators to operate the linked 'out of scope' routes. This has the potential to lead to Operators not being able to use their driver and vehicle resources as efficiently as currently, leading to the adverse effect of increased cost.

- (x) Nexus is aware of several routes where resources are shared between services that will be 'in scope' for the QCS and services that will not. Therefore the likelihood of this adverse effect arising is high.
- (y) Whilst acknowledging that this adverse effect may occur, in general Nexus considers that Operators continually strive to optimise the efficiency of their operations in terms of vehicle and driver resource utilisation. Therefore, operators can be expected to seek to reduce the impact of this adverse effect where possible, by re-rostering drivers and rescheduling vehicles to their remaining route network. Operators may also seek to expand their operations outside the QCS Area to utilise surplus resources. Consequently Nexus considers that the scale of this adverse effect is low. The ability of Operators to change their operations in this way means that it is difficult for Nexus to obtain reliable information on which to make predictions for the duration of the QCS.
- (z) In addition the NECA, when adopting the QCS, will also establish a Cross Boundary Bus Collaboration Protocol covering services in Northumberland and Durham. The effect of this Protocol will be that, where services are 'out of scope' and are amended or withdrawn as a consequence of QCS procurement, funding may be provided to ensure that the shortfall in accessibility is made good. Where this occurs, a further opportunity for Operators to mitigate this adverse effect by bidding for the services that would be procured as a result.
- (aa) However, based on its working knowledge of current bus operations Nexus considers that this issue may affect Stagecoach less than other large Operators because it does not currently operate any 'out of scope' services using shared vehicles or drivers on a commercial basis, as far as Nexus is aware. Apart from this general statement

Nexus is not able to reliably assess impacts on individual Operators for reasons already given.

Effect of QCS on depots that provide both 'in scope' and 'out of scope' services

- (bb) Criterion (e) applies in respect of existing Operators who are working in the area of the proposed Scheme. Each of the existing Operators uses depots to provide local bus services, where cleaning, fuelling, vehicle maintenance, driver facilities, and administration and other relevant functions are carried out.
- (cc) The structure of the current Operators' business is not confined to the Tyne and Wear Area. Go North East and Arriva both provide extensive bus networks in Northumberland, Durham and other parts of the North East in addition to operating an extensive network in Tyne and Wear.
- (dd) The question of which depot is used to support which service is a matter for each Operator to decide, based on a range of operational, commercial and practical considerations. As a result, the services provided from each depot are not geographically constrained, although they may share certain geographic features (e.g. they may all pass close by the depot itself to reduce 'dead' mileage when positioning a bus between the depot and the route termini).
- (ee) The consequence of the above is that the depots that currently provide services that are 'in scope' for the QCS, also all provide 'out of scope' services to varying degrees.
- (ff) The outcome of the intended procurement process for Quality Contracts is at this point unknown in terms of which operators may be successful. If a Quality Contract is won by an Operator who is not the current operator of the relevant routes, this gives rise to the

possibility that the 'in scope' routes may be operated from a different depot to the one from which they are currently provided.

- (gg) Where this does happen, depending on the degree to which the existing depot's activities were connected to the support of the 'in scope' services, there is the potential for the facility to be larger than required to support the remaining 'out of scope' routes. The consequence of this would be that operators' fixed costs remain the same, but spread over fewer services and therefore costing proportionately more per vehicle. This may lead to financial loss to Operators.
- (hh) Whilst acknowledging that this adverse effect may occur, in general Nexus considers that Operators continually strive to optimise the efficiency of their operations in terms of depot utilisation. Therefore to an extent, operators may be able to reduce the impact of this adverse effect by leasing all or part of affected depots to new Operators, reallocating services from elsewhere to make best use of available resources, or expanding their 'out of scope' operations at that depot.
- (ii) In addition Nexus is recommending that the NECA, if it makes the QCS, should also establish a Cross-Boundary Bus Collaboration Protocol covering services in Northumberland and Durham. The effect of this Protocol will be that, where services are 'out of scope' and are amended or withdrawn as a consequence of QCS procurement, funding may be provided to ensure that the shortfall in accessibility is made good. Where this occurs, a further opportunity for Operators to mitigate this adverse effect by bidding for the services that would be procured as a result.
- (jj) It may be a consequence in certain cases that an Operator chooses to close the affected depot and dispose of it. In so far as it may

occur, it has been considered under the section above dealing with stranded assets.

- (kk) Operators raised potential redundancy of employees working primarily on cross-boundary services at affected depots as a risk, and thus potential redundancy costs as an adverse effect. Redundancy costs as an adverse effect is discussed below.

*Go North East*

(ll) [REDACTED].

(mm) [REDACTED].

(nn) Nexus considers that it is unlikely that GNE will retain all of its existing business by nature of the fact that its business is spread across a number of Lots in the procurement process. It follows therefore that GNE is likely to lose the ability to operate 'in scope' services from at least one of its depots. The likelihood of this adverse effect arising when taking account of all depots together is therefore considered to be high. However, because of the uncertainty regarding the outcome of the procurement process, Nexus cannot assess the likelihood at individual depot level.

(oo) [REDACTED].

(pp) [REDACTED].

(qq) In summary, although Nexus considers the likelihood of this adverse effect arising in respect of GNE to be high, other than as discussed above, it is not able to assess the likelihood at depot level, and consequently nor can it reliably assess the scale.

*Arriva*

(rr) [REDACTED].

(ss) Nexus considers that Arriva has an incumbency advantage when bidding for the Quality Contract covering routes currently operated from Jesmond depot. However it is not possible to speculate over the likely outcome of the bidding process. Therefore Nexus cannot assess the likelihood of this adverse effect arising in respect of Arriva.

(tt) [REDACTED].

(uu) In summary, other than as considered above, Nexus is not able to reliably assess the scale or the likelihood of this adverse effect arising in respect of Arriva.

### *Stagecoach*

- (vv) Stagecoach currently operates the following depots in Tyne and Wear: Slatyford, Walkergate, South Shields, and Wheatsheaf. All of these depots provide services that are 'in scope' for the QCS, and also operate a small number of 'out of scope' services.
- (ww) Nexus considers that it is unlikely that Stagecoach will retain all of its existing business by nature of the fact that its business is spread across a number of Lots in the procurement process. It follows therefore that Stagecoach is likely to lose the ability to operate 'in scope' services from at least one of its depots. The likelihood of this adverse effect arising when taking account of all depots together is therefore considered to be high. However because of the uncertainty regarding the outcome of the procurement process, Nexus cannot assess the likelihood at individual depot level.
- (xx) The scale of this adverse effect, should it arise, is likely to be relatively high due to the fact that only a small number of 'out of scope' services are operated from Stagecoach depots which would be likely to make continued operation depot uneconomic. There are possible mitigations that Stagecoach could take in respect of its depots as set out above, but it is acknowledged that these may not be fully successful. It may be likely in this case therefore that Stagecoach chooses to close and dispose of its depots, with the result that the adverse effect should be considered as a stranded asset rather than a cross-boundary financial loss.
- (yy) In summary, although Nexus considers the likelihood of this adverse effect arising in respect of Stagecoach to be high, it is not able to assess the likelihood at depot level, and consequently nor can it reliably assess the scale.

### *Smaller Operators*

(zz) Smaller Operators did not provide feedback and therefore Nexus can only base any assessment of this adverse impact upon them on its current knowledge of the local market.

(aaa) Smaller Operators vary greatly in their size and scale, and in particular in the proportion of their business that comes from 'in scope' services as opposed to 'out of scope' services and other activities, including coach hire, taxi operation and community transport provision. It is the case however that any 'in scope' services that are provided by small Operators (with a single exception, which is a commercial service that would be 'in scope' in any event) are already operated under contract to Nexus. Therefore there would be no change to the current position when contracts are re-let.

(bbb) Whilst the introduction of the QCS would bring forward some contract re-lets, this would not increase the likelihood of the adverse impact occurring. Nexus does however accept that Round 2 Quality Contracts (which cover the routes that are currently provided as Secured Bus Services) would be part of a wider procurement process for Quality Contracts that may attract widespread interest from the bus market, including Operators that are not currently present in the market, and that this may increase the likelihood of the adverse effect occurring. This may lead to stranded depot assets as above. The scale of the adverse effect however, would be no different to the current situation where an Operator may be unsuccessful in bidding to retain its existing contract.

### Conclusion on Cross-boundary impacts

(ccc) In this section Nexus has considered potential adverse impacts relating to Cross-Boundary Services. Nexus' assessment has shown

that whilst there may be some adverse impacts the scale of those impacts is overall likely to be low.

#### 6.3.8 Wasted bid costs

- (a) Nexus expects the costs associated with bids will be priced into tenders and amortised over the contract term. In circumstances where incumbent Operators bid for a Quality Contract covering their existing business and are unsuccessful it is acknowledged that those Operators will incur wasted costs. The level of such wasted costs depends on the extent to which those Operators are unsuccessful in these bids.
- (b) Nexus considers that the impacts lie between:
  - (i) Minimum - all Operators win back their existing business and there are no wasted bid costs;
  - (ii) Maximum – no Operators win back any of their existing business and there are 11 wasted bid costs for Round 1;
- (c) Nexus has received two estimates of bidding costs, Stagecoach estimated bid costs of [redacted] and GNE estimate [redacted] that were then proposed. As detailed in Section 1.5.4 the Round 1 contracts are now smaller than the contracts that were described in the QCS Proposal, and upon which those estimates were based. As a result of Supplemental Consultation, GNE re-stated its original estimate of [redacted]. Taking all of this feedback into account Nexus considers that an average cost of [redacted] per bid is most likely, and has therefore used this figure to calculate this adverse effect.

- (d) Nexus considers that Round 2 contracts are similar to the contracts currently let as Secured Bus Services which are subject to regular re tender and that this round of procurement will not lead to any incremental costs attributable to the making of a QCS that could be characterised as an adverse impact.
- (e) In conclusion, Nexus acknowledges that there is a possibility of wasted bid costs in respect of large Operators who bid for, and do not win, Quality Contracts covering their existing business. Therefore Nexus has included this in its assessment of adverse impacts.

#### 6.3.9 TUPE Issues and redundancy costs

##### Introduction

- (a) Employees of existing Operators may have to transfer to a new Operator due to the coming into force of a QCS. The transfer would be governed by TUPE and the QCS TUPE Regulations. The employees who could be affected are described in the QCS TUPE Regulations as Relevant Employees. Relevant Employees are employees whose employment is 'principally connected' with the provision of Affected Local Services (as defined in the QCS TUPE Regulations). These are employees who spend, on average, at least half of their working time assigned to the provision of Affected Local Services, or assigned to activities connected wholly or mainly to the provision of Affected Local Services which, on the coming into force of a Quality Contract, an Operator would be required to cease providing.
- (b) Relevant Employees are those who will transfer under TUPE to the Operator of a Quality Contract on the QCS Commencement Date. If an incumbent Operator wins contracts which align with the Services operated from its existing depot(s) then there will be no transfer of Relevant Employees as they will continue to work for their current

employer. If an incumbent Operator does not win such contract(s) then the Relevant Employees based at the incumbent Operator's depot(s) would transfer to the successful Operator of those Quality Contracts.

- (c) The large Operators and some small Operators provided Nexus with Workforce Information in September 2013 in response to a request under Regulation 5(2) of the QCS TUPE Regulations, requiring Operators to provide information about Relevant Employees. The information requested by Nexus included the following:
- (i) Information about the identity of appropriate representatives of potential Relevant Employees;
  - (ii) Particulars of employment under section 1 Employment Rights Act 1996 ("ERA");
  - (iii) Information about collective agreements in respect of potential Relevant Employees;
  - (iv) Information describing the Affected Local Services with which a Relevant Employee's employment is principally connected, including the proportion of the employee's working time assigned to those Affected Local Services; and
  - (v) Other information which Nexus considered necessary in order to calculate the likely costs and liabilities of entering into a QCS including information on employee pensions.
- (d) Following the receipt of this information Nexus has been able to carry out further work to assess the scale of the TUPE transfer which could occur and to assess the nature, scale and likelihood of adverse effects on Operators. Nexus has also prepared Allocation

Arrangements in greater detail in on the basis of the information provided and in consultation with Trades Unions and Operators.

#### Operator Feedback

- (e) Operators suggested in Consultation feedback that a QCS could have serious and complex TUPE and employment implications, for both outgoing and incoming Operators. Many of the issues raised by Operators related to practical problems in terms of the transfer of employees. Nexus has limited its analysis to the effects on Operators with existing business in the QCS area.
- (f) The adverse effects raised by Operators in relation to employees highlighted the following concerns:
  - (i) That redundancies would occur due to the implementation of a QCS and there would be a cost to Operators;
  - (ii) That Operators would incur costs in the provision of employee information;
  - (iii) That industrial relations would deteriorate due to transferred and existing employees working together on different terms and conditions;
  - (iv) That the proposed 'No Compulsory Redundancy Protection' would cause Operators to be forced to employ more staff than required to run the services for a period of 2 years; and
  - (v) That there was an increased risk of employment claims against Operators.
- (g) A number of other matters were raised as adverse effects by Operators, but Nexus does not consider them to be adverse effects. These are considered at the end of this section at paragraph (qq).

## Redundancy Costs

- (h) Normally any employer can consider redundancies should its requirements for employees to carry out particular work cease or diminish. Under employment legislation, if an employer proposes to make employees redundant, Statutory Redundancy Pay must be provided for the employee at an amount dependant on age and length of service. The maximum statutory payment is £13,500 but an employer can pay more if it chooses.
- (i) By virtue of the operation of TUPE, should an incumbent Operator fail to win any of the Quality Contracts covering its existing work; it will be protected from the redundancy costs of employees principally connected to those contracts (Relevant Employees). This is because they will transfer automatically to the successful Operator, thus eliminating any potential adverse impact of redundancy costs in relation to those Relevant Employees.
- (j) Nexus has considered whether any redundancies could arise in the QCS amongst those employees are not 'principally connected' to Quality Contracts, and considers there are two groups of employees which could potentially be affected by redundancy if their employer's requirements for their roles ceased or diminished. These groups are:
  - (i) Employees who are not principally connected to any particular Affected Local Services which will form part of a Quality Contract, due to the fact they work in regional, national or Head Office roles; and
  - (ii) Employees not principally connected to Affected Local Services which will form part of a Quality Contract due to the fact that they work predominantly on services that are not included in the QCS Network ('out of scope services').

- (k) Nexus has determined from the Workforce Information supplied by Operators that staff who provide administrative support to QCS services at depot level are Relevant Employees, as are most engineering staff who are also depot based and thus they will be protected by TUPE and the contractual protection of working on a Quality Contract.
- (l) Employees working in Head Office roles, region wide roles or national roles who do not fall within the definition of Relevant Employees will remain in the employment of their current employer and will not transfer under TUPE to any new Operator. They will therefore not figure in the Allocation process. Nexus accepts that there is therefore a possible adverse effect in terms of redundancy costs in respect of those employees, should their employer cease to operate in the area altogether or downsizes its operations. However Nexus considers that any adverse impact is likely to be limited given that existing Operators are well placed to win a proportion of the Quality Contracts, and some have existing commercial work in neighbouring areas. The position in relation to redundancy costs is considered below at an individual Operator level.
- (m) Employees who work predominantly on services that are not included in the QCS Network ('out of scope' services) will also remain in the employment of their current employer and will not transfer under TUPE to any new Operator. The risk of redundancy for those employees is dependent on whether the services they work on continue to operate as they do currently. The likelihood and scale of adverse effects being experienced due to the impact of the QCS on 'out of scope' services is discussed in the section on Cross-Boundary Services above, but the impact of redundancy arising in these situations is dealt with at individual Operator level below.

- (n) In any event, Nexus considers that Operators will always endeavour to limit compulsory redundancies in order to avoid additional costs, unfair dismissal claims by employees, and damage to industrial relations. This may involve:
  - (i) attempting to relocate or redeploy staff;
  - (ii) voluntary redundancy schemes;
  - (iii) early retirement schemes; and
  - (iv) reducing staff surpluses through recruitment freezes and staff turnover.
- (o) The scale and likelihood of adverse effects on Operators arising from costs of redundancy is considered at an individual Operator level below.

#### Provision of Employee Information

- (p) Nexus will, in due course, request from Operators further Workforce Information in order to update the Allocation Arrangements. Further, if the QCS is made, Operators will be required to provide Workforce Information in advance of a TUPE transfer in accordance with Regulation 11 of TUPE. Operators stated that the provision of Workforce Information was an adverse effect in itself due to the cost incurred in provision of that information. Nexus considers that the scale of this impact is insignificant, as the cost of an Operator's staff providing information from its own internal records should be relatively low, especially considering that this information was provided in September 2013 by each large Operator and simply needs to be updated.
- (q) This adverse effect is not considered below for each Operator separately, as Nexus considers that the effect would be similar for

each Operator and the scale of the effect is not considered to be significant.

#### Industrial Relations

- (r) Operators suggested that the transfer of employees under TUPE could lead to problems with a multi-tier workforce, and that any discrepancy in employment terms could lead to union representatives attempting to "bargain up" terms of employment to the best available in the QCS Area, leading to Operators facing difficulties due to an inability to harmonise terms and conditions.
- (s) Nexus accepts that this could affect new operators entering the area and existing Operators winning contracts for business they do not currently provide. However, it is not an adverse impact of the QCS on existing Operators other than as described above. This is because it will only arise if the existing Operator wins new business, and therefore it is not an impact on that Operator's existing business.

(t) [REDACTED].

#### No Compulsory Redundancy Protection

- (u) Nexus recognises that the imposition of a No Compulsory Redundancy clause (NCR) will impact on an Operator's ability to make redundancies within its staff once it is operating a Quality Contract. Nexus considers that the scale of this adverse effect is limited as Operators will be in a position to offer voluntary redundancy schemes if needed and the industry has a high level of staff turnover. In any event it is likely that any existing Operator who

is successful in winning contracts which cover its existing work will require the same or a similar number of employees to operate the services under contract.

- (v) It should be noted that the intention of the Scheme is to increase patronage and therefore services will be retained or increased. Nexus considers that the likelihood of an Operator having surplus staff because of reductions to the QCS Network during the first 2 years of the QCS (the period for which the NCR will apply) is very low.
- (w) The Workforce Information identified that, at some depots, there would be more employees defined as 'principally connected' to QCS services than would, in practice, be required to operate the QCS services in the Contracts relevant to those depots. This arises where 'out of scope' services are operated from a depot where the majority of services are QCS services, and employees therefore spend between 50% and 100% of their working time on QCS services.
- (x) This could result in some contracts being potentially overstaffed compared with their operational requirement. Nexus assumes that Operators will either factor into their bids the additional costs of surplus staffing requirement, namely additional salaries for any potential surplus employees or make operational adjustments to make best use of any additional employees, as well as taking account of natural turnover in the local bus workforce. Nexus acknowledges this adverse effect but attaches little weight to it because of the ability of Operators to minimise it.

#### Employment Claims

- (y) Operator feedback during Consultation suggested that there is an increased risk of employment claims against Operators arising from the introduction of the QCS.

- (z) Nexus accepts in principle that the process of Allocation and TUPE transfer gives rise to a degree of uncertainty among affected employees, which has the potential to lead to an increased number of employment claims. However Nexus also notes the following possible mitigations:
- (i) The application of TUPE will protect the rights of the employees who are transferring between employers;
  - (ii) The QCS TUPE Regulations and Pensions Regulations go beyond standard TUPE , and offer additional protections for transferring employees;
  - (iii) Nexus will appoint a facilitator to manage the process of Allocation and TUPE transfer to address problems as they arise;
  - (iv) Allocation Arrangements have been developed in dialogue with those trades unions representatives and incumbent Operators who have been willing to participate;
  - (v) The introduction of the NCR provides a protection for all transferring staff that reduces the likelihood of claims arising for unfair dismissal;
  - (vi) Nexus intends that Operators will pay a travel allowance to employees who are forced to move depot;
  - (vii) It is in the interests of existing employers to manage the process for transferring employees such that employment claims are minimised; and
  - (viii) In the Do Minimum Scenario, the withdrawal of Secured Bus Services has the potential to lead to numerous redundancies which itself could give rise to claims for unfair dismissal.

- (aa) In considering this adverse effect on existing Operators, it is considered to be unlikely and low scale as any existing Operator who retains its existing work will also retain its existing employees currently assigned to those services. Nexus considers that if any claims were to arise from a QCS these would be more likely to come from employees who had transferred to a new Operator, not those who had remained with their existing Operator and not undergone any transfer. However, Nexus accepts that there may be a possibility of employment claims from employees of existing Operators who do not transfer, if they were subsequently put through a redundancy process.
- (bb) The effect on an Operator who loses all its business in the area is also considered to be low, as all Relevant Employees would transfer to the new Operator and if claims came about as a result of the transfer those claims would be likely to be against the new Operator.

#### Arriva

- (cc) In considering any potential adverse effect on Arriva in terms of redundancy costs, Nexus has considered the two employee groups mentioned above at paragraph (j).
- (dd) Arriva North East has only one depot 'in scope' (Jesmond) and its Head Office staff cover its entire North East operation which is far wider than those routes included within the QCS Network. Nexus therefore considers that these staff will not be substantially affected by the introduction of the QCS.

(ee) [REDACTED].

- (ff) Nexus has attempted to quantify minimum and maximum adverse effects in relation to redundancies. Although Arriva did not provide a figure in its Consultation feedback, Nexus has estimated a maximum potential redundancy cost of [REDACTED].

However as stated above Nexus considers that there is much that Arriva could and would do to mitigate the likelihood of redundancies. Nexus considers that Arriva could also be exposed to further potential redundancies arising from the effects of the QCS on cross-boundary services, please refer to the section covering 'effects of QCS fare regime and service standards outside the QCS Area' above.

#### Go North East

- (gg) In considering any potential adverse effect on GNE in terms of redundancy costs, Nexus has considered the two employee groups mentioned above at paragraph (j).
- (hh) GNE has a number of depots which provide Excluded Services and a Head Office within Tyne and Wear where [REDACTED] employees are based. There is a further [REDACTED] employees who work in region-wide roles who are based in various depots. These employees would not be classed as Relevant Employees and would not be transferred through

the TUPE process to any new Operators of Quality Contracts. Nexus considers the following scenarios may apply:

- (i) GNE wins all Quality Contracts covering its existing work. In this scenario, which Nexus considers to be unlikely, Nexus considers that the risk of redundancies, if any, would be limited to some Head Office and regional functions which may no longer be required due to GNE operating under different market conditions, (under which the LTA is responsible for some Head Office functions which were previously undertaken by the Operator). However, as GNE would be likely to continue to operate a range of 'out of scope' services and may also win other Quality Contracts providing additional work, it is not possible to quantify the scale of redundancies.
- (ii) GNE is successful in winning some of the Quality Contracts covering its existing work. In this scenario, which Nexus considers to be likely, Nexus considers that if there was any risk of redundancies, this would relate to some Head Office and regional functions which may no longer be required. Depending on which Contracts covering the business that it lost, GNE may also cease to operate, or curtail, some 'out of scope' services leading to the possibility of further redundancies being considered. However as it is not possible to speculate on the outcome of the procurement process, Nexus is unable to quantify the scale of redundancies.
- (iii) GNE loses all Quality Contracts covering its existing work. In this scenario, which Nexus considers to be unlikely, Nexus considers that the risk of redundancies may relate to some Head Office and regional functions which would no longer be required. GNE may also cease to operate, or curtail, some 'out of scope' services leading to the possibility of further

redundancies. GNE in its Consultation feedback identified a figure of [redacted] as an adverse effect due to redundancy costs of management staff. The effect on 'out of scope' services cannot be quantified because it depends upon future commercial decisions that would be taken by GNE.

- (ii) Nexus considers that there is much that GNE could and would do to mitigate the likelihood of redundancies, as considered above.
- (jj) In addition Nexus is recommending that the NECA, if it makes the QCS, should also establish a Cross-Boundary Bus Collaboration Protocol covering services in Northumberland and Durham. The effect of this Protocol will be that, where services are 'out of scope' and are amended or withdrawn as a consequence of QCS procurement, funding may be provided to ensure that the shortfall in accessibility is made good. Where this occurs, there would be a further opportunity for Operators to mitigate this adverse effect by bidding for the services that would be procured as a result.

#### Stagecoach

- (kk) In considering any potential adverse effect on Stagecoach in terms of redundancy costs Nexus has considered the two employee groups mentioned above at paragraph (j).
- (ll) Stagecoach has 2 depots which each provide an Excluded Service ([redacted] employees are assigned to the provision of these services) and a Head Office within Tyne and Wear where [redacted] employees are based. These employees would not be classed as Relevant Employees and would not be transferred through the TUPE process to any new Operators of Quality Contracts. Nexus considers the following scenarios may apply:

- (i) Stagecoach wins all Quality Contracts covering its existing work. In this scenario, which Nexus considers to be unlikely, Nexus considers that the risk of redundancies, if any, would be limited to some Head Office functions which may no longer be required due to Stagecoach operating under different market conditions, (under which the LTA is responsible for some Head Office functions which were previously undertaken by the Operator). However, as Stagecoach would be likely to continue to operate a range of 'out of scope' services and may also win contracts providing additional work it is not possible to quantify the scale of redundancies.
  
- (ii) Stagecoach is successful in winning some of the Quality Contracts covering its existing work. In this scenario, which Nexus considers to be likely, Nexus considers that if there were any risk of redundancies this would relate to some Head Office functions which may no longer be required. Depending on which depots it continued to operate, Stagecoach may also cease to operate some 'out of scope' services leading to the possibility of further redundancies. However as it is not possible to speculate on the outcome of the procurement process, Nexus is unable to quantify the scale of redundancies.
  
- (iii) Stagecoach loses all Quality Contracts covering its existing work. In this scenario, which Nexus considers to be unlikely, Nexus considers that any risk of redundancies would relate to some Head Office functions which would no longer be required. Stagecoach may also cease to operate, or curtail, some 'out of scope' services leading to the possibility of further redundancies. Stagecoach in its Consultation feedback identified a figure of [X] as the cost of staff redundancies.

(mm) Nexus considers that there is much that Stagecoach could and would do to mitigate the likelihood of redundancies, as considered above.

#### Small Operators

(nn) Where a small Operator fails to win a Quality Contract covering its existing business, its employees delivering the services would be classed as Relevant Employees and would transfer under the TUPE process to any new Operators of Quality Contracts. Therefore no adverse effect would apply to small Operators in relation to redundancy costs of those employees.

(oo) Limited Workforce Information was received from small Operators, although from the information provided a small number of 'out of scope' staff were identified. It is accepted that the requirement for those roles may be diminished if the operator failed to win a Quality Contract covering its existing business. However as it is not possible to speculate on the outcome of the procurement process, Nexus is unable to quantify the likelihood or scale of redundancies.

(pp) Furthermore Nexus notes that under the Do Minimum Scenario, all small operators would be severely affected by the withdrawal of Secured Bus Services. It is highly likely that redundancies would result over the 10 year period as Secured Bus Services are cut due to the reduction in funding.

#### Other Employment Related Adverse Effects Raised By Consultees

(qq) Further issues were raised by Operators as adverse effects during Consultation, but are not considered by Nexus to be adverse effects:

- (i) Costs would be incurred by Operators due to harmonisation of terms and conditions;

- (ii) Operators would have a potential liability for compensation due to the Employment Tribunal decision in *Abellio v Musse* [2012] IRLR 360;
  - (iii) There was a risk of ‘dead wood dumping’ and ‘cherry picking of employees’ in terms of the TUPE transfer;
  - (iv) Additional costs would be incurred for Operators in providing a travel allowance for employees; and
  - (v) Additional costs would be incurred in providing continuity of existing terms and conditions and pension protection for employees.
- (rr) Nexus does not accept that costs would be incurred by Operators due to harmonisation of terms and conditions as Nexus does not intend to require this from Operators and does not see how the QCS could lead to Operators being forced to harmonise terms and conditions. The only cost which could be considered as being related to ‘harmonisation of terms and conditions’ is the Basic Hourly Rate for drivers. Nexus accepts that this could have a cost to Operators but this will be factored into Operators’ bids and Nexus has accounted for the cost in its Affordability Model. Nexus does not therefore consider this to be an adverse effect on Operators.
- (ss) It was stated in Consultation feedback that the Employment Tribunal decision in *Abellio v Musse* [2012] IRLR 360 is authority for potential liability for compensation comparable to that for constructive dismissal in circumstances where transfer under TUPE to work in a nearby bus depot is seen as a substantial detrimental change in working conditions. The more recent case of *Cetinsoy and others v London United Busways Ltd UKEAT/0042/14* reached a different conclusion on broadly similar facts to *Abellio* highlighting that all such cases are highly fact specific. TUPE reforms which came into

effect in January 2014 also resulted in a 'change in location' being classified as a valid ETO reason (please see Glossary for definition) which will assist any Operators seeking to move employees between depots.

- (tt) Arriva stated that in its Consultation feedback that the TUPE transfer process may lead to outgoing Operators retaining staff that are more desirable to employ, and selecting for transfer those employees who are less desirable to employ, referred to as:

*“Risk of ‘dead wood dumping’ on successful operators and ‘cherry picking of employees’”.*

- (uu) Nexus would highlight the fact that such actions would run contrary to the intention behind the introduction of Allocation Arrangements, and would be open to potential legal challenge around the issue of “assignment”. TUPE Regulations which are designed to be fair to all employees and employers involved in the transfer of undertakings. It also runs contrary to the intention behind the introduction of Allocation Arrangements. Nevertheless the fact that Arriva highlighted this in their Consultation response raises the possibility that it may happen in practice. If it were to occur, the Operators who would benefit from a situation where they could ‘pick and choose’ from their employees would be incumbent Operators who employ the staff currently. Therefore Nexus does not consider that this is an adverse effect on existing Operators.

- (vv) Operators raised the cost of paying travel allowances as a potential adverse effect on Operators. It is acknowledged that this is a cost which will fall to Operators however it is proposed that the travel allowance will be payable as part of the operating costs of a Quality Contract and therefore has not been considered as an adverse effect on existing Operators. The cost has been taken into account in the

Affordability Model and Nexus considers that in the context of the overall QCS, it has a minimal effect on cost. Nexus considers it is important to include a travel allowance in the QCS to ensure that employees do not suffer any significant detriment should their workplace location change following any TUPE transfer to a new Operator.

(ww) Operators stated that additional costs would be incurred in providing continuity of existing terms and conditions and pension protection for employees. Nexus accepts that this would be a cost for a new Operator who would factor this into its bidding costs. However, Nexus does not accept that this is an adverse effect on an existing Operator whether it retains its own work or loses all its business, as in either scenario the Operator would not be in a position where it had to provide for new employees transferring under TUPE.

#### Potential adverse impacts on bus company employees

(xx) In Consultation feedback, Operators and other consultees identified the potential for adverse impacts to accrue to bus company employees as a result of the introduction of the QCS, for example potential redundancies, lost pension benefits and additional travel costs. Criterion (e) focuses on impacts on Operators, but Nexus recognises that where employees live or work in the QCS area (as some may), adverse impacts on those employees will result in a reduction in the well-being of persons living or working in the area to which the scheme relates. Nexus therefore considers this in its assessment of well-being below, where the likelihood of these adverse impacts on employees occurring is assessed.

## **Conclusion on adverse effects arising from TUPE issues and redundancy costs**

- (yy) Nexus has considered a range of potential adverse effects on Operators arising from TUPE issues and redundancy costs. In doing so it has taken account of Consultation feedback supplied by Operators, as well as other sources of information.
- (zz) Nexus considers that adverse effects may occur in terms of redundancy costs, although not in relation to Relevant Employees who will be protected from compulsory redundancy for a 2 year period. If redundancies were to take place this would depend on the decisions made by individual Operators and would be more likely to relate to 'out of scope' employees. Some Operators provided an estimate of the maximum potential redundancy costs associated with these employees.
- (aaa) Redundancy costs relating to 'out of scope' employees and employees of small Operators will depend entirely on the outcome of the procurement process and so the scale and likelihood of this adverse effect cannot be reliably estimated. However, the likelihood of redundancy costs for small Operators in the Do Minimum Scenario would be much higher.
- (bbb) Nexus considers that there is much that Operators can and will do to mitigate any adverse effect relating to redundancy costs.
- (ccc) In assessing adverse effects arising from TUPE issues, Nexus accepts that some effects are possible, but are likely to be low scale. Much of the assessment of these adverse effects is dependent on the outcome of the procurement process as this will define the subsequent scale of the TUPE transfer of employees.

### 6.3.10 Adverse Effects arising from Pension issues

#### Introduction

- (a) The introduction of QCS, and the potential for transfers of business and employees from existing Operators to new Operators as described above, potentially creates issues relating to the funding of pension schemes of existing operators. These arise from the loss of some or all of their current business or profits which may alter existing Operators' covenant available to defined benefit pension schemes in which they are participating employers.
- (b) Whilst Nexus acknowledges that additional costs may arise affecting both new Operators who are successful in winning Quality Contracts, and existing Operators who win Quality Contracts covering routes that they do not currently operate, the Guidance is clear in paragraph 63 that criterion (e) applies in respect of existing operators who are working in the area of the proposed Scheme. Nexus considers therefore that, in the context of pensions, adverse effects should be considered to be those which occur in relation to incumbent Operators' existing business that is affected by the introduction of the QCS.
- (c) Statutory workforce information has been provided by Operators as detailed above and analysed to assess the potential adverse impacts on Operators arising from pensions. Operators' Consultation feedback has also provided some information on current Operators' pensions schemes, which has assisted Nexus to assess the adverse effects.
- (d) It is acknowledged, as raised by Operators during Consultation, that there may be adverse effects on Operators as a result of pension issues. Feedback highlighted the following potential adverse effects on Operators :

- (i) Issues will arise in relation to Local Government Pension Scheme deficits which may increase and become immediately payable (this issue will be dealt with below on an individual Operator basis);
- (ii) Issues will arise in relation to an Operator's defined benefit schemes in that Section 75 debt may be triggered (Section 75 debt is explained below and this issue will be dealt with on an individual Operator basis);
- (iii) The ability of an existing Operator to fund the past service benefits of its defined benefit scheme will be compromised if the Operator fails to win any Quality Contracts; and
- (iv) For an Operator of a Quality Contract, defined benefit pension funds may seek higher contributions from the Operator as the guarantee of business is only for 7 year term.

#### Funding of Defined Benefit Pension Schemes

- (e) Trustees of defined benefit pension schemes are responsible for the financial management of each scheme, including ensuring payment is made by scheme employers to cover their liabilities. These payments may be varied depending on a range of factors, including the certainty of the employer's ongoing ability to make sufficient payments. Therefore a change to the status of a scheme employer caused by the introduction of the QCS may lead to that scheme employer's payments being varied. Examples of changes affecting scheme employers' status may be the failure to win any Quality Contracts leading to the loss of the ability to operate in the QCS Area, or the winning of one or more contracts that are only certain for seven years.

- (f) Stagecoach and Arriva stated in feedback that the QCS would have a disproportionate and materially adverse effect on the ability of Operators to fund their defined benefit pension schemes on an on-going basis. Whilst such possible adverse impacts are recognised, trustees of defined benefit pension schemes are obliged to fix contributions based on what is affordable to the relevant sponsoring employer. It follows that any change in the employer covenant as a result of the QCS would be taken into account in funding discussions. The effect on the contributions is impossible to predict as it would be a decision for the particular pension fund and would depend on the Operators' business elsewhere as well as whether an Operator has won any Quality Contracts in Tyne and Wear. Nexus has therefore not attempted to quantify this possible adverse effect. There is also the possibility that contributions may decrease for an Operator if it increases its business in Tyne and Wear. This is further considered at individual Operator level below.
- (g) In Statutory Consultation feedback, Operators expressed concerns in relation to the funding of defined benefit pension schemes for incumbent Operators who are successful in bidding for Quality Contracts. It was argued that such defined benefit funds may seek higher contributions from Operators as the guarantee of business is only for a 7 year term under a QCS. This is recognised as a potential adverse effect although in the case of the LGPS, Stagecoach funding is currently over an 8 year period and thus not significantly different in a QCS. In relation to other Operators defined benefit pension schemes Nexus has not been given information as to the funding period therefore Nexus cannot easily assess this adverse effect. It may be that the funding period is shorter than 7 years in which case the guarantee of contracted work for 7 years may improve the position for a successful Operator. Nexus has assessed this as a

possible adverse effect but has not quantified this effect as it does not have the information to do so.

- (h) Operators awarded Quality Contracts will not assume responsibility for any existing deficits under incumbent Operators' pension schemes. Any incumbent Operator with a deficit owing from historic pension fund membership will continue to be responsible for that deficit regardless of whether a QCS is implemented or not as the deficit will not transfer to another operator by virtue of a QCS. Such deficits will not pass to QCS operators under TUPE or the Pension Regulations.
- (i) Whilst Operators will not assume responsibility for other Operators existing deficits, Nexus accepts that there may be implications for existing defined benefit pension liabilities owing to both the LGPS and Operators' occupational defined benefit pension schemes.
- (j) No assessment of the implications for Operators' liabilities to pension funds is possible on an aggregated basis because such liabilities depend on the individual circumstances of employees and Operators. Therefore these matters are considered on an individual Operator basis below.

#### Stagecoach

- (k) It is accepted that an adverse effect on Stagecoach is possible in terms of the timing and amount of repayment of its pension deficits.

(l) [REDACTED].

(m) [REDACTED].

(n) [REDACTED].

(o) [REDACTED].

(p) In summary, Nexus considers that the likelihood of Stagecoach being obliged to make increased payments to cover pension liabilities is reasonably high based on the information provided in Stagecoach's Consultation feedback but is dependent on the contracts won. [REDACTED].

Stagecoach also provided an estimate of [REDACTED] as the rise in employer contributions that may be required as the result of the introduction of a QCS. Nexus does not have sufficient information to confirm these figures but in the absence of any other figures has used them to assess the value of the detriment to Stagecoach.

(q) Stagecoach has also suggested that if it is unsuccessful in winning quality contracts, there could be an increase in its liability to the LGPS from [REDACTED].

Arriva

(r) In considering Arriva's position in relation to the Arriva defined benefit pension scheme deficit, Nexus has not been provided with any information in relation to the scheme deficit or surplus. [REDACTED].

The risk of section 75 debt being triggered in Arriva's case is considered to be limited as the debt would only arise if Arriva was left with no active members of the defined benefit pension scheme. Given that Arriva has more business outside of the QCS Area than within it in the North East, it is considered unlikely that Arriva would be in a position where it was left with no active members in the defined benefit pension scheme due to the implementation of the QCS as Nexus considers it likely that there will be other members of Arriva's defined benefit pension scheme working elsewhere.

- (s) Nexus therefore considers it unlikely that a section 75 debt would be triggered in Arriva's case, and therefore the likelihood of this adverse effect arising is low. Nexus has not been provided with information on which to base an assessment of the scale of this adverse effect on Arriva should it arise.

#### Go North East

- (t) Nexus has attempted to consider whether there would be an adverse effect on GNE arising from increased employer contributions to its defined contribution fund. GNE did not refer to this matter in its Consultation feedback and therefore Nexus is unable to reach any conclusions in respect of GNE and its contributions to its defined benefit pension fund.

- (u) [REDACTED].

Nexus therefore considers that the likelihood of this adverse effect arising in GNE's case is low.

#### Small Operators

- (v) Nexus have been provided with very little information regarding Small Operators' employees and their pension scheme membership. The limited information provided suggests that most employees have no occupational pension whilst a small number have defined contribution pensions. As such Nexus has assumed that there will be no adverse effect on small operators due to defined benefit pension scheme liability.

#### Other Pensions Issues Raised as Adverse Effects

- (w) The following points of feedback were raised by Operators in respect of adverse effects, but for the reasons set out below, Nexus do not believe that these are adverse effects on existing Operators:
  - (i) Bidders would face substantial set-up costs to replicate final salary schemes;
  - (ii) Small Operators may be able to avoid the requirement to provide defined benefit pension schemes and therefore be able to tender for Quality Contracts at a lower rate than larger Operators, as the cost of providing defined benefit pension schemes to employees would not need to be factored in; and
  - (iii) Pricing pensions within the labour component of contract bids will be complex and uncertain which will lead to increased costing assumptions in bids.
- (x) Operator feedback stated that the requirements under TUPE to replicate final salary pension arrangements would provide potential

bidders with substantial set-up costs (if they do not already have a final salary scheme) and issues with consistency with schemes already offered to employees of the bidder. [redacted].

It is therefore not accepted that the scale of set up costs for potential bidders would be significant. Nexus is aware that the QCS Pensions Regulations oblige an Operator to obtain a Pension Statement for each employee approved by an actuary, therefore any bidding Operator will incur actuarial costs. For the [redacted] Quality Contracts which include LGPS employees, a successful Operator will need to obtain admitted body status to the LGPS and thus will incur actuarial costs and the costs of securing an indemnity or bond. However, any Operator bidding for a Quality Contract will assess these costs at bidding stage and these costs will be included in its bid. Additional costs for new Operators are not considered to be an adverse effect.

- (y) It has been suggested that smaller Operators may be able to avoid the requirement to provide defined benefit pension schemes and therefore be able to tender for Quality Contracts at a lower rate than larger Operators. Nexus considers that even if this were the case this is a procurement issue regarding a 'level playing field' for bidders rather than an adverse effect. In any event, Nexus considers that it is unlikely that smaller Operators would be able to tender at a lower rate due to the requirements of the QCS Pension Regulations. The Regulations oblige an Operator who seeks to rely on 'exceptional circumstances' to allow it to avoid providing a 'broadly comparable' pension, to pay equivalent compensation. It follows that such

smaller operators would be in a similar position to other bidders in terms of pension costs. Nexus does not therefore consider that any adverse effect would apply to Operators in respect of this suggestion.

- (z) Operators suggested that pricing pensions within the labour component of contract bids will be complex and uncertain which will lead to increased costing assumptions in bids. Nexus accepts that there will be a cost to bidding Operators but does not accept that it will be complex or uncertain. Bidders will be provided with information on the pensions of any employees who will transfer under TUPE and will no doubt take pensions advice on how to provide 'broadly comparable' pension rights for transferring employees. In terms of replicating defined contribution pension schemes (of which the vast majority of transferring employees are members) this will be relatively straightforward, especially if Operators choose to use the multi-operator pension scheme. In any event Nexus does not consider this to be an adverse effect on existing Operators as they will retain their existing employees if they are successful in bidding and will not have to deal with providing 'broadly comparable' pensions rights. If an existing Operator is unsuccessful in bidding, its employees will TUPE to a new Operator and the existing Operator will have no necessity to provide any 'broadly comparable pension rights' for employees.

#### Conclusions on pensions

- (aa) There is a risk identified by Stagecoach that it may incur detriment in relation to its defined benefit pension liabilities, if a QCS is introduced. Stagecoach has identified a ,

and although Nexus is unclear on how these figures have been

calculated, they will be used to calculate the financial adverse effects on Stagecoach.

- (bb) Nexus does not however consider that any other operator will incur increased expenditure arising from its pension liabilities based on the information that has been provided.
- (cc) Nexus therefore considers that the maximum adverse impacts relating to pensions could be of the order identified by Stagecoach, subject to it having greater confidence in the figures supplied. Nexus has therefore included these figures in its assessment of monetised adverse effects.

#### 6.3.11 QCS introduced in another local authority area

(a) Operators expressed concern that making a QCS in Tyne and Wear may cause Operators to re-evaluate their business strategies given that it would significantly increase the risk of similar QCS regulation being promoted in other Local Authority areas. 

- (b) Nexus accepts that the introduction of a QCS in Tyne and Wear might demonstrate the viability and desirability of a QCS in general such that other LTAs might wish to develop a QCS elsewhere. However Nexus does not consider it to be the case that other QCSs will be introduced as a result, because any LTA developing a QCS must meet the requirements of the Transport Act 2000 in full, including the full consideration of section 124.
- (c) It follows that any adverse effects caused by other QCSs would not have been caused by this QCS that is applicable only to Tyne and

Wear and is considered by Nexus to satisfy the requirements of the Transport Act 2000 in its own right.

- (d) Furthermore, legislation providing for quality contracts schemes in England and Wales has been on the statute books since the Transport Act 2000 and whilst this is the first QCS to be fully developed, the risk of such regulation has been present for some 14 years.
- (e) Nexus also draws attention to the fact that the potential introduction of QCSs is noted in GNE's annual reports as a recognised business risk as well as a potential benefit. The QCS will in practice provide successful Operators with certainty over a protracted period, in contrast to the open competition they face in the current commercial market. The QCS will therefore provide them with a materially lower risk profile compared to the current deregulated market.

#### 6.3.12 Financial values of adverse impacts on Operators

- (a) In this section of criterion (e), Nexus has identified those effects arising from both its own analysis and Consultation feedback, both those that can be quantified and those that cannot. In order to fully consider the scale of adverse effects, it is now necessary to consider all of the quantifiable adverse effects together. The tables set out below attempt to quantify, as best Nexus is able with the information to which it has access, the financial impacts that may be felt by individual operators.
- (b) In respect of lost profits, Nexus has allocated the value in the tables that it has calculated using the Nexus Affordability Model. Although some, but not all, Operators in their Consultation feedback provided estimates of lost profits, these were calculated on an inconsistent basis. Therefore Nexus considers that the most reasonable basis on

which to compare operator profitability is by substituting the value that it has calculated using the Nexus Affordability Model, discounted to 2010 prices and values in order to ensure comparability between Operators and to ensure consistency. To achieve this costs are:

- (i) Converted to 2010 prices, that is not including background inflation but allowing for 'real terms' growth or decline in valuations which are expected increase at annual rates which are above or below background inflation for example fares or wages;
  - (ii) Presented in 2010 present values;
  - (iii) Discounted at the social time preference rate of 3.5% pa allowing the comparison of incurring costs and receiving benefits in different years;
  - (iv) Expressed in market prices (including indirect taxation); and
  - (v) Adjusted to account for the difference in perceptions of costs between consumers and businesses/government, the former perceiving costs including indirect taxation (for example VAT) while the latter perceive costs excluding indirect taxation, on average 19% less than market prices
- (c) Where adverse impact values other than lost profits (other than wasted bid costs – see below) have been identified by Operators they have been included in the tables using the exact figure supplied by the relevant Operator (discounted to 2010 prices and values).
- (d) Section 6.3.8 sets out how Nexus has assessed wasted bid costs, which it has used in the tables in substitution for those identified by Operators in Consultation feedback.

- (e) In respect of employee redundancy costs, both Stagecoach and Go North East supplied values which Nexus has used in the tables. However although Arriva did not supply a value, [X] Nexus has estimated a potential redundancy cost for Arriva as described in paragraph 6.3.9.
- (f) In all other cases, where a quantifiable adverse effect has been identified by one Operator but not by all, Nexus has not attempted to estimate a figure for that effect for the operators that did not supply it (with the exception of potential adverse effects associated with bid costs). This is because it is not possible for Nexus to speculate on the relevant area, for example the status of defined benefit pension schemes, or the ownership of assets. Operators have had ample opportunity to provide that information through the Consultation process but have not done so.

#### Minimum Adverse Effects

Operator	Arriva (£m)	Stagecoach (£m)	Go North East (£m)	Smaller (£m)	Total (£m)
Financial Impact <sup>24</sup>	3.9	(77.3)	(1.8)	(6.1)	(81.3)
Bid Costs <sup>25</sup>	[X]	[X]	[X]	[X]	[X]
Employee Redundancy Costs	[X]	[X]	[X]	[X]	[X]
Stranded Assets - Vehicles	[X]	[X]	[X] <sup>26</sup>	[X]	[X]
Stranded Assets - Depots	[X]	[X]	[X]	[X]	[X]
Stranded Assets - Equipment	[X]	[X]	[X]	[X]	[X]
Pension Costs	[X]	[X]	[X]	[X]	[X]
Corporation Tax <sup>27</sup>	[X]	[X]	[X]	[X]	[X]
Total Adverse Effects	[X]	[X]	[X]	[X]	(85.3)

<sup>24</sup> Subject to limitations as discussed in Section 6.3.3

<sup>25</sup> Bid costs will only materialise if the Operator is unsuccessful in the tender process

<sup>26</sup> [X]

<sup>27</sup> Estimated, based on corporation tax at 20%

- (g) The above table shows that if a QCS is made Nexus considers that it is highly likely that as a minimum the Operators will suffer adverse impacts of at least £85 million in aggregate (discounted to 2010, GDP Real Prices and Values). However, Nexus considers that it is unlikely that the adverse impacts would actually be restricted to that minimum value.

#### Maximum Adverse Effects

Operator	Arriva (£m)	Stagecoach (£m)	Go North East (£m)	Smaller (£m)	Total (£m)
Financial Impact	(2.5)	(116.2)	(58.9)	(9.3)	(186.9)
Bid Costs	[X]	[X]	[X]	[X]	[X]
Employee Redundancy Costs	[X]	[X]	[X]	[X]	[X]
Stranded Assets – Vehicles	[X]	[X]	[X]	[X]	[X]
Stranded Assets – Depots	[X]	[X]	[X]	[X]	[X]
Stranded Assets - Equipment	[X]	[X]	[X]	[X]	[X]
Pension Costs	[X]	[X]	[X]	[X]	[X]
Corporation Tax	[X]	[X]	[X]	[X]	[X]
Total Adverse Effects	[X]	[X]	[X]	[X]	(226.7)

- (h) The above table shows that the maximum aggregate value of the potential adverse impacts on Operators is £227 million (discounted to 2010, GDP Real Prices and Values).
- (i) However Nexus considers, for reasons stated elsewhere in this assessment that the likely financial value of the adverse effect on Operators would, in practice be substantially below £227 million but will be no less than £85 million, as set out in the tables above.

#### 6.3.13 Conclusions on Adverse Effects

- (a) Nexus acknowledges that the impacts on existing Operators brought about by the introduction of a QCS in Tyne and Wear will be wide ranging, and will affect their operations and profitability. Nexus has considered all of the impacts that it is aware of as well as those that

were identified in Consultation, and although it has not been able to precisely quantify all of them, Nexus accepts that they may be substantial. They will however vary in scale between the large and small Operators and within each of those groups.

- (b) The tables shown in 6.3.12 demonstrate that the adverse effects from the QCS are likely to vary significantly between Operators. It is clear to Nexus that Stagecoach, as the most profitable Operator, has the most to lose as it currently has the most profitable business in Tyne and Wear. By contrast, it is possible that in the case of Arriva the anticipated profit margins under the QCS Contracts could lead to it making a gain, not a loss, if it retains its existing network.
- (c) For the maximum adverse effect to occur, the scenario would have to arise that no existing Operator wins any of the Quality Contracts that cover the routes that they currently operate. Nexus considers it unlikely that all incumbent Operators, when participating in the procurement process, will fail to win contracts covering any of their existing business. It follows therefore that Nexus considers it unlikely that all three incumbents will lose the entirety of their existing business.
- (d) Further, for the maximum adverse effect to occur, the scenario would have to arise that all existing Operators fail to successfully mitigate the consequential adverse impacts, for example by disposing of their depot(s) and redeploying vehicles as opposed to writing off their value. Therefore, Nexus believes that whilst this maximum adverse effect is a possibility, it is unlikely provided that existing Operators behave in a commercially rational manner.
- (e) Similarly, Nexus considers it unlikely that the minimum adverse effect will occur, as this would require all existing Operators of

services included in the QCS to successfully win Quality Contracts that cover their existing business.

- (f) Having considered the adverse effects identified in response to Consultation alongside its own analysis of adverse effects, Nexus concludes that the quantifiable adverse effects will be in the range of £85.3 million to £226.7 million. Nexus considers it is unlikely that either of these extremes of the range will occur. Nexus notes that the adverse effects are entirely dependent upon the outcome of the procurement process for the Quality Contracts. Nexus is unable to assess the likelihood of this adverse effect occurring in respect of individual contracts for the services they currently operate.

## 6.4 Improvements In Well-Being

### 6.4.1 Introduction

(a) The Transport Act 2000 (Section 124A as amended) requires that when considering the proportionality of the QCS, the “improvement in well-being of persons living and working in the area which the proposed scheme relates” is balanced against adverse impacts on Operators. That improvement in well-being is expressed to include, in particular, the Public Interest Test criteria set out in sections 124(1)(a) to (d) of the Transport Act.

(b) The Guidance says at paragraph 65:

*“..the LTA will need to have identified the nature and broad scale of benefits arising to people living or working within in the area of the scheme and the likelihood of those benefits arising. Relevant benefits here could include benefits to existing bus passengers, to those who switch from other modes to the bus as a result of improvements to bus services, to users of other modes who benefit (e.g. motorists who benefit from reduced traffic congestion because the QCS has encouraged modal shift) and to local residents and others who benefit from environmental improvements such as improved air quality.”*

(c) It is therefore important to note that this part of criterion (e) differs from criterion (b), in that although it takes account of benefits to users of existing local services, it is in fact much broader because it considers the impacts of the QCS that Nexus considers will be experienced by the entire community of people who either live or work in the QCS Area.

(d) The Guidance uses terms such as ‘benefits’ and ‘improvements’, which generally infer that the LTA should consider the positive

impacts on well-being. Nexus considers however that, in order to reach a fair and balanced conclusion regarding well-being, it is the 'net' effect that must be considered – taking account not only of the positive impacts arising from the introduction of the QCS but also considering fully any negative impacts that may arise to people living or working in the area.

- (e) Criterion (e) as defined by the Act refers to 'the achievement of the objectives mentioned in paragraph (a) to (d)' in assessing improvements in well-being. Therefore Nexus has, in this part of its assessment of criterion (e), considered the previous tests in terms of the benefits and positive and negative impacts they have highlighted. Nexus has also taken account of any wider benefits to well-being that did not need to be considered in order to assess the QCS's compliance with criteria (a) to (d) of the Public Interest Test.
- (f) Nexus also notes that in the Guidance the definition of "persons" means not just natural persons (i.e. individuals) but also other legal persons (e.g. businesses, charities, etc) who could benefit from better bus services. Therefore in considering well-being, Nexus has taken account of impacts on businesses (including shopping facilities and employers) and public facilities and charities (in particular education and health).
- (g) Taking account of the above discussion of the Guidance, Nexus has taken the following approach in assessing the impacts on well-being of persons living or working in the area:
  - (i) Identify the impacts on the well-being of persons living and working in the QCS Area that arise as a consequence of the Do Minimum Scenario, with reference to Section 1.4;
  - (ii) Identify the benefits on the well-being of persons living and working in the QCS Area that arise as a consequence of the

QCS with reference to Section 3, both in terms of avoiding the negative impacts of the Do Minimum Scenario and in terms of bringing new benefits;

- (iii) Identify any negative impacts on the well-being of persons living and working in the QCS Area that arise as a consequence of the QCS with reference to Section 3;
- (iv) Consider feedback from Consultation regarding positive and negative impacts on well-being; and
- (v) Assess and draw conclusions on the likelihood and scale of net benefits, taking account of the above listed items, in order to inform the overall assessment of well-being to persons living and working in the QCS Area.

#### 6.4.2 Effects of Do Minimum Scenario

- (a) The Do Minimum Scenario, and the assumptions that Nexus has made in describing it, is set out in Section 1.4 of this report. Section 1.4.7 lists some of the social consequences of the Do Minimum Scenario that are expected to arise from declining patronage, cuts to services, and rising fares. The main factors leading to this are:
  - (i) Fewer people able to afford regular travel by bus because of significant fare increases; and
  - (ii) Fewer opportunities to travel by bus because of fewer bus services.
- (b) The factors identified in the paragraph above lead to the following negative effects on persons living and working in the Area:
  - (i) Increased traffic volumes and congestion leading to longer journey times. This reduces productivity, makes journeys for

passengers and other road users less reliable, and leads to poorer air quality and more road traffic accidents;

- (ii) Reduction in access to employment caused by fewer and more expensive buses, and by increased congestion on highways. This impacts both individuals and businesses;
- (iii) Reduction in some peoples' ability to participate as frequently or as easily in education, healthcare, and retail and social activity. This impacts on individuals, charities and public facilities;
- (iv) Impact on peoples' daily lives, particularly older and disabled people through having to walk further to access bus services, wait longer for the bus to arrive, interchange at remote locations, and in some cases curtail their activities earlier in the evening or start them later in the morning;
- (v) Particular impacts on children through higher fares and the withdrawal of school buses meaning that some children will be unable to study at the school of their choosing, have increased journey times for others and be required to interchange between commercial buses at remote locations. Other children may travel more frequently to school by car, reducing their independence and physical activity, and contributing to peak-hour traffic congestion. The impact is experienced by not only by children and their families, but also by schools and colleges;
- (vi) Reduced travel horizons for some older and disabled people arising from the loss of certain bus services and discretionary fare schemes making travel more expensive and inconvenient; and

- (vii) Fewer jobs in the local bus industry.
- (c) Greater public expenditure on bus will be required under the Do Minimum Scenario than is currently made available. This will lead to local councils in the QCS Area having to increase their levy contributions to the NECA in order to fund the statutory ENCTS, which may require them to divert funds from other expenditure. This will have an inevitable detrimental consequence on well-being.
- (d) In feedback to Consultation, several local Councils identified that the financial pressures on their budgets meant that funding available to support bus services would be, at best, frozen over coming years. This matches Nexus' assumptions regarding the Do Minimum Scenario. Councils also acknowledged the likelihood that this funding constraint would lead to worse services for local people.
- (e) Operators, in their responses to Consultation, generally challenged some of Nexus' assumptions in the Do Minimum Scenario, in particular: whether the funding constraints were as severe as stated; whether bus patronage had recently declined and was likely to do so in the future; and whether fares had in the past risen at the levels assessed by Nexus, and were likely to do so in the future. In response to this feedback Nexus has reviewed all of its assumptions in the Do Minimum Scenario and made a number of amendments to its assumptions (and these are reflected in the Do Minimum Scenario which Nexus has used), in particular in relation to the likely level of future increases in fares. Nexus is content that, having taken account of all of the information available to it and considered all Consultation responses, its assumptions in the Do Minimum Scenario are robust.
- (f) Section 1.4.6 sets out a range of alternative scenarios that might take place, and establishes that Nexus considers that the Do

Minimum Scenario that is described in Section 1.4 and whose negative impacts on well-being are set out in the paragraphs above, is the most likely scenario to occur if no intervention is made.

#### 6.4.3 Improvements to well-being arising from the QCS

- (a) Nexus considers that a wide range of improvements to the well-being of people who live and work in the QCS Area will arise from the introduction of the QCS.
- (b) The negative impacts of the Do Minimum Scenario on well-being are identified in the section above. Before considering any specific improvements to well-being, Nexus considers that it is important to note that the introduction of the QCS will prevent the Do Minimum Scenario, and its negative effects on well-being, from occurring at all.
- (c) Section 6.4.2 above describes how the negative effects of the Do Minimum Scenario arise from declining patronage, cuts to services, and rising fares. Sections 2 to 5 of this report explain how the negative effects of the Do Minimum will be avoided. In addition further improvements over the current situation will be achieved because:
  - (i) Negative factors affecting patronage in the Do Minimum Scenario will be avoided, and new initiatives to grow patronage and influence modal shift will be introduced;
  - (ii) No cuts to services will be required, because of the sustainable funding position set out in the Nexus Affordability Model; and
  - (iii) The trend of above-inflationary fare increases will be curtailed for all bus passengers, the Under 16 reduced fare scheme will be retained, and significant reductions will be available for 16-18 year olds and students.

- (d) The avoidance of the Do Minimum Scenario and the addition of further improvements will lead to the achievement of the objectives of the Bus Strategy for Tyne and Wear: growth in bus patronage; stable bus services with local accessibility being maintained; and better value for public money. Achieving these objectives will lead to wider impacts such as increased modal share for buses and decreased use of private cars, which together lead to improved conditions for highway users and reduced environmental impacts arising from transport.
  
- (e) As stated above, 'well-being' takes account of the both the benefits identified in criterion (b), and wider improvements that accrue to the wider community, rather than being confined to the consideration of users of local services. In assessing this well-being Nexus has considered the following categories of improvements to well-being which have been identified based on the benefits identified in criteria (a) to (d) and Consultation feedback:
  - (i) Achievement of local policies;
  - (ii) Bus network and accessibility;
  - (iii) Passenger benefits;
  - (iv) Fares and ticketing;
  - (v) Governance, community involvement and transparency; and
  - (vi) Employees.
  
- (f) In identifying the well-being improvements applicable to these groups Nexus has considered the aspects of the QCS that it considers will bring improvements, as well as taking account of Consultation feedback and considered any negative impacts that the implementation of the QCS may cause.

## Achievement of local policy

- (g) Local councils and the NECA develop policies to guide the work of themselves and others, to secure and improve the well-being of the people who live and work in their area. It is therefore relevant to consider if and how the QCS achieves the policies of the local councils in Tyne and Wear and whether in so doing, well-being of local people is improved.
- (h) In its analysis of criterion (c) in section 4, Nexus concludes that the QCS successfully contributes to the achievement of the local transport policies of the NECA. These are identified as the current Local Transport Plans for Tyne and Wear, Durham and Northumberland, and the Bus Strategy for Tyne and Wear. In moving towards the achievement of these policies Nexus considers that improvements in well-being will be secured.
- (i) In their responses to Consultation, local councils in Tyne and Wear noted that successful achievement of their own policies in terms of economic development, social inclusion, sustainable land use planning and environmental improvements relied upon a stable and comprehensive network of bus services, affordable fares, and growth in usage of the bus system. All councils in Tyne and Wear noted that the proposals in the QCS were likely to contribute to the achievement of these policies. For example, Gateshead Council stated that:

*“The council welcomes the proposed QCS as the approach most likely to deliver the stable, affordable and comprehensive network of bus services required to support the Council’s wider vision and objectives”*

- (j) In addition to people living and working in the QCS Area, local Councils in Tyne and Wear made reference to well-being

improvements relating to businesses and other bodies operating in their areas, to which the QCS would contribute.

- (k) Northumberland and Durham County Councils in their Consultation responses expressed concerns over the impact on services in their areas and affecting their residents, although they recognised that the development of an agreement to manage these matters was intended to address this. In addition Northumberland highlighted a risk that some residents may find it cheaper to travel to destinations in Tyne and Wear in preference to destinations in Northumberland as a result of the introduction of the QCS fare system. However Nexus notes that, whilst this is a legitimate concern that it intends to address with Northumberland, it would not of itself have a negative impact on the well-being of people living or working in the QCS Area.
- (l) Given that the local Councils in Tyne and Wear recognised the contribution made by the QCS towards achievement of their policies, and as a result of the assessment shown in criterion (c) covering the NECA's policies, Nexus considers that it is very likely that improvements will be achieved in the overall well-being of people living and working in the QCS Area from the introduction of the QCS. When considering the serious negative effects on well-being that would occur as a result of the Do Minimum Scenario, Nexus judges the scale of these improvements to well-being for people living and working in the QCS Area to be high, especially given that no negative effects on the policies of Tyne and Wear councils were identified.

#### Bus network and accessibility

- (m) In its analysis of criterion (b) in Section 3, Nexus concludes that the QCS brings benefit to users of local bus services. The QCS delivers a stable, more comprehensive and more accessible bus network than would be the case in the Do Minimum Scenario, thereby delivering

well-being benefits to people living and working in the QCS Area. In particular:

- (i) The bus network will be stable and will not be subject to the reductions envisaged in the Do Minimum Scenario as a result of reductions in funding for Secured Bus Services, retaining accessibility and maintaining ridership;
  - (ii) The bus network will be planned in an integrated manner by a single accountable body, ensuring that the bus network is stable and that life choices can be made that rely on a stable service; and
  - (iii) The joint duty of the NECA to oversee the QCS and the funding made available for highway development works, can help to ensure better integration of bus network decisions and highway improvements, favouring efficient and reliable bus movement, can be achieved.
- (n) In their feedback to Consultation, local councils and a range of other respondents noted that it was particularly important to maintain the stability of the local bus network, and the accessibility it provided (in particular in terms of access to employment and education, and links for elderly residents). They also recognised that the QCS was an effective means of securing and improving that stability and accessibility. For example, North Tyneside Council noted:

*“We see the proposed QCS as an opportunity to secure an integrated network of high-quality bus services which would benefit passengers and provide improved accessibility for our residents, visitors and businesses.”*

(o) Newcastle City Council stated that:

*“Without new steps to modernise and enhance our public transport systems, we will fail to exploit economic opportunities, and leave too many of our residents without the ability to access the economic and social networks on which our future wellbeing depends.”*

(p) On the other hand, Operators in the Consultation feedback stated that they had concerns about the affordability of the QCS. These concerns mean that Operators believed the stability of the bus network would not be achieved, or would be achieved at greater cost than that forecast by Nexus.

(q) In light of its own analysis in criterion (b) and the positive responses made by some local people and their representatives, Nexus considers that significant well-being benefits will accrue to local people living and working in the QCS Area from the proposals in the QCS to maintain a stable bus network and maintain accessibility, in particular when contrasted to the Do Minimum Scenario that would see local accessibility reduced. Nexus has reviewed its affordability assessment in the light of Operators’ feedback and made adjustments where necessary. As a consequence of this, Nexus considers that the likelihood of achieving the well-being associated with the bus network and Accessibility is high.

#### Passenger benefits

(r) In its analysis of criterion (b) in section 3 Nexus identifies a range of passenger benefits for users of local bus services arising from the proposals in the QCS. These improvements, excluding benefits arising from fares and ticketing which are considered separately below, are:

- (i) The standards of buses on the road will be enhanced overall, with the introduction of modern, low floor and low emission buses accelerated considerably and maintained during the whole contract. This effect will be focussed on the early years of the QCS. Buses will be in a standard livery that denotes high quality of service. It is acknowledged that for some services that are currently operated using vehicles of a higher standard (including the engine emission standards and internal quality features) than the QCS minimum specification there may be some reduction in quality benefits to those passengers;
- (ii) Bus services will be required by the terms of Quality Contracts to maintain good standards of reliability, punctuality and vehicle quality (cleanliness, state of repair, display of route information, etc). Operators will be required to achieve high levels of customer satisfaction;
- (iii) Buses will be fitted with CCTV to enhance passenger safety while two-way communications will be fitted to ensure operational flexibility;
- (iv) Buses will be fitted with Automatic Vehicle Location (AVL) systems so that buses can be tracked in real-time by waiting passengers;
- (v) Operators will be required by the terms of Quality Contracts to provide good standards of driver training both in relation to driving their vehicles and looking after their passengers (including particular care for vulnerable passengers);
- (vi) Buses will carry notices that inform passengers in an open and accessible way how their services are doing in terms of achieving targets, and how that compares to other services within the QCS;

- (vii) Passengers will have a single customer charter that applies to all QCS services, allowing them to understand the standards that they should expect, a means of complaining when things go wrong and details of how to deal with matters such as refunds, alternative means of travel in an emergency and lost property;
  - (viii) Journey information will be enhanced by all on-street and printed timetables, maps and online/mobile tools being developed using a common branding standard that is easily understood by all bus users. This information will include the accessible provision of real-time tracking of buses as mentioned above; and
  - (ix) Marketing and promotion will be undertaken to ensure existing and potentially new bus users are aware of forthcoming changes, events and promotions that affect their travel choices.
- (s) In its assessment of criterion (d) in section 5 Nexus monetises a range of benefits associated with these passenger improvements: reduced fares; improved journey times and accessibility for existing users; benefits to passengers attracted to the bus network. The benefits also include a small quantum of monetised benefits that accrue to people not travelling by bus, because their car journeys are quicker and road traffic accidents are avoided.
- (t) The results demonstrate a significant economic benefit to people living and working in the QCS Area. The central case forecast of benefits is £373 million over the ten years of the QCS, with the risk assessment undertaken by Nexus demonstrating that across a wide range of risks the benefits will be between £247 million and £514 million. Nexus considers that this economic benefit represents a

significant improvement in well-being achieved through reduced expenditure on bus fares (in particular for young people), reduced public expenditure on service provision, and increased economic and social activity.

- (u) A wide range of responses to Consultation, particularly from passenger groups, identified benefits for passengers arising from the QCS. Vehicle standards, performance in punctuality and reliability, and the customer charter were among those areas highlighted. Unison said that:

*“The need for a modern fleet of vehicles which are accessible to all passenger groups, particularly those with disabilities or carers with young children is vital.”*

- (v) Operators also acknowledged some of the benefits to passengers, although they claimed that such benefits would not be delivered in practice.
- (w) On the other hand, Operators in the Consultation feedback stated that they had concerns about the affordability of the QCS. These concerns mean that Operators believed the delivery of well-being passenger benefits would not be achieved, or would be achieved at greater cost than that forecast by Nexus.
- (x) Having considered the responses to Consultation alongside its own analysis and economic appraisal, Nexus considers that the scale of improvements in the well-being of people living and working in the QCS Area, arising from the benefits to bus passengers that the QCS will deliver, is considerable. The likelihood of these benefits delivered is high, because the QCS is demonstrably affordable and the key commitments that deliver passenger benefits will be

included within the requirements for Operators of Quality Contracts, or included within the Scheme itself and delivered by Nexus.

#### Fares and ticketing

- (y) In its analysis of criterion (b) in Section 3 Nexus identifies a range of improvements arising from the fares and ticketing proposals in the QCS, compared to both the current position and the Do Minimum Scenario. These improvements are:
- (i) Fares will increase only once a year, and increases will be limited to the RPI, taking account of the weighted average of fare usage. This will make fares more affordable compared to the Do Minimum Scenario as the QCS progresses. The reasoning behind any fare changes will be the subject of democratic scrutiny by the NECA and through public consultation;
  - (ii) All QCS fares and tickets will be valid on all QCS services (and in the case of multi-trip tickets, will also be valid on services excluded from the QCS) across Tyne and Wear;
  - (iii) The range of fares and tickets will be simplified by having a zonal pricing system and a simple range of single and multi-trip tickets. This will allow passengers to make simple choices about the selection of their ticketing products;
  - (iv) An accelerated and improved roll-out of Smartcard products will enable passengers to choose between having season tickets stored on their Smartcard, or using 'Pay As You Go' with a fare capping mechanism to ensure that only the cheapest applicable fare is deducted for the travel undertaken;

- (v) The Under 16 reduced fare scheme will be maintained and extended to anyone in the age category regardless of residency. This will enable children living or studying in Tyne and Wear, as well as using QCS buses to access education and leisure opportunities elsewhere in the North East, to pay a significantly reduced single and day ticket price compared to the Do Minimum Scenario which would see the existing scheme withdrawn;
- (vi) A new reduced fare scheme for 16-18 year olds will be introduced and made available to anyone in the age category regardless of residency. This will enable young people living or studying in Tyne and Wear, as well as using QCS buses to access education, training and employment elsewhere in the North East, to pay a significantly reduced single and day ticket price compared to the Do Minimum Scenario;
- (vii) A simplified range of tickets will be available for students, offering multi-mode travel for a reduced price compared to adult tickets. This will provide cheaper multi-mode travel compared to the Do Minimum Scenario;
- (viii) Discretionary add-ons to the ENCTS, such as free travel to hospital appointments and the Carers pass, will be maintained. This will help older and disabled people to access healthcare and maintain broader travel horizons than would be the case under the Do Minimum Scenario, which may see these concessions withdrawn; and
- (ix) There will be a new local enhancement to the ENCTS known as the 'Gold Card Plus', permitting all day travel on QCS Bus Services, Metro, the Shields Ferry and Sunderland to Newcastle local rail for an annual fee of £25.00. This will improve

accessibility for older people, particularly when they are in employment.

- (z) The overall impact of these changes is that the majority of bus passengers will see a reduced fare on introduction of the QCS. However Nexus acknowledges that there are a number of passengers that would experience an increase in their fares on introduction of the QCS, which could have a negative impact on their well-being. This negative impact will be reduced and maybe reversed during the lifetime of the QCS, as fare increases will be lower than those experienced in the Do Minimum.
- (aa) A wider benefit from the introduction of the QCS fares and ticketing proposals will be that fares on the Tyne and Wear Metro, Shields Ferry, and Newcastle to Sunderland local rail services will adopt the same ticketing and pricing structures.
- (bb) All buses operating under Quality Contracts will be required to offer the same range of fares and tickets throughout the length of their route, including the portions outside Tyne and Wear. This will extend the above benefits to people living outside the QCS Area but working within it, and similarly to people living in the QCS Area but working outside it.
- (cc) The monetised economic benefits assessed in criterion (d) in section 5.3 include those benefits associated with simplified and reduced fares over the life of the QCS, compared to the Do Minimum Scenario.
- (dd) A wide range of respondents to Consultation commented on the proposals for fares and ticketing. Respondents generally welcomed the proposals for simplicity, for reduced fares for young people and for Smartcards. For example Sunderland Council commented:

*“Simplifying the fare and ticketing arrangements and maximising their integration across the public transport network as a whole has clear benefits for users in undertaking their door to door journeys.”*

(ee) Newcastle Council commented:

*“Improving the simplicity and clarity of the fare arrangements with the flexibility of smart ticketing and a fare capping arrangement to offer better value is an important opportunity, and discounted tickets for young people and students is an important part of the proposal.”*

(ff) Views regarding the zonal pricing structure were more mixed, with some identifying zonal pricing as a simpler and easy-to-understand way of calculating and communicating ticket prices to customers, but others highlighting concerns regarding the effect such a system may have on raising prices in some localities. Those concerns are dealt with separately below in the section on negative impacts on well-being.

(gg) Operators in their Consultation feedback noted the risks that are associated with the rapid introduction of a radical new fare structure, and with the zonal pricing system leading to the creation of ‘winners and losers’ when compared to current pricing. In the context of the affordability of the QCS, Operators raised doubts regarding the likelihood of the benefits being achieved. As a result of this feedback Nexus reviewed its proposals and the affordability assumptions that underpin them and is satisfied that they remain robust.

(hh) Having considered the responses to Consultation alongside its own analysis, Nexus considers that the scale of improvements in the well-being of people living and working in the QCS Area, that arise from the fares and ticketing benefits that the QCS will deliver, is high,

whilst noting that a proportion of bus passengers will experience an increase in their bus fares when the QCS is introduced. The likelihood of these benefits being delivered is high, because the QCS is demonstrably affordable and the key commitments that deliver fares and ticketing benefits will be included within the Scheme itself and delivered by Nexus, and included in the requirements for Operators of Quality Contracts.

#### Governance, community involvement and transparency

- (ii) In its analysis of criterion (b) in section 3 Nexus identifies a range of improvements arising from the way in which changes to services and fares in the QCS will be managed and overseen by the NECA, and will take account of the input of local people. These improvements are:
  - (i) An Annual Development Cycle will include the publication of a Network Business Plan, prepared by Nexus, allowing local people and their representatives to review proposals and make comment before NECA considers and approves any final proposals;
  - (ii) Bus services will be governed through a democratically accountable process, which will develop strategically the bus network in accordance with local policies and priorities, within the resources available;
  - (iii) Local Bus Boards established at the level of local councils will allow for local engagement in: bus service development, day-to-day performance monitoring, and joint approaches to improving punctuality and reliability; and
  - (iv) A newly formed Tyne and Wear User Consultative Forum will provide bus users with avenues to engage with Operators of

local services and Nexus, and influence how the network develops to meet passenger needs.

(jj) A Cross-Boundary Bus Collaboration Protocol covering Durham and Northumberland Councils will help extend these benefits to people living outside the QCS Area but working within it, and also to those people living within the QCS Area but working outside it.

(kk) In feedback to Consultation the proposals for the Annual Development Cycle and Local Bus Boards were widely welcomed. For example, the TUC stated:

*“[The] QCS Proposals provide governance arrangements that will bring decisions on service provision into the hands of the community, its democratically elected representatives and members of the bus industry workforce”*

(ll) Further, Bus Users UK stated that:

*“[Bus passengers want] transparent and common sense links between the operation of bus services and the provision of infrastructure for them [and] their local authority to have greater control over the bus network.”*

(mm) In addition, Gateshead Council observed that:

*“it is clear to the council that the public require a greater connection with the decision-making process which sets routes, fares and timetables. In that respect the provisions of the QCS go a significant step beyond any existing and likely future VPA and are welcomed.”*

(nn) Views regarding the proposal for a Tyne and Wear User Consultative Forum were more mixed, with some identifying it as an essential way of providing passenger input into local decision-making, although

others suggested alternative ways for this input to be achieved via Local Bus Boards or other forums. Passenger Focus stated:

*“...we strongly support the proposal for a User Consultative Forum. One of the key functions of this body should be to hold the operators and the authority to account for the services provided.”*

- (oo) Having considered the responses to Consultation alongside its own analysis of benefits, Nexus considers that improvements in the well-being of people living and working in the QCS Area that arise from the proposals relating to governance, community involvement and transparency will be implemented as a result of the QCS, will be significant. The likelihood of these benefits being delivered is high, because the QCS is demonstrably affordable and the key commitments that deliver governance proposals are included within the Scheme itself and delivered by Nexus.

#### Employees

- (pp) Operators and trades unions have stated in the Consultation feedback that the QCS could have a number of impacts on the well-being of employees in the local bus industry (many of whom will live and work in the QCS Area) during the transition to a QCS and once a QCS is in operation. These include:
  - (i) Uncertainty about their future employment during the Transition phase, should their employer not be successful in winning the Quality Contract that relates to the services that they are currently employed to operate, which may lead to a lowering of staff morale. Nexus accepts that this is a potential negative impact on well-being that is likely to arise, but the scale of this impact cannot be assessed in advance of the outcome of the procurement process. There are a number of

mitigations, as set out below, that will protect employees during the transition to a QCS;

- (ii) Potential for changes at QCS Commencement, which would involve the need to implement new working practices, operate new vehicles, and systems, perhaps being based at a new depot location and incurring additional associated travel costs. Nexus accepts that this is a potential negative impact on well-being that is likely to arise, but the scale of this impact cannot be assessed in advance of the outcome of the procurement process. Nexus has put in place a number of mitigations, including a travel allowance as set out below, that will protect employees during the transition to a QCS;
- (iii) Risk of redundancy for employees who are not 'Relevant Employees' for TUPE transfer, as a result of the existing Operator of services not being awarded the Quality Contract that covers those services. Nexus has to some extent considered the likelihood and scale of this negative impact above, in its assessment of the effect of redundancy costs on Operators. Nexus is not able to make any further assessment on the risk of redundancy as an impact on employees' well-being, as the scale and likelihood of the impact is dependent on of the outcome of the procurement process and the commercial strategy of the Operator thereafter; and
- (iv) Risk of employees' losing value in their existing defined benefit pensions, following TUPE transfer to a new Operator of QCS Services. This could only occur in the case of employees who transfer to a new Operator, who are members of an employers' defined benefits pension scheme on the QCS commencement date, and whose salaries increased at a higher rate than their pension fund for the remainder of their careers.



Therefore Nexus considers that the scale of this negative impact is low and is unlikely to arise.

- (qq) In considering Operators employees, Nexus notes that the QCS retains a proportion of the current bus network, the Secured Bus Services, that would otherwise be reduced and withdrawn in the Do Minimum Scenario, leading to a significant in business for their employers. In this regard, the QCS provides a significant degree of assurance to bus operator employees who currently work on such services.
- (rr) Nexus has identified some well-being benefits to bus operator employees that are considered 'Relevant Employees'. These include:
- (i) Protection from compulsory redundancy for two years following TUPE transfer;
  - (ii) A travel allowance for employees who transfer to a new workplace as a result of TUPE transfer to a new Operator of QCS Services;
  - (iii) A commitment will be sought from Operators to offer a Basic Hourly Rate for drivers and the Living Wage for all employees;
  - (iv) A requirement for Operators to demonstrate to Nexus during the procurement of Quality Contracts how they will engage with staff and reward high standards of performance; and
  - (v) The provision of a multi-employer pension scheme that employees of Operators of Quality Contracts without an established pension scheme can join and benefit from.

- (ss) Nexus is also mindful that there are also further third party employees that deliver services to Operators – such as Network Ticketing Ltd and cleaning contractors. While there could be a role for these employees once the QCS is operational, nevertheless these staff may have a risk of redundancy as a result of implementing the QCS.
- (tt) Having considered the above, Nexus considers that there are some potential negative impacts on the well-being of employees engaged in delivering bus services in Tyne and Wear. The scale and likelihood of these impacts cannot be determined because they are both dependent on the outcome of the procurement process for the Quality Contracts, which cannot be forecast at this stage. However, there are also benefits arising from the retention of services under the QCS.

#### 6.4.4 Conclusion on well-being to people living and working in the QCS Area

- (a) Nexus considers that the benefits of the QCS and the certainty of their delivery are high. The resulting improvements in well-being will apply to a very wide range of people who live and work in Tyne and Wear.
- (b) Nexus has also considered negative impacts on well-being. Nexus has given serious consideration to these negative impacts and where possible has put measures in place to mitigate these effects. Nexus concludes that these impacts are limited in nature and scale, and do not significantly reduce the net benefits identified.
- (c) Nexus therefore considers that there are considerable well-being benefits to persons living and working in the QCS Area, and that the likelihood of these benefits arising is high. Nexus therefore attaches significant weight to the improvement in well-being to persons living and working in the QCS Area.

## 6.5 Assessment of the VPA

### 6.5.1 Introduction

- (a) The VPA Proposal is advanced by NEBOA on behalf of the three large commercial Operators in Tyne and Wear. None of the smaller Operators who were original members of NEBOA are named as parties to the VPA Proposal. The VPA Proposal is proposed to be entered into with multiple Operators, and is referred to by NEBOA as a 'Voluntary Multilateral Agreement' ("VMA").
- (b) Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS contains a table in which the main components, including the benefits, of the VPA Proposal and of the QCS are compared against the Do Minimum Scenario. This section sets out a commentary on the VPA Proposal, and also a comparison between the VPA Proposal with the QCS.
- (c) Regular discussions between NEBOA and Nexus relating to the development of a VPA have taken place since early 2012. Nexus has dedicated a significant amount of time engaging with NEBOA regarding the development of a partnership alternative to deliver the Bus Strategy. The Consultation Report sets out the background to the VPA Proposal and annexes as a schedule a chronology of Nexus' engagement which has included numerous meetings, substantial correspondence, individual Operator dialogue, and workshops to develop a partnership proposal.
- (d) There are three VPAs in two sub-areas within the QCS Area. They are:
  - (i) East Gateshead Voluntary Partnership Agreement;

- (ii) South Tyneside/Go North East Bus Partnership (this has expired); and
  - (iii) South Tyneside/Stagecoach Bus Partnership (this has expired).
- (e) These VPAs, whilst delivering some benefits, do not provide benefits of the nature of those proposed by the VPA Proposal. They are therefore of limited assistance in assessing the deliverability of the VPA Proposal.
- (f) It is not clear what the impact of the VPA Proposal would be on the existing VPA or whether the Operators have considered how this VPA would interact with the wider scale VPA Proposal. Nexus presumes that the existing VPA would fall away if the VPA Proposal was adopted.
- (g) Nexus has consistently advised NEBOA that the VPA Proposal will be assessed on its own merits and compared with the draft QCS Proposal in the assessment of the proportionality of the QCS. Nexus reviewed and analysed the Draft VPA (received 13 December 2013), certain elements of which were subsequently clarified in meetings with NEBOA.
- (h) In early 2014 NEBOA indicated it would submit a revised VPA. In her letter dated 22 April 2014 to the Chair of NEBOA, the Lead Chief Executive Officer for Transport for the NECA stated that *“it is important the VPA proposal which NEBOA puts forward represents your best and final offer”*. Subsequently, on 28 May 2014 NEBOA provided the VPA Proposal (the document itself was dated 21 May 2014). At a meeting between NEBOA and Nexus and Newcastle City Council on 5 June 2014, the Chair of NEBOA confirmed that the VPA Proposal can be taken as the best and final offer for comparison purposes. This is therefore the version that Nexus has assessed.

- (i) There is no statutory requirement for Nexus or the Operators to consult on the proposed terms of the VPA. Instead a draft VPA reflects, in commercial terms, what collectively the named and relevant Operators are prepared to offer to Nexus. The initiative as to what may be proposed in the form of a VPA inevitably rests with the Operators and must be agreed by them in advance. However, by clearly setting out what it is seeking to achieve through a QCS, Nexus has made clear the alternative against which the VPA Proposal will be assessed both in terms of assessing the proportionality of the QCS and the comparison that the NECA will ultimately make in helping to inform its decision regarding whether to prefer a QCS option to the VPA option. Operators are therefore well aware of what Nexus is seeking to achieve.
- (j) NEBOA has confirmed that the VPA Proposal is the best offer that the Operators are prepared to make. Nexus considers that the Operators have had a more than reasonable amount of time to develop their offer and that Nexus has had sufficient time to engage with the Operators to understand the VPA Proposal as currently proposed so to properly assess it on its own merits and to compare it with the QCS. Where issues remain unclear or unresolved, these are set out in the analysis below.
- (k) The proposals provided by NEBOA do not require the use of Quality Partnership Schemes (QPS), and NEBOA has not, to date, made any proposals for a QPS to deliver any of the proposed benefits. In any event Nexus does not consider that a QPS would be an appropriate mechanism to deliver the objectives under the Bus Strategy and to date, no QPS of a suitable scale to cover all of Tyne and Wear has been identified and proposed by any party.

## Structure of this section

- (l) Nexus considers that the most appropriate way to present the VPA Proposal, is to:
  - (i) Set out the current provision of bus services in Tyne and Wear and the implications that the Do Minimum Scenario would have for those services, structured around the key components of the services;
  - (ii) Describe the attributes of the VPA Proposal as it relates to each of these key components, and assess the benefits of the VPA in comparison with the Do Minimum Scenario, in the same manner as has been undertaken for the QCS (as set out for criterion (b) in Section 3); and
  - (iii) Analyse the scale and likelihood of these benefits, in the manner set out for the QCS in Section 6.4, in the context of the current drafting of the VPA Proposal.
- (m) This section then considers the comparative benefits of the VPA Proposal and QCS, in terms of qualitative comparison and quantitative assessment of patronage, affordability and monetised economic impacts, before drawing conclusions on the overall scale and likelihood of the benefits of the VPA Proposal and how the VPA Proposal can contribute to achieving the Bus Strategy, in comparison to the QCS.
- (n) The assessment of benefits of the QCS, compared with the Do Minimum Scenario, has been structured around the main elements of the QCS in order that the impacts on persons using local services can be easily referenced and explained. For each aspect of the QCS the element of the QCS is explained, the likely consequences of the

Do Minimum Scenario and QCS are detailed and the beneficial impacts of the QCS are provided.

#### 6.5.2 Assessment of Benefits of the VPA

- (a) This section has been developed to describe the principal elements of the VPA Proposal and the benefits that the VPA Proposal will bring in comparison to the Do Minimum Scenario.
- (b) The section has been developed using a similar structure to Section 3 of this report, which describes the benefits of the QCS, before assessing the factors that affect the scale and likelihood of the VPA Proposal benefits.
- (c) For the purposes of this assessment Nexus has grouped the benefits into the following categories:
  - the bus network;
  - Fares and Ticketing;
  - Standards for Buses and Bus Drivers;
  - Customer Experience;
  - Journey Information;
  - Governance of Bus Services; and
  - Wider Economic, Social and Environmental Implications

#### 6.5.3 VPA Benefits: Bus Network

- (a) The bus network incorporates the services that will operate throughout Tyne and Wear, the key features of those services (routes, frequencies, times of day) and the infrastructure that those services use (bus stops, bus stations, highway infrastructure).

- (b) The Do Minimum Scenario has the following consequences in respect of the bus network:
- (i) Funding constraints will mean that Secured Bus Services will be progressively withdrawn from 2017 onwards, with Secured Bus Services being fully withdrawn by 2022;
  - (ii) The withdrawal of Secured Bus Services will include the loss of Scholars and Works Services by 2025;
  - (iii) The continued increases in bus fares ahead of inflation will lead to buses becoming less affordable and demand for Commercial Services reducing (see Section 1.4 for details). This is expected to lead to further reductions in the Commercial Network that Nexus will be unable to replace as Secured Bus Services, due to funding constraints;
  - (iv) Network planning will continue to be undertaken by Operators with each Operator seeking to maximise its own commercial returns. The current ability of Nexus to have some involvement in network planning by means of its ability to secure whole routes, parts of routes, or extensions to the Commercial Bus Services timetable, will be lost, as no funding will be available to secure services. This will lead to further losses in Accessibility, and further network fragmentation that will extend to cross-boundary services and services provided to serve new developments;
  - (v) Nexus will continue to manage and maintain all bus stops in Tyne and Wear and the majority of bus stations, in order that they are clean, safe and well maintained. Highway infrastructure that assists bus movements will be maintained by Local Highway Authorities and new facilities will be provided

where effective and viable schemes can be developed and funding becomes available.

- (c) The VPA Proposal includes a number of proposals in respect of the bus network in Tyne and Wear:
  - (i) The VPA Proposal makes provision for the introduction of 50 additional buses to the Commercial Network in Tyne and Wear, and also seeks to maintain stability for the existing Commercial Services network;
  - (ii) The VPA Proposal provides a commitment to limit changes to the Commercial Services network to one fixed change date in each district of Tyne and Wear;
  - (iii) The VPA Proposal provides a commitment from Operators to achieve £2 million savings per annum to the Secured Services budget through reconfiguring the Commercial Services and Secured Services networks, with an objective to “maintain or minimise any detrimental impact” to Accessibility. These savings will be based on the findings of an annual Service Reconfiguration Study that Nexus is tasked with commissioning, as well as any subsequent suggestions made by Operators; and
  - (iv) The VPA Proposal provides the framework for an infrastructure investment plan that will involve both Operators, Nexus and local highway authorities investing in an agreed infrastructure development programme that will contribute to improving the efficiency of Network and its depots.

(d) The benefits of the VPA Proposal:

(i) Benefits in relation to the Network were summarised by the Chair of NEBOA in an email to members of the NECA:

*"The Partnership proposal aims to maintain the network of bus services as they are today, whilst recognising that there will always be changing circumstances, such as changes in demand, or increasing traffic congestion, which will necessitate changes to the network. Changes to the network will be limited to one fixed change date in each district of Tyne and Wear (services which cross between districts will be allocated to the district they primarily serve, subject to agreement – in any case, all local authorities will be consulted via District Partnership Boards).*

*"The bus operators have agreed to provide a minimum of 50 extra buses, to be used on a mix of 'kickstart'-style services and to reinforce the existing network, on a basis that will be agreed locally in each district. The intention is to improve connectivity by trialling new services and links that can be grown into new, self-sustaining services while improving connectivity across Tyne and Wear."*

(ii) Further details about the savings to the Secured Services budget are as follows:

*"A 'Service Reconfiguration Study' will produce proposals that will enable Nexus to make savings in their procurement of secured services amounting to £1.6 million pa in a full year. This study will identify those areas where, through making relatively small adjustments to the commercially-operated*

*services, secured service spending can be reduced at minimum detriment to local people, while maintaining bus services on as many existing secured routes as possible. Based on the existing bus network, we have estimated that the 'new' network would be approximately 99.2% of its current size, resulting in almost everyone in Tyne and Wear receiving the same or similar levels of services as they do today.*

*"The bus operators have already agreed to a programme to increase the proportion of services operated commercially, such that will produce a full-year saving to Nexus of £440,770 pa<sup>28</sup>. This would bring the total savings delivered to Nexus to in excess of £2 million pa, with a negligible detriment to the travelling public."*

- (iii) In respect of bus infrastructure, the VPA requires further work before the benefits can be identified and the schedule of investment projects agreed between the Parties.
  
- (e) Nexus accepts that the VPA Proposal with regard to the Network has the potential to deliver a stable Commercial Services network that changes once per year in each district, with additional buses operating on some Commercial Services. A proportion of the current Accessibility provided by Nexus' Secured Services budget may be retained by the offer of £2 million of Nexus savings. However any Secured Bus Services that are not incorporated by Operators as a result of the Service Reconfiguration Study would be at risk of withdrawal as insufficient funding would be available for their

---

<sup>28</sup> The value of Agreed Service Actions was revised on June 2014 following a detailed analysis of the saving estimates provided by NEBOA

continued delivery. Further work is required to identify infrastructure investment programmes of all parties, to be included within the VPA Proposal.

- (f) There are concerns about the certainty and deliverability of the VPA Proposal, that affects Nexus' judgment on the scale and likelihood of achieving these benefits. This is discussed in Sections 6.5.10 to 6.5.22 below.

#### 6.5.4 VPA Benefits: Fares and ticketing

- (a) Fares and ticketing includes the range of products available that allow travel on buses and, in some cases, other modes of travel. This section also discusses changes to the price of those products. The current situation is as follows:
  - (i) Each Operator (as well as Nexus for Metro, Shields Ferry and Secured Bus Services) has its own distinct range of fares valid for travel on its own services. The result is that there is a very wide range of tickets available, which some passengers find confusing - particularly when they are irregular bus travellers - and can deter people from travelling. Furthermore all Operator multi-trip tickets are restricted to travel on that Operator only, and can be further restricted to certain bus services or corridors. This can also cause great confusion to passengers, particularly where more than one Operator serves a particular corridor and the passenger is either not fully aware of the ticket restrictions or of the brand identity of different Operators. Different Operators often charge different fares for the same journey.
  - (ii) Multi-Operator, multi-modal ticketing for travel within Tyne and Wear is provided by Network Ticketing Ltd, trading as Network One. Network One tickets are valid on the services of

all its members, which include all main Operators and Nexus. Network One tickets are priced at a premium compared to Operator-only tickets, and can be purchased on-board buses as well as at the outlets of agents of Network Ticketing Ltd. In addition, Operators offer a 'Transfare' which allows single-trip travel where an interchange is permitted between bus and Metro services. This ticket is priced at a significant premium compared to Operator single tickets.

(iii) Operators Stagecoach and Go North East, along with Tyne and Wear Metro owner Nexus, have all introduced their own Smartcards and commercial smart ticket products. These smart products do not allow interchange between operators (except where Metro products are valid on the Shields Ferry). At present Network One does not offer any Smart Ticketing products. The NESTI project, led by Nexus in partnership with operators and local transport authorities in the North East, will soon allow bus passengers to pay for Operator single and day tickets using the NESTI STR.

(iv) Overall, the main commercial ticket products available to passengers comprise:

- Tickets for single and return journeys;
- Tickets that allow unlimited travel for a period of time – for a day, a week, a month or a year. These can be available as paper tickets, on Smartcards or on mobile phones;
- Discount tickets for various sections of society such as students and people in further education, subject to eligibility; and

- Corporate and special tickets that provide discounted travel for people travelling to participating workplaces and leisure destinations.
- (v) In addition Nexus administers concessionary travel schemes that offer certain categories of bus passengers free or reduced fare travel. These are available for elderly and disabled people (through the mandatory free fare ENCTS, through the discretionary Companion Pass and through the discretionary allowance of free travel for ENCTS pass holders travelling to weekday pre 09:30 hospital appointments) and for young people (through the discretionary Under 16 scheme). Each scheme offers eligible passengers with travel by bus at a reduced cost, compared with the cost of commercial ticket products.
- (vi) Nexus offers a discretionary Taxicard scheme that allows discounted taxi travel for elderly and disabled people with mobility problems that are such they find it difficult to use buses.
- (b) The Do Minimum Scenario (see Section 1.4 for details) has the following consequences in respect of the fares and ticketing for bus travel in Tyne and Wear:
- (i) The range of Operator ticketing products is assumed to remain in place in the Do Minimum Scenario, along with existing Network One products. Fares may therefore continue to be inconsistent between different Operators in the same corridors or areas, and passengers will continue to have restricted choice of Operators on those corridors depending on whose multi-trip ticket they have purchased.

- (ii) Operator-specific Smartcards and NESTI STR Smartcards are assumed to still be made available. As smart fare capping is not a feature of NESTI as agreed with Operators, NESTI will allow passengers to pay for bus tickets using Smartcards, but it will not provide any form of financial incentive to them for doing so.
  - (iii) Free travel for elderly and disabled passengers will be retained through the statutory ENCTS, with Operators continuing to be reimbursed for revenue foregone on a 'no better off, no worse off' basis (see paragraph 1.4.4(b)). However, discretionary concessionary travel schemes operated by Nexus will be withdrawn due to funding constraints – the Under 16 scheme is forecast to be withdrawn by 2017, and the Taxicard scheme and the Companion Pass scheme will have to be withdrawn at some point, as well local discretionary add-ons to the statutory ENCTS which are travel after 23:00 on weekdays and travel before 09:30am on weekdays for people with a doctor's appointment. The order and timing of the withdrawal of concessions will be a matter for the NECA to determine.
  - (iv) Operators will alter fares in relation to their commercial needs, balancing their investment requirements, cost base and profit expectations when determining fare levels. Fares can be increased at any time, although it is assumed that the current trend of only increasing fares once a year is retained in normal circumstances.
- (c) The VPA Proposal will provide a fares and ticketing offering that is the same as today, with the additional of certain new ticketing products and related commitments:

- (i) The VPA Proposal offers a new bus to bus ticketing product, administered by Network One Ltd, that will allow unlimited travel by buses in Tyne and Wear provided by all Operators that are parties to the VPA Proposal, at prices higher than Operators' own unlimited travel products;
  - (ii) The VPA Proposal provides a commitment for Operators to *"provide a new range of tickets for 16 to 18 year olds"* that are available at a discount compared with normal adult tickets;
  - (iii) The VPA Proposal provides a commitment from Operators to only increase their prices for each product once a year, and to explain any above-RPI increases to Nexus and the Tyne and Wear Bus Partnership Board on a confidential basis; and
  - (iv) The VPA Proposal reaffirms Operators' commitment to NESTI, and the Chair of NEBOA's email to members of the NECA described NEBOA's commitment to *"a single, common Oyster-style 'smart card' ticketing option across the region"*. Operators' own Smartcards will be able to store the ticketing products of other Operators. Some 90% of bus services in Tyne and Wear will be able to facilitate travel using a Smartcard season ticket.
- (d) The VPA Proposal will offer the following benefits in comparison to the Do Minimum Scenario:
- (i) Travel around Tyne and Wear using buses operated by more than one Operator will be made easier and more affordable by the introduction of the Bus 2 Bus tickets;
  - (ii) Travel for 16-18 year olds will be cheaper; and

- (iii) The existing commitments to Smart Ticketing will continue, and be enhanced by the ability for passengers to store different Operators' season ticket products on a single Operator's smart card product.
- (e) Nexus accepts that the VPA Proposal, with regard to Fares and Ticketing, will introduce new products to the market that will enable cheaper travel for certain journeys that require the use of the buses of more than one Operator, and for 16 to 18 year olds.
- (f) Operators will also remain committed to the use of Smartcards for travel using season tickets and using stored value. However, Nexus does not agree with NEBOA's claim that these commitments mean that the VPA Proposal can deliver an "oyster style" Smart Ticketing product, as some of the key features of the Oyster card in London will not be provided, namely the inter-operability of a single Smartcard across all modes of travel and Operators, and the ability to apply a fare cap for daily travel when using stored value.

#### 6.5.5 VPA Benefits: Standards for Buses and Bus Drivers

- (a) The provision of buses and bus drivers is currently determined by Operators and, in the case of Secured Bus Services, Nexus.  
Presently:
  - (i) Buses of various sizes are provided by Operators, and will be selected having regard to the level of patronage on any given route and any restrictions on vehicles imposed by highway geometry. Buses are renewed by larger Operators on a rolling programme, generally as part of national fleet management programmes, and by smaller Operators on a needs basis. Newer vehicles when purchased are likely to achieve lower emission standards as required by European law. Newer vehicles are typically deployed on the most profitable routes,

and older vehicles are then cascaded onto less profitable routes.

- (ii) As part of on-going fleet replacement programmes, all brand new vehicles purchased by Operators conform to EU Directive 70/220/EC (as amended). This Directive applies to all new vehicles throughout Europe and sets increasingly stringent standards for engine emissions such as Carbon Monoxide (CO), Hydrocarbons (HC), Nitrogen Oxide (NOx) and Particulate Matter (PM). A tier of standards (known as 'Euro' ratings) have been phased in over time, and progressively require the use of improved technology to reduce harmful emissions and therefore create an improved environment. The standards which must be met by each Euro rating are summarised below.

Tier	Date	CO	HC	NOx	PM	Smoke
Euro I	1992, < 85 kW	4.5	1.1	8.0	0.612	
	1992, > 85 kW	4.5	1.1	8.0	0.36	
Euro II	October 1996	4.0	1.1	7.0	0.25	
	October 1998	4.0	1.1	7.0	0.15	
Euro III	<i>Oct 1999 EEVs only</i>	<i>1.0</i>	<i>0.25</i>	<i>2.0</i>	<i>0.02</i>	<i>0.15</i>
	October 2000	2.1	0.66	5.0	0.10	0.8
Euro IV	October 2005	1.5	0.46	3.5	0.02	0.5
Euro V	October 2008	1.5	0.46	2.0	0.02	0.5
Euro VI	31 December 2013	1.5	0.13	0.4	0.01	

- (iii) As at 31 March 2014, the fleet of buses used by the three large incumbent Operators within Tyne and Wear comprised of the following vehicles:

Euro Rating	Number of Vehicles in Fleet	Percentage of Fleet (%)
Euro II	81	7%
Euro III	107	10%
Euro IV	445	42%
Euro V	437	41%
Euro VI	1	0%

- (iv) Operators within Tyne and Wear on average use vehicles for a period of 15 years and therefore approximately 7% of the fleet is replaced each year, although the actual number of new vehicles purchased fluctuates each year subject to operational and commercial requirements. Future investment in new vehicles within Tyne and Wear will progressively see vehicles which meet the lower Euro ratings phased out and replaced by new vehicles which meet the highest specification.
- (v) Some Operators within Tyne and Wear also operate Low Carbon Emission Buses (LCEBs). These new vehicles reduce production of CO<sub>2</sub> by up to 30% and also significantly reduce the amount of fuel consumed, which can therefore reduce operational running costs for Operators. However, this new technology currently requires an additional up-front capital investment which to date has not been at a level which is commercially attractive to private bus operating companies. In England, the national government has therefore tried to stimulate demand by offering a matched-funding capital grant known as the Green Bus Fund (GBF) to assist Operators seeking to purchase them. It was envisaged by the government that the additional demand created by the GBF would lead to economies of scale for manufacturers (most of whom are based in the UK) thus allowing them to further reduce unit costs for the new vehicles.

- (vi) Within Tyne and Wear, all three large incumbent Operators have been keen to adopt this new technology and as at August 2014, a total of 94 Low Carbon Emission Buses (LCEBs) were operational within the Tyne and Wear fleet. All of these vehicles were purchased with the assistance of GBF and are either diesel-electric hybrids or vehicles fuelled by biomethane.
- (vii) Alongside the investment in recent new vehicles has been a focus on investing in additional on-bus quality features to enhance the overall passenger experience. Within Tyne and Wear this has included, for example, the provision of free customer WiFi (in some cases installed with grant funding made available by Nexus), audio-visual 'next-stop' announcements, electrical charging points and more comfortable seats. Operators have also continued existing bus refurbishment programmes which generally see improvements as and when required.
- (viii) Nexus and operators are currently working in partnership to establish a Tyne and Wear-wide automatic vehicle location (AVL) system for all buses which would allow the provision of real-time information for all passengers with access to the relevant technology. This is discussed further below.
- (ix) PSVAR requires that all buses weighing up to 7.5 tonnes will be fully accessible to all passengers from January 2015. Single deck buses over 7.5 tonnes will be fully accessible by January 2016 while double deck buses over 7.5 tonnes must be fully accessible by January 2017. PSVAR also requires that buses display service number and destination on the front and nearside of vehicles to aid passengers in identifying their service, with service numbers also displayed on the rear. Compliance with these requirements is assessed by

DVSA/Traffic Commissioner spot checks. Taxibuses are excluded from this requirement.

- (x) Each Operator has its own standards for cleaning the interior and exterior of buses. Operators' fleets have various systems in place to heat and ventilate their vehicles in cold and hot weather. Each operator has its own bus livery, many routes have specific liveries – this is known as 'route branding'. CCTV is not a legal requirement on buses, although most of the Tyne and Wear fleet is fitted with cameras and recording equipment to help reduce insurance costs and claims, as well as improve the passengers' perception of safety. Some vehicles are also fitted with screens showing scrolling live images from the cameras helping to further improve the passengers' perception of safety.
- (xi) Operators provide advertising space on the outside and inside of their vehicles, and often display notices about their own service changes and fare promotions.
- (xii) Operators are currently moving towards all buses being fitted with two-way voice and data communications. This will allow drivers to communicate with their depot as problems arise.
- (xiii) Drivers training and performance are matters for each operator, according to their own policies and procedures. Since September 2013 all bus drivers must, by law, hold a Certificate of Professional Competence (CPC). In addition most operators provide drivers with training on safe driving techniques, fuel efficient driving and customer care.
- (xiv) Nexus requires that all operators of Scholars Services contracts provide assurance that drivers have a suitable DBS clearance.

- (xv) Operators continue to explore the application of new technology and are incentivised to do so through the potential for a greater commercial return on their investment. The recent development of new 'Flywheel' Technology by the Go Ahead Group to help reduce fuel consumption and emissions provides a good example.
  
- (b) The Do Minimum Scenario has the following consequences in respect of the standards for drivers and buses in Tyne and Wear:
  - (i) Vehicles will continue to be renewed by larger operators on a rolling basis in accordance with nationally managed fleet cascade programmes. Newer vehicles are assumed to be deployed on the more profitable routes, in line with current practice. As new vehicles are introduced and older vehicles are scrapped or sold, the emissions levels will progressively improve with all new buses introduced meeting the highest Euro VI emissions standards, as will the introduction of quality benefits such as the provision of free customer WiFi, audio-visual 'next stop' announcements and electric power sockets for phones and laptops. Further innovations that benefit passengers may also be introduced on buses, subject to the commercial case being made or where public grants are available. It is estimated that by 2025 all vehicles will meet, or exceed, Euro V engine emissions standards, assuming that no vehicles of greater than 16 years of age remain in operation (which is a normal industry maximum age for most operators' fleets). The average age of vehicles used within Tyne and Wear is likely to remain at current levels and therefore is likely to fluctuate between 7.5 and 8.0 years in line with recent trends.
  
  - (ii) The existing situation in terms of bus cleanliness, bus liveries and heating/ventilation systems is assumed to continue.

Existing PSVAR requirements for accessibility and service number/destination displays will remain, as will existing compliance spot check procedures. It is assumed that current high levels of installed CCTV camera and recording equipment will be retained, and that all vehicles will be fitted with two-way voice and data communications. Operators will continue to provide advertising space on the outside and inside of their vehicles, and often display notices about their own service changes and fare promotions.

(iii) Current driver training requirements are also assumed to be retained. Once Nexus-funded Scholars Services are withdrawn by 2025, the presence of mandatory DBS-checked drivers for school travel will not be retained. Drivers will wear the uniforms provided by each operator.

(c) The VPA Proposal envisages that the delivery of buses and bus services will reflect current practice and structures. Operators will continue to invest in their vehicle fleet, invest in facilities included within those vehicles and set standards for the operation of the vehicles and drivers. The VPA Proposal makes certain commitments in relation to buses:

(i) In his communication with members of the NECA, the Chairman of NEBOA described the features of the VPA Proposal in this regard as follows:

*“Bus operators have agreed to maintain their level of investment in their services and facilities, which will see the average age of the Tyne and Wear fleet fall to and be maintained at 8 years. Each operator has its own investment plan that will see the region become one of the main centres for operation of Low Carbon Emission buses (LCEB) and*

*alternative fuel buses. In many cases, the vehicle investments are backed up by significant investment in supporting infrastructure and staff training.”*

- (ii) By 2017, 68% of the Operators’ fleet will achieve Euro V emissions or better, rising to 81% by 2019. From the commencement of the VPA Proposal, NEBOA claims that all vehicles will achieve Euro III emission standards, however this is not reflected in the data supplied from Operators;
  - (iii) The VPA Proposal commits Operators to provide no fewer than 125 LCEBs on commencement of the VPA Proposal, which will be retained in the Tyne and Wear fleet for at least three years. This commitment will therefore deliver an additional 31 LCEBs to the Tyne and Wear bus network compared with today. All new vehicles procured by Operators after 31 December 2015 will achieve Euro VI emission standards, as required by European legislation;
  - (iv) The VPA Proposal commits Operators to the achievement of a range of service quality standards in relation to punctuality, reliability, cleanliness and vehicle operation. In return, Nexus and local highway authorities commit to the achievement of service quality standards in relation to bus stops, bus stations and journey information. Failure to reach thresholds in these standards will trigger payments to a Service Improvement Fund (further details below).
- (d) The benefits of the VPA Proposal in relation to standards for buses and bus drivers can therefore be summarised as follows:
- (i) In his communication with members of the NECA, the Chairman of NEBOA described the benefits of the VPA Proposal in this regard as follows:

*“Continuing investment will see Tyne and Wear provided with one of the most modern bus fleets in the country, able to take advantage of new developments in bus technology, improved passenger comfort and additional passenger benefits such as next stop announcements, free Wi-Fi and at-seat power sockets for mobile devices.”*

- (ii) A fleet of newer and lower emission buses, including the additional 31 LCEBs, will be provided in Tyne and Wear during the course of the VPA Proposal. The 125 LCEBs will remain in operation in Tyne and Wear for at least three years following commencement of the VPA Proposal; and
  - (iii) A series of service quality standards will be agreed, failure to meet those standards will lead to payments into a Service Improvement Fund.
- (e) In summary, the VPA Proposal provides benefits in terms of newer and cleaner vehicles, as well as a commitment to a range of service standards. However, there are concerns about the certainty and deliverability of these proposals, which affects Nexus’ judgment on the scale and likelihood of achieving these benefits. This is discussed in Sections 6.5.10 to 6.5.22 below.

#### 6.5.6 VPA Benefits: Customer Experience

- (a) This section details the customer experience that is offered to bus passengers across Tyne and Wear. At present Operators of Commercial Services each have their own customer charters (often contained within their conditions of carriage) that provide information about matters such as the expectations that passengers should have when travelling on buses, what they should do if they

have a complaint and who they should speak to if they lose their property on the bus.

- (b) The Do Minimum Scenario will not change the current provision of customer experience standards compared to now, and so the existing customer charter provisions for each operator are assumed to be retained. Currently enforcement of compliance with passenger charters is wholly managed by the individual Operators themselves, providing limited recourse if an Operator does act in breach of their charter although customers are referred to the Bus Appeals Body if they are not satisfied with the manner in which a complaint has been handled. Refunds are normally available at the Operators' sole discretion. Existing charter commitments do not cover Operator performance in terms of punctuality or reliability, nor are these reported to customers. Customer satisfaction as measured by Passenger Focus is sometimes reported to passengers, although this differs by Operator.
- (c) The VPA Proposal makes a commitment to a model customer charter, which will be adopted by all Operators that are parties to the VPA Proposal. This will ensure that minimum standards of customer experience will be applied evenly across all services under the VPA Proposal. Each Operator will provide a point of contact in the charter for their own services. The charter includes a range of commitments in relation to the level of service that passengers can expect when using the bus. In his communication with members of the NECA, the chairman of NEBOA highlighted the following:

*"A 'mutual aid' arrangement will mean that in the event of a bus breaking down, passengers will be able to transfer to any other bus, irrespective of operator."*

- (d) The VPA Proposal also provides a commitment to publish service performance statistics to the Tyne and Wear Bus Partnership Board, data that will also be available for inspection by bus passengers via the Nexus website.
- (e) The benefits of the VPA Proposal in relation to customer experience can therefore be summarised as an improved and consistent customer charter that, inter alia, contains a commitment to ensuring that passengers can gain onward travel regardless of which Operators' bus is available for travel. The customer experience will also be enhanced by the publishing of performance information on the Nexus website.

#### 6.5.7 VPA Benefits: Journey Information

- (a) Journey information allows existing and future passengers to plan regular and occasional journeys in advance, track the progress of their buses during their journeys and receive information about fare offers and other promotions that may influence their decision to travel.
  - (i) At present printed bus timetable information is prepared by individual Operators for their own services with each using their own corporate format. Operators also provide some materials online and some provide maps of their own networks. Nexus provides a printed timetable at all 6,500 bus stops in Tyne and Wear that sets out all the bus departures from that stop. These printed timetables are updated regularly in response to changes to timetables introduced by Operators, or at the request of Nexus in relation to the provision of Secured Bus Services.
  - (ii) Online journey planning tools are available on the Nexus website (to cover all bus Operators' services) and timetable

search tools are available on Operators' own websites. There are also a number of national and regional websites and mobile applications that provide online bus journey planning, timetable and real-time service tracking information to passengers with a suitable mobile device.

- (iii) All bus stops in Tyne and Wear are equipped with 'Next Bus' text codes, NFC tags and QR codes that enable passengers with mobile devices to access timetable information specific to that bus stop. Information for all Operators serving that stop is provided.
  - (iv) Nexus is currently working with Operators to introduce Real Time Information to all bus passengers in Tyne and Wear and the North East region, based on real-time vehicle tracking for all scheduled services. This system will be delivered towards the end of 2014, and will feed online website and apps, as well as providing real-time bus service tracking information to users of the Next Bus text service and the NFC service provided at bus stops.
  - (v) Operators' own websites and the Nexus website along with printed media, spoken media and outdoor poster campaigns are used to advertise promotions and special arrangements to bus passengers. These include fare promotions, arrangements for special events and announcement of new initiatives for passengers.
- (b) The Do Minimum Scenario envisages that the current situation will remain largely unchanged. Planned investments in Real Time Information will be completed and will provide live tracking of bus services for passengers with an appropriate mobile device or online access to complement the existing range of online journey planning

tools. The existing provision of printed timetables at bus stops will remain, subject to the funding for this service being maintained by the NECA. Individual Operators will continue to provide timetables and, in some cases, maps in print form and electronically on their own websites.

- (c) The VPA Proposal envisages that the current provision of information will remain in place, and some enhancements be implemented. Operators will prepare their own printed and online timetable materials, and advise Nexus in advance when network changes are planned so that online databases used for journey planning can be updated. The VPA Proposal requires that Nexus funds timetables for Secured Bus Services where they are amended. Operators will continue to work with Nexus to deliver Real Time Information, allowing passengers to track the progress of their bus in real-time. Journey planning websites will be provided by individual Operators (for their services) and by Nexus (across all Operators), as is presently the case. All printed and online materials will feature a common Partnership logo.
- (d) The benefits of the VPA Proposal in respect of journey information are modest, reflecting the continued commitment to provide a range of printed and online information sources about services for each Operator, and also work with Nexus to deliver Real Time Information. In return, Nexus will continue to deliver at-stop printed information across Tyne and Wear.

#### 6.5.8 VPA Benefits: Governance of Bus Services

- (a) Governance of bus services relates to the way in which the bus network is planned and delivered, how changes to the network are decided, how fare changes are decided and how performance of services and the network is measured. At present the bulk of the bus

network in Tyne and Wear is provided by Operators, who make decisions about services, service changes and fares based on commercial considerations (see Section 1.3.5 for details). This can lead to numerous minor service changes in the course of a year and often a number of more significant network changes and fares changes. Operators consult informally with Nexus, other public authorities and passengers regarding some changes. Fares are normally changed without consultation. The routes, frequencies and fares of Secured Bus Services are decided by Nexus, and changes normally take place only after structured consultation with local councillors and other appropriate stakeholders. Consultations and responses are published on the Nexus website.

- (b) In the Do Minimum Scenario, it is assumed that governance of bus services remains the same as now, with commercial considerations remaining paramount and Operators determining service configuration with some limited involvement of passengers and stakeholders, but with no consultation applicable to fare changes. The withdrawal of Secured Bus Services would lead to the absence of any formal involvement of councillors and other stakeholders in determining bus services.
- (c) The VPA Proposal would lead to improvements in the involvement of members of the NECA and Nexus in discussing (but not determining) changes to the bus network:
  - (i) A Tyne and Wear Bus Partnership Board will be established, with equal representation on that Board amongst all parties from the Operators and the NECA (and its constituent councils). This Tyne and Wear Board will be supplemented by further local Boards in each Tyne and Wear district;

- (ii) These Boards will consider changes to the bus network put forward by Operators, as well as suggestions from other sources. A formal process of consideration and recommendation will be enacted for such changes to the network, however the final decision on network changes will always rest with the relevant Operator;
  - (iii) Operators will also explain, on a confidential basis, to Nexus and the Tyne and Wear Partnership Board the reasoning behind any above-RPI annual fare increases. Annual increases below RPI will not be reported;
  - (iv) The Tyne and Wear Partnership Board will make decisions on how the Service Improvement Fund will be deployed in order to meet the objectives of the VPA Proposal.
- (d) The benefits of the VPA Proposal in relation to the governance of bus services are described by the Chairman of NEBOA as follows:

*“The operators recognise the importance of good relationships with local authorities and councillors, and have suggested that the VMA should be supported by establishing a Bus Partnership Board in each of the five districts in Tyne and Wear, together with a Tyne and Wear Bus Partnership Board. The Tyne and Wear Board would primarily be responsible for ‘strategic’, county-wide issues relating to the bus network as a whole; local boards would oversee the operation of the network in their areas.”*

- (e) There are concerns about the certainty and deliverability of these proposals that affects Nexus’ judgment on the scale and likelihood of achieving these benefits. This is discussed in Sections 6.5.10 to 6.5.22 below.

#### 6.5.9 VPA Benefits: Additional Economic, Social and Environmental Implications

- (a) The above sections examine specific elements of bus network provision in the Do Minimum Scenario and the VPA Proposal. However there is a wider context that arises from these network features, in terms of the environmental, social and economic implications of the VPA Proposal.
- (b) It is noted that research commissioned by Greener Journeys in 2014 suggests that bus network improvements have a direct relationship with employment levels, which result in monetised direct transport benefits being increased by 10% (see paragraph 1.3.1(f)). There are social benefits of the improvements to bus networks envisaged in the case of the VPA Proposal that are additional to the monetised effect set out below.
- (c) The benefits that arise from the VPA Proposal are therefore not simply desirable in their own right, they are also expected to deliver a bus network that is a facilitator of additional social and environmental benefits to the local area – these benefits go beyond those that have been monetised. The structure of the assessment of these wider benefits has been based upon WebTAG and the components of the Appraisal Summary Table that DfT uses to assess the benefits of a transport intervention.
- (d) These benefits are not quantified and are described here in broad terms. However, it is important to reflect that retaining a good bus service in the future that is accessible and affordable will facilitate this range of further benefits.
- (e) These include:
  - (i) Improved Access to Jobs and Training: the VPA Proposal will retain the Accessibility associated with a proportion of the

Secured Bus Services network that would be withdrawn in the Do Minimum Scenario. This will maintain and provide greater access to jobs and training than would otherwise be the case; while the benefits of this greater accessibility are captured in the economic appraisal of monetised benefits below, there are wider benefits associated with improving the prospects of finding work and improving the rewards of work through training which are not captured through the monetised benefits. These benefits are a key finding of the Greener Journeys report on Buses and the Economy, as discussed at paragraphs 1.3.1(f). Young people and unemployed people of all ages have limited travel horizons in terms of the affordability of travel time and the length of journey time that is considered viable when seeking work and training. Therefore by maintaining some of the bus network that would otherwise be withdrawn, the VPA Proposal will facilitate wider economic benefits associated with an active and trained workforce that is able to access job opportunities. Furthermore the new fares for 16-18 year olds will enhance the affordability of bus tickets, allowing young people an enhanced opportunity to study and work in locations that better match their needs and abilities.

- (ii) **Improved Health:** public transport use can contribute to improving public health, by providing good access to a wide range of healthcare facilities for people that do not have access to (or cannot use) a car and by encouraging physical activity through walking at either end of a bus journey and by having an active lifestyle. By maintaining some of the Secured Bus Services that would otherwise have been withdrawn and by reducing fares for 16-18 year olds the VPA Proposal will help to facilitate access for a greater number of people to such

facilities, contributing to the health of public transport users. An improved environment is also good for improving people's health;

- (iii) **Environment:** a number of direct environmental benefits associated with the VPA Proposal have been captured above, notably in relation to the progressive introduction of newer Euro VI buses that emit lower levels of pollutants;
- (iv) **Journey Quality:** by accelerating the introduction of newer vehicles to the Tyne and Wear bus fleet the quality of journeys available to bus passengers is likely to be enhanced. This is a qualitative benefit that can influence the use of buses;
- (v) **Option Values:** people place a value on the presence of a bus service as an option, even though they may not be regular users and therefore contribute financially to the operation of the service in a limited manner – the Greener Journeys report<sup>29</sup> calls this the “social insurance dimension”, and places a notional monetary value of £2.50 per household per week on this effect. By maintaining some of the Secured Bus Services that would otherwise have been withdrawn the VPA Proposal makes a contribution to this perception.

- (f) The above assessment shows that there are additional benefits to bus users associated with the VPA Proposal.

#### 6.5.10 Securing The VPA Benefits

- (a) Nexus acknowledges that NEBOA has provided a proposal that attempts to address many of the objectives within the Bus Strategy

---

<sup>29</sup> <http://www.greenerjourneys.com/2014/07/buses-economy-ii/>

for Tyne and Wear. NEBOA has attempted to implement, through its VPA Proposal, a governance structure which will support this.

- (b) However, Nexus has examined the VPA in detail and has concerns about the deliverability of various aspects of the VPA Proposal, as well as concerns about the way in which the VPA Proposal can be terminated in various circumstances. Furthermore, there are concerns that the current draft of the VPA Proposal, which is offered by NEBOA as a 'best and final offer', contains clauses that Nexus is unable to commit to. Whilst Nexus is willing to engage in negotiating further changes to the VPA Proposal where this will improve NEBOA's offer, at the time of this analysis NEBOA has not materially changed its offer, nor indicated that it is willing to do so.
- (c) These concerns are set out in detail below.

#### 6.5.11 Assessment of the VPA Proposal: Competition Test

- (a) VPAs are subject to a competition test, set out in Part 2 of Schedule 10 to the Transport Act 2000 ("Competition Test"), to ensure that such agreements are limited to those provisions which are necessary for the delivery of passenger benefits, and that the impact on competition between Operators is limited to that which is necessary for the delivery of those benefits. For the purposes of that test, Nexus is of the view that the VPA Proposal put forward by the Operators is intended to be a voluntary multilateral agreement ("VMA"), as defined in paragraph 17 of Schedule 10. The test that will therefore apply is:

*"A VMA ... to which this Part of this Schedule applies is exempt if: it contributes to the attainment of one or more of the bus improvement objectives; it does not impose on the undertakings concerned restrictions which are not indispensable to the attainment of those*

*objectives; and it does not afford the undertakings concerned the possibility of eliminating competition in respect of a substantial part of the services in question."*

- (b) Therefore, for the VPA Proposal to avoid being prohibited, it would need to meet these specific requirements. Any agreement that is prohibited is void. The VPA Proposal will need to be tested against these criteria to confirm whether or not it is at material risk of being prohibited.
- (c) Bus improvement objectives for the purposes of the first limb of this test are defined as:

*"(a) securing improvements in the quality of vehicles or facilities used for or in connection with the provision of local services,*

*(b) securing other improvements in local services of benefit to users of local services, and*

*(c) reducing or limiting traffic congestion, noise or air pollution"*

- (d) Nexus is of the view that the VPA Proposal is aimed at meeting these wider statutory objectives, including aspects of the Bus Strategy Objectives, and therefore considers that this limb should be satisfied.
- (e) The second limb of the test requires that the VPA Proposal does not impose restrictions which are not indispensable to the attainment of those objectives. As noted below, in respect of the VPA Proposal the actual restrictions imposed on the Operators who are party to it are limited. In many cases where a restriction could have an onerous effect on the Operator (for example, constraining their ability to compete), the VPA Proposal provides for them to be able to terminate the VPA Proposal (or its application to that Operator).
- (f) The VPA Proposal will fail the third limb of the test and consequently be prohibited if it eliminates competition; therefore the VPA

Proposal has been drafted to allow Operators to terminate their involvement at will in order to avoid failing the third limb of the test. However, that same flexibility inevitably, as explained in more detail below, significantly undermines the certainty of delivery for many of the benefits which the VPA Proposal otherwise would appear to have the potential to provide.

- (g) Nexus understands that compliance with the Competition Test may have been assessed by Operators' legal advisors, but this assessment has not been provided despite requests being made. In light of this, Nexus acknowledges that whilst the VPA Proposal is a 'best and final' offer, it may be subject to change beyond the control of the Operators.
- (h) The VPA Proposal will require assessment against the Competition Test, once the benefits derived from the final form VPA Proposal have been determined. The lack of clear and effective rights for either Nexus, the NECA or other Operators to enforce the VPA Proposal against an Operator in breach, and in particular the ability for Operators to change the network in competitive situations should limit the anti-competitive effect of the VPA Proposal. This may allow the VPA Proposal to meet the Competition Test, but, as analysed in detail in this document, at the expense of enforceability and certainty.
- (i) The VPA Proposal states that all parties have considered the application of competition law to the VPA Proposal and are satisfied it complies. The Operators have not provided any specific response on the drafting notes Nexus provided to the December 2013 version or raised in clarification meetings, despite Nexus requesting that they provide a clear opinion that their lawyers are satisfied it complies with relevant law. If the VPA Proposal is not competition law compliant, it would be void. This is therefore a risk, as a void

agreement would not deliver the benefits expected, and would potentially have led to Nexus and the NECA abandoning delivery of a QCS.

6.5.12 Assessment of the VPA Proposal: Enforceability

- (a) Nexus has significant experience of managing service contracts with enforceable performance regimes over fixed contractual terms lasting several years. Such contracts typically include a material level of liability following breach, sufficient to incentivise performance by the counterparty and discourage breach typically including material termination liabilities.
- (b) There is a lack of such incentives under the VPA Proposal as compared to such a service contract. Therefore due to the form of contract and remedies available under the VPA Proposal, Nexus is not confident that, in the event of a breach, it will always be able to enforce with any certainty, delivery of those benefits that are to be provided under the VPA Proposal over the equivalent period to the proposed QCS. In particular it should be noted that if the VPA Proposal was terminated, Operators would be able to return to commercial operation without the constraints imposed by the VPA Proposal (in order to deliver its benefits). Nexus considers that consequently in some circumstances operators may even be incentivised to seek early termination of the VPA Proposal.
- (c) Nexus therefore has significant concerns about the overall enforceability of the VPA Proposal when compared to the relative enforceability of the QCS, and the individual Quality Contracts under the QCS.

#### 6.5.13 Assessment of the VPA Proposal: Operator Withdrawal

- (a) Many of the benefits proposed to be delivered by the VPA Proposal effectively depend upon all three of the major Operators continuing to participate in the VPA Proposal to deliver the benefits.
- (b) The potential for withdrawal of any of the individual major Operators from the VPA Proposal therefore creates risk for the delivery of benefits under the VPA Proposal, both due to that Operator no longer participating, and the impact of the removal of constraints on competition on that Operator following their withdrawal. Therefore whilst the VPA Proposal expressly provides for the theoretical withdrawal of individual Operators, without the overall VPA Proposal terminating, this possibility still creates a substantial risk that following such individual termination the VPA Proposal will no longer deliver the benefits proposed across Tyne and Wear.
- (c) Additionally, the withdrawal of one Operator from the VPA Proposal would materially increase the commercial reasons for the remaining Operators to follow suit and withdraw to allow them to competitively respond to the actions of an Operator operating services outside the constraints of the VPA Proposal. There is an on-going delivery risk that arises from those provisions within the VPA Proposal which allow the Operators to terminate their participation at will during the term of the VPA Proposal.

#### 6.5.14 Assessment of the VPA Proposal: Parties to VPA Proposal

- (a) The VPA Proposal would be entered into by Nexus, the NECA, the five Local Authorities for the QCS Area, and the three major Operators in the QCS Area: Arriva Northumbria Limited, Busways Travel Services Limited, and Go North East Limited. Other Operators are entitled to accede to the VPA Proposal with the written agreement of all of the parties.

- (b) Under the VPA Proposal a number of public sector partners are required to deliver investments that are predicated on the availability of public funding. This increases the risk that if one or more parties is not able to deliver their commitments, the certainty that the VPA Proposal will be in place for the entire ten-year period that is envisaged will be materially reduced. For example, the Local Authorities as highway authorities for their respective areas must be parties to the VPA Proposal as it is intended that facilities that they, rather than the NECA, provide are part of the facilities provided pursuant to the VPA Proposal. This puts the VPA Proposal at risk if funding or other constraints within any one or more of the Local Authorities mean that they are no longer able to provide or maintain facilities detailed in the VPA Proposal which are their responsibility, whether or not those constraints are within their control.
- (c) Nexus remains responsible for the provision of Secured Services, as well as delivering the NECA's bus strategy within Tyne and Wear, therefore it is appropriate that Nexus, as well as the NECA, is a party to the VPA Proposal.

#### 6.5.15 Assessment of the VPA Proposal: Operators

- (a) The VPA Proposal does not currently include any named Operators other than the three large commercial Operators. It does, however, make very basic provision for the accession of other Operators to the VPA Proposal, should they enter the market.
- (b) Accession to the VPA Proposal by new entrants to the Tyne & Wear bus market would, however, be entirely voluntary. Therefore there is no guarantee that new entrants to the market would become parties. If they did not, they would not be bound by the requirements of the VPA Proposal. It should be noted that many of the requirements of the VPA Proposal (namely those relating to:

services, implementation of ticketing arrangements, investment in bus services etc.) are drafted solely on the basis of the three main incumbent Operators being a party to the VPA Proposal.

Considerable commercial negotiation may therefore be required to deal with any new entrant (or incumbent Operator of Secured Services) becoming a party to the VPA Proposal. These negotiations could result in changes to the VPA Proposal, further reducing the certainty of the benefits it could deliver.

- (c) The VPA Proposal does not include any additional requirements for Quality Partnership Schemes or other arrangements which might restrict entry to the market of other Operators, and as noted below, the VPA Proposal allows Operators to continue to react to competition. It follows that if a new Operator were to enter the local market; there would therefore be a material risk to the stability and deliverability of the VPA Proposal. In the current economic environment Nexus considers the risk of a major new entrant into the Tyne and Wear market under a VPA (and indeed in the Do Minimum Scenario) to be low; however, it is not possible to predict with certainty how the position might change over the life of the VPA Proposal.
- (d) NEBOA's membership, and the Tyne and Wear bus market as a whole, currently includes a number of small incumbent Operators in addition to the three large incumbent Operators who are currently proposed as parties to the VPA Proposal. Based on Nexus's analysis of its likely impacts, the VPA Proposal does not either directly or indirectly offer Nexus sufficient savings to safeguard the future provision of all Secured Services contracts across Tyne and Wear, a market that the small incumbent Operators are particularly active in. There is therefore, a material risk that implementation of the VPA Proposal may affect the ability of these small incumbent Operators

to continue to operate in the Tyne and Wear market over the term of the VPA Proposal as their core business would still either be lost or seriously eroded. In particular, the proposals relating to Secured Services savings focus on the three large incumbent Operators providing commercial replacements for certain elements of those services that are currently secured by Nexus. Whilst this would likely deliver some savings to Nexus, this would be at the expense of those smaller incumbent Operators who currently operate those Secured Services, eliminating the ability for smaller incumbent Operators to operate them and hence the opportunity to retain their existing businesses. Therefore whilst the VPA Proposal may have lower adverse effects on the three large incumbent Operators, it seems likely to have materially greater adverse effects on smaller incumbent Operators than implementation of the QCS, with its key cost saving measure being a specific potential cause of lasting harm to smaller incumbent Operators' businesses.

#### 6.5.16 Assessment of the VPA Proposal: Termination

- (a) Nexus accepts that the right to terminate under the VPA Proposal does not mean that Operators will actually choose to terminate. However, those rights provide an opportunity for Operators either to exit the VPA Proposal or to renegotiate the arrangements. In any negotiation, Operators would be negotiating from a position of strength as continued delivery of benefits would likely have to be on their terms. It follows that to the extent that termination rights can be exercised in circumstances beyond the control of Nexus or other public sector parties; those rights materially reduce the certainty of delivery of the benefits proposed under the VPA Proposal.
- (b) The various provisions allowing for termination are considered below:

- (i) **Term:** the VPA Proposal allows for termination by agreement with written consent of all parties.

**What is the risk?** As this requires the consent of all parties, the use of this provision falls within the control of Nexus and therefore is not a specific risk to certainty of delivery.

- (ii) **Defaulting Party Material Breach:** Currently, the VPA Proposal proposes that any party can terminate by notice in writing in the event of another party's material default, subject to them having given the defaulting party an opportunity within a prescribed period to remedy the default.

**What is the risk?** Whilst it is reasonable for material breach to be a potential basis of termination, Nexus considers that this should not be capable of being used by a party to escape from the terms of the VPA Proposal unless the breach also causes that party material harm. For instance if Operator A is in breach of its obligations in respect of services standards, Operator B should have to demonstrate not only that the breach is material and has not been remedied but that it has been subject to a "Material Adverse Effect" caused by the breach, before it can exit the VPA Proposal in reliance on such a breach. Otherwise any party wishing to find a pretext to exit the VPA Proposal would be incentivised to look for breaches by other parties, to enable them to escape from the contract. This appears to be contrary to the principles of partnership.

- (iii) **Local Authority Default:** if a Local Authority fails to implement or enforce fully the specific initiatives which they have committed to implement under the VPA Proposal or if it reduces the hours of operation within those initiatives, then

unless the Local Authority replaces those initiatives with alternative measures which are comparably effective, Operators can withdraw on 6 months' notice. Such a notice cannot be served until the parties have met at the next scheduled District Bus Partnership Board (DBPB) to discuss these changes. It has been proposed that the District Councils' planned bus-related schemes form the basis of their commitments under the VPA Proposal.

**What is the risk?** A default by one of the Local Authorities could lead to an Operator being able to terminate its role in the VPA Proposal. Such default could arise due to funding constraints, changes to funding priorities, or difficulties in obtaining planning or other consents for the scheme to proceed. A wider policy decision within a Local Authority could therefore give a reason for the VPA Proposal to dissolve, even where both the NECA and Nexus continued to comply with their obligations under the VPA Proposal. This increases the risk to deliverability of the VPA Proposal compared to the QCS, as any such public highway related decision could impact the deliverability of the VPA Proposal. By contrast, whilst infrastructure delivery might support the realisation of benefits under the QCS (or deliver additional benefits), it is not a pre-requisite of the QCS, and the QCS is not therefore reliant upon it in the same way the VPA Proposal is.

- (iv) **Material Deterioration:** Operators have retained the ability to terminate their own participation on 9 months' notice where there is a material deterioration in bus operation finances. The VPA Proposal includes the following:

- (A) Bus Service Operator Grant (BSOG) being reduced below the level at April 2012.

**What is the risk?** As BSOG is a central government grant, Nexus and the NECA have no control over such changes. Given the reductions which have occurred to BSOG over the last 10 years, it is reasonable to assume in the current financial environment that there is a material risk of further reductions during the term of the VPA Proposal. This is therefore likely to have a knock-on impact and increase the risk of Operators withdrawing from the VPA Proposal.

- (B) Reduction in the current total reimbursement level (net of RPI) for Concessionary Travel (ENCTS).

**What is the risk?** This provision does not appear to cater for the possibility that ENCTS patronage may reduce, as this would inevitably require that Nexus revised, and potentially reduced, its total reimbursement level to Operators thus potentially putting it in breach of this aspect of the VPA Proposal. ENCTS is required to be reimbursed on a 'no better no worse' basis, with Operators having a statutory right to appeal where new reimbursement arrangements would lead to them being under-reimbursed for carrying such passengers. Whilst Nexus is of the view that it currently reimburses Operators in accordance with the legislation, if it was determined that Nexus's current scheme did not meet those requirements this provision would put Nexus at risk of being either contractually obliged to maintain payments that did

not meet the no-better no-worse principle, or reduce payments and lead to the potential termination of the VPA Proposal.

Furthermore, given the cost of reimbursing Operators under the current ENCTS arrangements, Nexus believes that there is a credible risk of a future government changing the approach to ENCTS in a way which leads to a change in eligibility, and therefore payments, under ENCTS.

However, unless Operators are currently over-reimbursed for ENCTS, none of these points should adversely financially impact Operators due to the no-better no-worse requirement. Nexus therefore considers that this requirement is entirely unnecessary.

The VPA Proposal provides that, should the current total reimbursement level of ENCTS reduce, the Operators may implement mitigating measures. There is no explanation as to what these mitigating measures might be, but it is expected that they would result in network instability and contraction, or increases to fares beyond expected levels, or all of these things, which have a direct and negative impact on passengers.

(C) Reduced Operator Profitability.

**What is the risk?** Where such deterioration is identified by an Operator, then the notice to terminate can be served unless appropriate mitigating measures

are agreed during the quarterly scheduled meeting, with no party being able to unreasonably withhold agreement to those mitigating measures. This means that any of these identified deteriorations could lead to termination by an Operator, if mitigating measures cannot be agreed. Alternatively, it means that Operators could propose mitigating measures which materially reduced the benefits derived from the VPA Proposal, including the maintenance of the accessibility of the network, or which had a material cost to Nexus or the NECA, such as supporting the less commercial parts of the Operator's network as Secured Services. To the extent that either the mitigation agreed reduces benefits and/or no mitigation can be agreed, this creates a risk that the VPA Proposal will not deliver the benefits proposed, either through the mitigation reducing the benefits of the VPA Proposal, or leading to complete Operator withdrawal from the VPA Proposal. Alternatively, where the mitigation proposed requires expenditure by Nexus or the NECA, this reduces the affordability of the VPA Proposal. Whilst Nexus appreciates that Operators will need to manage the effect of adverse commercial impacts on their business, as currently drafted Nexus and the NECA have very limited control over those outcomes, or managing those outcomes in a way which retains the maximum benefits for the travelling public, thus reducing considerably the certainty of delivery of benefits by the VPA Proposal.

The level of risk presented by this provision is

considered by Nexus to be high as this partially transfers to Nexus the risk of any Commercial Services becoming unviable during the term of the VPA Proposal, and in particular would allow Operators to seek to use the mechanism where parts of their network had reduced profitability, for example where there is a complete or partial reduction in demand for services; or in the event of an increase in the costs in providing the service; such that maintenance of such Service(s) is no longer viable.

- (v) **Introduction Of Quality Contract Scheme:** the VPA Proposal allows for termination by any Operator where "that Operator becomes aware that a QCS is being considered by any of the CA, Nexus, the local authorities" or "if any steps are taken in any area covered by the VPA Proposal (or an area substantially similar to it), to implement a QCS".

**What is the risk?** This would not only allow Operators to withdraw from the VPA Proposal if Nexus introduces a QCS, but it would also allow for withdrawal by any Operator if a neighbouring authority into which services subject to the VPA Proposal went, introduced a QCS. Furthermore, it allows for termination in circumstances where the NECA, Nexus or a neighbouring authority "considers" a quality contract scheme. This would therefore appear to allow termination in circumstances where one of these bodies simply considers, in the future, whether there would be benefits in introducing a QCS.

This provision would therefore materially constrain the ability of the NECA to continue to perform its on-going functions in

respect of public transport. This is particularly a concern in that it means that if the VPA Proposal fails to deliver the benefits provided; its terms will also leave the NECA at material risk of losing all benefits of the VPA Proposal if it even considers a QCS as an alternative. Additionally, as this relates to neighbouring Local Authorities, the actions of such a third party Local Authority properly considering how to implement their transport policies appropriately could grant all Operators termination rights. Indeed Durham County Council has previously considered the implementation of a QCS as part of its public transport strategy, and in Northumberland County Council's response to Statutory Consultation it stated it would look to investigate expanding the QCS Area if it was successful. It is clear therefore that both neighbouring Local Authorities have considered QCSs.

Nexus considers that so long as a QCS remains a viable alternative to a VPA then the threat of a QCS will remain the single greatest incentive to Operators to remain committed to a VPA. If, however, the NECA elected to proceed with the VPA Proposal instead of the QCS, and the VPA Proposal delivered the benefits which the Operators have suggested then the risk to the Operators of the NECA proceeding with a QCS would appear low. Nexus considers this point to be important in considering the viability of the VPA Proposal because without the threat of a QCS there will be materially reduced positive external incentives to compel Operators to adhere to the VPA Proposal.

- (vi) **Mechanisms for Service Change:** The VPA Proposal contains mechanisms that allow for service changes during its term. Any material change which may affect Operators commercially,

operationally or competitively could lead to Operators being able to terminate the VPA Proposal, unless Nexus ensures that the proposed network changes do not adversely affect any of the Operators who are party to the VPA Proposal.

**What is the risk?** This therefore provides very limited certainty as to whether service changes which are required for the purposes of delivering the NECA's transport strategy, or maintaining Accessibility, will actually be achievable.

#### 6.5.17 Assessment of the VPA Proposal: Remedies

- (a) The remedies currently contained within the VPA Proposal do not therefore necessarily provide an effective remedy or sanction for Nexus where Operators fail to comply with the terms of the contract. It is therefore not possible for Nexus to enter into the VPA Proposal as currently drafted.
- (b) Whilst it is possible (although unclear) that an Operator may be liable to Nexus for direct losses arising from a breach of the VPA Proposal, this does not directly aid delivery, as it may be difficult to directly link quantifiable losses by Nexus or the NECA to any breach by an Operator. The truth is that any performance failures by Operators will primarily harm the travelling public rather than causing a measurable monetary loss to Nexus or the NECA. It follows that even if they were in theory recoverable; damages would not be an effective remedy and hence would not represent an effective deterrent to poor contractual performance.
- (c) Whilst an aggregate liability cap of £1m is offered by the Operators, this is a total cap over the whole life of the VPA Proposal and across all Operators, and there are significant exclusions from liability. An obvious and perverse result of this mechanism is that the liability of

one Operator operates to reduce the future risk of liability for the others and the greater the liability of the Operators at an early stage in the term of the VPA Proposal the lower the risk of liability they will have over the balance of the contractual term.

- (d) As a result, this mechanism does not provide Nexus with comfort that the Operators are appropriately incentivised to perform, or that Nexus would have appropriate recourse if the Operators did breach the terms of the VPA Proposal especially if this was on an on-going basis. The serious weakness of these contractual protections must be judged in the light of the point we have made above that the QCS which is currently operating as the key driver to the Operators to offer a VPA will cease to be an operative incentive if a VPA is in fact entered into in its current form. In particular, the £1 million aggregate cap seems low in the context of the value of savings which the Operators anticipate generating in the VPA Proposal (which are meant to be in excess of £1 million in each year of the agreement), the potential payments required into the Service Improvement Fund if performance is poor, the expected investment by the public sector parties, and the fact that Nexus and the NECA (if the NECA chooses to pursue the VPA) will be doing so on the basis that they are not proceeding with the QCS and therefore relying upon the VPA Proposal to deliver to the fullest extent possible the benefits that are claimed for it.
  
- (e) The level of the proposed liability cap therefore significantly undermines Nexus and the NECA's ability to be able to rely with any confidence on the proposed benefits of the VPA Proposal being consistently and fully delivered over its term, as in the event that there is poor performance by one or more Operators it would potentially leave Nexus and the NECA with limited effective recourse against the Operators.

- (f) No other party has a liability cap in the current proposals. This would therefore put Operators in a more favourable position as against highway authorities or Nexus. This creates a clear imbalance and makes the potential direct liability of these parties greater under the VPA Proposal than under the QCS Proposal where any investment proposals would be separately agreed and would be wholly under the control of the NECA and the relevant authorities.
- (g) Key Performance Indicators (“KPIs”) are set out in Schedule 5 of the VPA Proposal, but have not all been finalised. Failure of a party to meet the KPIs results in that party being required to deposit an amount of money (set out in the Schedule) in the Service Improvement Fund. The Service Improvement Fund is not an effective mechanism for ensuring that the parties to the VPA Proposal are committed to achieving and maintaining the KPIs. For example, the Service Improvement Fund itself is a purely notional concept as no monies need to be paid into it, or even ring-fenced from the other operational funds utilised by each Operator; such monies only need to be ‘clearly recorded’. This creates concerns that were an Operator to become insolvent or otherwise terminate their involvement in the VPA Proposal then Nexus and the NECA may be unable to access any Service Improvement Fund monies due from that Operator. This is a particular concern as an Operator may well have been poorly performing prior to termination/insolvency, and therefore is more likely to have exhausted their funds including those notionally allocated to the Service Improvement Fund.
- (h) The status of the Service Improvement Fund is unclear in the event of termination of the VPA Proposal, and also in the event that the Service Improvement Fund payments exceed the liability cap for a particular Operator. This may in fact therefore operate as a perverse incentive to Operators to terminate or breach the VPA Proposal in

order to avoid the higher Service Improvement Fund payments, where they have already incurred sufficient Service Improvement Fund deductions to meet their total liability cap and so have nothing further to lose by exiting the VPA Proposal.

- (i) Further the VPA Proposal does not provide Nexus with any ability to terminate for the failure of an Operator to comply with the KPIs. Instead, the only sanction for breach is the notional allocation of monies to the SIF. In these circumstances the VPA Proposal requires that further discussion takes place with Operators.
- (j) An Operator could therefore consistently fail to perform the standards expected when the VPA Proposal was entered into, but their participation would not be terminated. As noted below, even if such an Operator's participation in the VPA Proposal could be terminated this would not lead to the replacement of such Operator, who would continue to be able to provide their registered services, even if they were not provided in accordance with the terms of the VPA Proposal. In particular, this is at odds with the position under the QCS, where Nexus would be able to enforce the terms of the performance mechanism under each individual Quality Contract, and would have the ability to levy meaningful performance deductions from payments where service standards were not met, and even terminate in the eventuality of continued non-performance.
- (k) In summary the low KPI thresholds set out in the VPA Proposal, coupled with the limitations of the Service Improvement Fund itself, fail to deliver the quality standards desired by Nexus (and achieved by a QCS).

#### 6.5.18 Assessment of the VPA Proposal: Governance

- (a) The drafting does not currently address the role of TWSC on the Tyne and Wear Partnership Board, despite TWSC being the political body

responsible for delivery of transport policy within the Tyne and Wear area. Nexus assumes this is an oversight due to the recent introduction of the NECA and its associated governance structures and that resolving this point would not be controversial if the NECA makes a decision to progress with a VPA option.

- (b) There is also no seat on the Partnership Board for Nexus, despite Nexus being the body responsible for the operational day to day delivery of the NECA's policies in respect of Tyne and Wear, including securing bus services within the Tyne and Wear area and the operation of ENCTS reimbursement. This omission would lead to wholly unnecessary duplication of time and effort between Nexus and the NECA causing both delay and additional cost. Again Nexus assumes that this is an oversight arising from a lack of understanding of the new governance and operational structures on the part of the Operators, and in Nexus' detailed feedback on the previous VPA proposal in February 2014 to NEBOA, it did provide feedback on this particular issue.
- (c) Currently, the dispute procedure states that only Operators can refer Board decisions and recommendations to the Disputes Board. This is wholly one-sided and again indicates a desire on the part of Operators to restrict effective control of their performance under the VPA Proposal. This proposed lack of effective control needs to be contrasted with the position under the QCS, where there would be clear rights through both the governance procedures and contractual processes for the public sector to challenge poor performance or any failure to deliver services effectively. Additionally the constitution of the Disputes Board under the VPA Proposal and the rules for disputes means that the Operators will be able to disregard disputes relating to their service delivery in cases

where the dispute is said to be impacted by the commercial position of the Operator.

- (d) The cumulative effect of all these provisions means that the remedies currently available to enforce the VPA Proposal are insufficiently robust, and uncertain, such that Nexus is not in a position to advise the NECA that there is any realistic prospect of it being able to effectively enforce performance under the VPA Proposal.

#### 6.5.19 Assessment of the VPA Proposal: Network Change and Savings

- (a) At clause 5.11 of the VPA Proposal, changes suggested by the Service Reconfiguration Study may only be implemented if these changes can be implemented whilst “maintaining or minimising any detrimental impact on network accessibility”. Nexus' view is that this means that the intention of this mechanism is not to prevent or restrict changes to the network but to look to minimise the detriment that changes to the network might have on Accessibility. As a result this drafting does not in any way constrain the Operators' ability to introduce network change but instead introduces an essentially aspirational obligation to try to limit the impact on Accessibility flowing from such change. This drafting does not prevent changes that do cause a significant detrimental impact, provided that such detriment is minimised, within the constraints of what is possible.
- (b) As a result, Nexus has no confidence that the proposed mechanism would operate to prevent significant future reductions in the bus network with material consequential detriment to Accessibility.
- (c) Further, once any changes to Commercial Services have been made under this proposed regime, the VPA Proposal does not guarantee how long those Commercial Services will actually be retained, which

could lead to further material detriment to Accessibility. This is reinforced at clauses 5.11.8 and 5.11.9, where the “reasonable regard” obligation at clause 4.2.12 is invoked for all network changes that lead to the notional £2 million savings (explained further in sections 13.4 to 13.6). Clause 4.2.12 of the VPA Proposal requires that where parties receive notice under clause 4.2.11(A), they shall have reasonable regard to but shall not be required to act in accordance with that recommendation. Therefore, as currently drafted, Nexus and the NECA appear to have, at best, limited recourse against the Operators if the savings are not achieved. As a result there is, at best, limited certainty in respect of the delivery of the full amount of the proposed savings.

- (d) Of the £2 million worth of savings to Nexus’ Secured Service expenditure which could potentially be delivered by the VPA Proposal (by Operators altering their network to include certain elements of the Secured Services), £427,264 is said to be achieved through Agreed Service Actions with the remaining £1,572,736 defined as coming from the Spend Reduction Target, which will be achieved through a whole network review.
- (e) The Agreed Service Actions totalling £427,264 consist of specific Secured Services which would be operated on a commercial basis resulting in savings to Nexus. Of this value Secured Bus Services to the value of £162,552 are already commercially operated and this has been reflected within the 2014/15 base budget. The remaining £264,712 of Agreed Service Actions would be introduced over the next three financial years and these have been included within the affordability modelling.
- (f) The savings that are to be identified as the ‘Spend Reduction Target’ will be achieved as a result of recommendations regarding the service provision in the 2015/16 network following the ‘Service

Reconfiguration Study'. This study will aim to identify which Commercial Services and Secured Services can be adjusted to create efficiencies without causing detriment to the current network Accessibility and quality of services in Tyne and Wear. The study will be conducted within the first year of the VPA Proposal, and it is therefore expected that any changes would only start to be implemented with effect from the second anniversary of the VPA Proposal, also there can be only limited certainty regarding the £1.6 million of savings. It should be noted that under the terms of the VPA Proposal the commissioning of this study will be entirely at Nexus' cost and there is no obligation on the Operators to implement the suggested changes and it would clearly depend on the agreement of each independent operator at the time as to what changes they would or would not individually commit to. It follows that this structure is wholly aspirational and not legally binding in any meaningful way.

- (g) Schedule 2 of the VPA Proposal lists the proposed on-going investment programme; however a more up to date version has now been supplied by NEBOA. The former Schedule 2 is also appended and it is notable when the two Schedules are compared, that the Operators have in fact already achieved and in some cases surpassed much of what was anticipated to be delivered under the VPA Proposal in 2013/14 which suggests that such improvements to the fleet are not additional and dependent on the VPA Proposal being implemented but were in reality part of the investment programme to which each Operator was already committed. Therefore the extent to which the VPA Proposal will deliver benefits over and above those that Operators may deliver anyway is in doubt.
- (h) Nexus has modelled the proposed Agreed Service Actions as part of the deal, although it is acknowledged that there is a significant risk

that one or more of the Operators will not give effect to all or part of any proposed savings.

- (i) It is accepted by Nexus and NEBOA, following a joint study into potential savings by Nexus and NEBOA, that there is in principle scope to achieve £1.6 million savings to Nexus across the network, but it is not certain that any or all of these savings will be achieved as they are subject to the Operators' actions. The savings of £1.6 million arising from the 'Service Reconfiguration Study' are however speculative, and rely upon an agreement from the Operators to make adjustments to Commercial Services that may allow Nexus to withdraw Secured Services with minimal detriment to the public. Two pilot studies were conducted as part of the clarification process. One of these studies showed the potential for some savings to be achieved with minimal detriment. However, the other served to highlight that the withdrawal of Secured Services without corresponding changes being made to Commercial Services could indeed lead to detriment. Nexus proposed legal drafting to the Operators that would provide confidence that the savings would indeed be achieved at minimal detriment, but this drafting was not accepted. There is therefore significant doubt that all of the £1.6 million savings could be achieved without detriment to the public.
- (j) The VPA Proposal allows Operators to reduce their Commercial Services in a range of circumstances, subject to a change process under the VPA Proposal (which provides Operators with wide scope to alter their services with only an obligation to consult, and no opportunity for Nexus or the Local Authorities to oppose). This is notable because:
  - (i) The weak obligations upon Operators under the VPA Proposal combined with individual Operators' commercial pressures means that the VPA Proposal may harm the network further. A

system of consultation and discussion is proposed that would see most (but not all) network changes discussed at a Partnership Board, but in all cases the Operator will be entitled to make the change if it deems it appropriate. There is therefore some doubt that the network would be stable or remain at its current size throughout the period of the VPA Proposal;

- (ii) As a result, savings may be achieved in one area, but unchallengeable Commercial Service withdrawals in another area may result in additional calls on Nexus's Secured Services budget to fund the retention of the withdrawn service. Nexus can only be confident that any savings that are achieved under the VPA Proposal can be allocated to the preservation of existing Secured Services over the longer term if it can be equally confident that other services will be protected over the same time frame. Clearly, for the reasons analysed above, as the VPA Proposal stands Nexus cannot be confident that other changes will not be introduced with potential significant adverse effects on Accessibility; and consequently
- (iii) Without a commitment to retain existing network levels, Nexus could be faced with a shifting pattern of savings and extra costs that may well negate the savings envisaged in the VPA Proposal, and consequently the net savings could be less than the savings target.

#### 6.5.20 Assessment of the VPA Proposal: Fleet and Network

- (a) Clarifications were sought from NEBOA as to whether the additional 50 buses proposed under the VPA Proposal would represent a minimum 50 increase in PVR as measured at the commencement of the VPA Proposal, and also what assurances can be given regarding

stability of the base level of commercial PVR, on which the 50 additional vehicles will be additional. NEBOA responded that:

- (i) these will be a minimum of an additional 50 vehicles introduced during the first three years of the VPA Proposal, not at commencement;
- (ii) *“the fleet will remain broadly stable throughout the partnership agreement, but it is a moving figure – for example, operators may from time to time identify efficiencies that enable the fleet to be reduced, with no detriment to services; equally, increasing traffic congestion may from time to time lead to short term or long term increases in the fleet. This is why the VMA proposal has referred to operators ‘maintaining the overall level of commercial bus operation’ rather than using PVR as a measure”* (extract from the email from the Chair of NEBOA to the NECA’s members); NEBOA stated that its intention is to maintain a stable network of services. This appears to clarify that the intention is that these vehicles will be used to provide additional services to that stable network of services. However it is noted that from time to time the Operators may wish to reduce certain services - in terms of frequency, route or start/end points - where commercial considerations require it. It is therefore noted that the 50 additional buses may be added to the network in Tyne and Wear in the context of a network that may reduce in other corridors. While Nexus has not modelled these potential reductions, as well have no information on which to base any modelling, the potential for a reduction in the commercial network offsetting some of the benefits associated with the 50 additional buses should be recognised; and

- (iii) that *“where some or all of the 50 additional vehicles providing ‘Kickstart’ services or improving existing services subsequently become part of the ‘normal’ operation, this will be advised to the relevant Boards”* (extracted from email from the Cahir of NEBOA to the NECA’s members); for the VPA Proposal to work effectively, more clarity will be required on this in the agreement i.e. the basis of notification. However, it should be noted that this suggests that potentially there will be limited involvement of the relevant Boards in determining what these services will be – NEBOA's intention is that the Boards are notified after the fact as to whether a service falls within this proposition, effectively allowing the Operators to determine whether they want to attribute any particular service as a ‘kickstart’ service, once it is in operation, rather than agreeing such services in advance with the relevant Boards.
- (b) The VPA Proposal provides for network stability through limited services changes and a ‘Network Review’ process. The Operators will use reasonable endeavours to maintain the overall level of Commercial Services in Tyne and Wear as of the ‘Effective Date’ of the VPA Proposal. However, given the analysis above Nexus would query who would be able to enforce against the Operators where it was felt that they had failed to use reasonable endeavours.
- (c) The further 50 buses promised under the VPA Proposal may be withdrawn by Operators, which provides little comfort that they will actually continue to operate (unless commercially successful). However, in carrying out the review it is noted that Operators shall be able to reduce the network where "operational, commercial or competitive situations shall cause the operators to reduce the network." (clause 5.5(d) of the VPA Proposal). Whilst this drafting does not require Nexus or the NECA to agree to such a change, it

could be used as a basis of dispute if the Operator felt that Nexus or the NECA was unreasonably not agreeing to changes required on that basis. Changes for operational, commercial or competitive reasons could remove the ability of the VPA Proposal to deliver the benefits intended to be provided by the VPA Proposal.

- (d) Regarding the 50 additional vehicles, the Operators clarified that *“Where some or all of the 50 additional vehicles providing ‘Kickstart’ services or improving existing services subsequently become part of the ‘normal’ operation, this will be advised to the relevant Boards”*, however for the VPA Proposal to work, more clarity will be required on this in the VPA Proposal itself i.e. what is the basis of notification.
- (e) In NEBOA’s clarification response of 01 July 2014, the Operators confirmed, regarding the 50 buses, that they *“would anticipate a degree of flexibility in each project, to be agreed at the outset of each project”*. This confirms that there is no certain commitment for any of these services to run for a set period of time. Strictly speaking the commitment could therefore be met by the services being registered and shortly after de-registered, although this would appear inconsistent with the overall intent and spirit of the VPA Proposal.

#### 6.5.21 Assessment of the VPA Proposal: Fares and Ticketing

- (a) The provisions relating to fares and ticketing within the VPA Proposal effectively limit ‘Fare Group’ changes to once per calendar year, but do not otherwise constrain those changes, provided they have been explained to Nexus. Where an Operator intends to increase fares in a ‘Fare Group’ above RPI, which has historically occurred, then under the VPA Proposal it must provide evidence of the reason for this to Nexus. However, Nexus has no role beyond that essentially of being a passive consultee and there is no mechanism for Nexus or the NECA to refuse or otherwise effectively challenge or constrain the

proposed increase. These provisions do not therefore currently provide any comfort as to the level at which such fares will be set and maintained during the course of the VPA Proposal, and therefore whilst they will ensure that Nexus is aware, in advance, of fare changes, and the reasons for those changes, the proposals do not provide any certainty as to the level at which fares are set, or necessarily provide any greater simplicity or certainty as to the fares offered by Operators across Tyne and Wear.

- (b) The reference to a 'single, common Oyster-style 'smart card' ticketing option' in NEBOA's communication with elected members (set out at section 1.2.4) refers to Operators' existing commitments under NESTI, and to Network One's intention to make its products 'smart'. Nexus is not of the view that it is "Oyster-style", as is claimed.
- (c) Whether the offering under the VPA Proposal is 'Oyster-style' depends upon which features of Oyster are viewed as necessary for it to be justifiably described as 'Oyster-style'. In terms of what is offered by the VPA Proposal, compared to what is provided by Oyster in London, and what would be proposed under the QCS, the VPA Proposal offers limited benefits. Oyster delivers a series of benefits such as:
  - (i) one Smartcard which can be used on all bus services and other modes of public transport;
  - (ii) an ability to store travel rights on a Smartcard; and
  - (iii) a daily stored travel rights price cap.
- (d) The VPA Proposal either provides a caveated commitment to these key features, or delivery at a price that is different to (and therefore potentially not competitive with) single Operator products. It does

not commit Operators to any form of smart price capping, nor does it commit them to introducing any new integrated smart products. As such, use of the term 'Oyster-style' is questionable.

- (e) Therefore whilst the Smartcard technology may indeed be 'Oyster-style', the functionality and ticketing options that the passenger experiences when using the card are not. In its clarification response of 01 July 2014, NEBOA confirmed "*subject to technological constraints, we envisage a product that can be placed on either specific ITSO enabled media or on all ITSO enabled cards. The new product would initially offer a 'Bus2Bus' option and should eventually include all NTL products and be capable of wider roll-out to include other modes*".
- (f) It should be noted that this is both made subject to technological constraints and also stated as being "envisaged". Nexus is not able to identify the section of the VPA Proposal that makes these commitments and NEBOA has not explained what the technological constraints are. Nexus cannot therefore assess whether there is a risk of non-delivery.
- (g) Correspondence received from NEBOA states that a Smartcard platform based on "Oxford model" (i.e. reflecting the ticketing proposition delivered by Stagecoach and Go Ahead Group in Oxford) will be implemented by Operators in 2014; clarification confirms that this will be Go Ahead and Stagecoach only by December 2014. However this is not expressly committed to in the VPA Proposal. Currently therefore the VPA Proposal does not commit Arriva to implementing this platform, and does not include timescales for implementation, providing very limited certainty as to the benefits which will actually be delivered.

#### 6.5.22 Assessment of the VPA Proposal: Variation

- (a) The VPA Proposal makes provision for changes to services through:
  - (i) A Network Review process which is required to be consistent with the purpose of the VPA Proposal, being the achievement of the bus improvement objectives under the Transport Act 2000 and the Bus Strategy as it relates to the network and services;
  - (ii) Changes to services, which will generally require a majority vote of the relevant board, before they can be introduced; and
  - (iii) Changes to the network, however save where otherwise permitted under the Agreement, these must be agreed between the relevant Operator, Nexus and boards established for the district affected by the change. Such changes will require agreement of the NECA, Nexus and the relevant Operator, before they are implemented.
- (b) Services changes are excluded from these processes where there is an increase in frequency, expansion of a route or introduction of a new route which does not form part of the existing network.
- (c) Network change will therefore continue to be at least partly governed by the individual Operator's commercial, operational and competitive requirements. As is the case today, where required services are not provided commercially, the NECA will therefore have to ensure that these are delivered through tendering of Secured Bus Services, where resources permit this.
- (d) Service changes affecting Operators commercially could lead to termination.

#### 6.5.23 Assessment of the VPA Proposal: Comparison with the QCS

- (a) Sections 2 to 5 of this report detail the way in which the QCS meets the Public Interest Test criteria associated with Bus Patronage (Criterion (a)), Benefits to Users of Local Services (Criterion (b)), Achieving Local Transport Policies (Criterion (c)) and achieving implementation that is Economic, Efficient and Effective (Criterion (d)). It is accepted that the VPA Proposal assessed on its own merits could also achieve the Public Interest Test criteria assuming its terms remain operational and enforceable for its planned duration.
- (b) Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS provides a detailed analysis of the relative benefits of the VPA Proposal and the QCS, compared to the Do Minimum Scenario. This demonstrates that both options have merit, to different degrees, in arresting the decline in bus services and patronage that the Do Minimum Scenario anticipates.
- (c) This section compares the relative degree to which the VPA Proposal and QCS achieve the Bus Strategy Objectives, the cost associated with that achievement and the certainty of that achievement. This comparison is set out below and is examined in three ways:
  - (i) a comparison of how each option delivers the Bus Strategy Objectives in terms of scale of impact;
  - (ii) an assessment of the likelihood that these impacts will be delivered, based on an analysis of certainty of outcomes; and
  - (iii) a comparative economic analysis of the options.
- (d) By reference to the comparison table at Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS, the comparative

Impacts on Bus Strategy Objectives and Deliverables can be summarised as:

#### Bus Patronage

- (e) Under the VPA Proposal, bus patronage will continue to decline year on year, albeit at a slower pace than in the Do Minimum Scenario. This is because retention of some Secured Bus Services and operating a further 50 buses results in the bus network under the VPA carrying an additional 44 million journeys per year over the 10 years from 2017/18 to 2026/2027 compared to the Do Minimum Scenario.
- (f) In contrast under the QCS which will commence in 2017, more journeys will be made by bus in every year of the QCS, compared with the 2016 base year. The bus network will carry an additional 90 million journeys over the ten year period from 2017/18 to 2026/2027 compared with the Do Minimum Scenario.
- (g) The QCS delivers a positive impact on bus patronage that is significantly greater than the VPA Proposal.

#### Integrated Multi-Modal Public Transport Network

- (h) The VPA Proposal envisages the retention of a proportion of existing Secured Bus Services, and also offers a further 50 buses on unspecified routes across the Tyne and Wear commercial network. The VPA envisages the major Operators taking over those Secured Bus Services that are retained, eliminating the ability for smaller Operators to operate them and hence the opportunity to retain their existing businesses.
- (i) In contrast, the QCS retains all current Commercial and Secured Bus Services for the duration of the Scheme, retaining in full the

Accessibility currently offered by the current bus network and providing passengers with a stable network that they can rely upon for the duration of the QCS. The opportunity to deliver affordable improvements to that network, subject to funding availability, also exists under the QCS. The QCS provides tendering opportunities for small and large Operators alike.

- (j) The QCS provides significant additional benefits to people in Tyne and Wear by delivering a better, more integrated multi-modal public transport network across all bus services than the VPA which will not, in practice, deliver greater integration or uniformity of service.

#### Unified Customer Offer

- (k) The VPA Proposal offers a single framework for a customer charter that all Operators will adopt, but each will individually discharge their own responsibilities within that framework in a manner of their choosing. The VPA Proposal also provides standards of service performance, passenger security and vehicle cleanliness similar to the current market experience. A range of vehicle liveries will continue to be used.
- (l) In the QCS, a single customer charter with one point of contact will be provided that will reassure passengers of their rights and how they can seek redress when service standards are not met. This quality of services provision will be applied uniformly to each Operator through the QCS contract structure and will be backed up by rigorously enforced requirements for vehicle quality, security and cleanliness, backed by a common livery that will be associated with these high standards. Operator performance will be reported widely as part of the QCS Customer Charter commitment, and this performance will provide a direct link to the development of the Bus Network Business Plan.

- (m) The QCS offers several customer offer benefits compared with the VPA Proposal.

#### Consultation

- (n) Under the VPA Proposal, elected politicians will be consulted on changes to the bus network, but the final decision will always rest with the Operators. Fare changes in the VPA Proposal will be determined solely by Operators.
- (o) Under the QCS, this situation will be transformed, with widespread public consultation being mandatory and network changes and fares changes decided by elected politicians based upon an affordable and deliverable Annual Business Plan.
- (p) The QCS offers significant benefits over the VPA in relation to consultation and the ability of bus users to influence the decisions made about bus services and bus fares.

#### Accessible Infrastructure

- (q) Under the VPA Proposal the provision of accessible buses will be determined by Operators based on their own commercial priorities, while on-street infrastructure will continue to be developed by Local Authorities.
- (r) Under the QCS, accessible buses will be mandatory for all bus services after a two year transition. On-street infrastructure will continue to be developed by Local Authorities, but the framework of the QCS may provide greater long term certainty of service delivery to support investment decisions that match this commitment, regarding improved on-street infrastructure and achieve higher performance standards.

- (s) While the QCS is primarily focused on service delivery rather than infrastructure, there are nevertheless benefits that the QCS offers beyond those in the VPA Proposal.

#### Accessibility

- (t) The VPA Proposal envisages the retention of a small proportion of Secured Bus Services, and offers a further fifty buses on unspecified routes across the Tyne and Wear commercial network, but will still allow Operators to withdraw services elsewhere on their network, and service changes will still ultimately be governed by Operators' commercial priorities. Due to funding available for discretionary services being reduced as a result of an inflationary increase in ENCTS reimbursement there is a decrease in the level of Secured Bus Services and discretionary fare schemes throughout the VPA. From 2025/26 the statutory ENCTS reimbursement will exceed the available funding and all Secured Bus Services and discretionary ticketing schemes would cease to exist, thereby having a detrimental effect on Accessibility.
- (u) In contrast, the QCS retains all current Commercial and Secured Bus Services for the duration of the Scheme, retaining in full the Accessibility currently offered by the bus network and providing passengers with a stable network that they can rely upon for years to come. The opportunity to deliver affordable improvements to that network, subject to funding availability, also exists in the QCS.
- (v) The QCS offers significantly better Accessibility to existing and future bus users compared to the VPA Proposal.

#### Accessible High Quality Buses with a Common Brand

- (w) The VPA Proposal envisages a progressive cascade of new vehicles into the Tyne and Wear fleet such that the number of low emission

buses in the fleet gradually grows. Existing commitments to branding, security and driver communications will be retained.

- (x) In the QCS, the introduction of an entire fleet of newer modern low emission buses within two years will be mandatory, as will the provision of CCTV, two-way communications between bus drivers and their operational base.
- (y) The QCS offers superior benefits to the VPA Proposal in terms of the introduction of a uniform standard across the network for accessible high quality buses and delivering a common brand.

#### Working in Partnership

- (z) The VPA Proposal is a partnership between Operators, the NECA, Local Authorities and Nexus and clearly has the potential to enhance the level of partnership working that will be achieved. However ultimate decisions will nearly always rest with the Operators alone, not the Partnership.
- (aa) The QCS provides a genuine partnership between the network planning function undertaken by Nexus, the elected members that represent bus users, and the bus users themselves. Decisions, including those on the use of available funding, will be made based on customer needs, rather than the wider commercial aims of individual Operators.
- (bb) The QCS will facilitate the delivery of improvements through partnership working and effective management by Nexus, in a manner that is superior to the VPA Proposal.

#### Affordability to Taxpayer

- (cc) The VPA Proposal retains the Commercial Services network during its lifetime and expands it with 50 further buses; however the majority

of the Secured Bus Services and discretionary ticketing schemes will remain the responsibility of Nexus without any further revenue being generated through the VPA Proposal to cover such costs and hence these services and schemes are likely to be withdrawn during the term of the VPA Proposal.

- (dd) The QCS retains all bus services across Tyne and Wear for the ten year period to 2027, with the same levy funding envelope, and avoids any need for additional funding from Local Authorities in the later years to fund ENCTS.
- (ee) As it will be self-funding the QCS provides a far superior level of affordability to the taxpayer, compared with the VPA Proposal, based on the assumption that the annual levy raised on Local Authorities to fund statutory and discretionary remains fixed.

#### Simplified Fares and Ticketing

- (ff) The VPA Proposal envisages a continuation of the existing situation with the current wide range of bus tickets being offered by different Operators, and the ability for Operators to continue to change and add new products. Further products will be available that will facilitate some journeys, namely a premium priced ticket for bus-to-bus travel between different Operators' services, an expansion of Operator-specific Smartcards so that they can store different Operators' products, and the introduction of a 16-18 fare. Commercial Bus Services fares have historically risen well above inflation and are forecast by Operators to continue to do so.
- (gg) In contrast, the QCS will transform bus ticketing across Tyne and Wear. Fares will be reduced for the majority of passengers at the start of the Scheme, with increases restricted to retail price inflation for the ten years of the Scheme. As well as being cheaper, bus fares will be simpler - a single, zonal fares system will be implemented

that, for many short and medium distance trips, will provide passengers with a flat fare offer. The current commitments to Smartcards will be expanded and simplified, with a single Smartcard available for use either to store a season ticket that will allow travel on all buses in Tyne and Wear, or to store monetary value to pay for individual journeys. These Smartcard products will apply to all modes of travel in Tyne and Wear, not just buses, and the stored value tickets will apply a fare cap when the relevant daily travel ticket price is reached.

- (hh) The QCS provides significant benefits to people across Tyne and Wear by offering a superior fares and ticketing proposition to the VPA Proposal, in terms of uniformity, fare levels and the products available.

#### Information and Marketing

- (ii) The VPA Proposal offers the current level of information and marketing, where individual Operators produce their own timetables and maintain their own online systems. Only at bus stops and at its travelshops would Nexus offer an integrated level of information across all Operators.
- (jj) The QCS replaces the Operators' individual provision with a single, integrated suite of printed, at-stop and online information using a single brand. Information will be provided such that journeys can be easily planned using all services, regardless of who operates them.
- (kk) The QCS provides better benefits to passengers in terms of information and marketing compared to the VPA Proposal.

## Improved Environmental Standards

- (ll) The VPA Proposal envisages a progressive cascade of new vehicles into the Tyne and Wear fleet such that the number of low emission buses in the fleet gradually grows compared to the current position. The VPA includes a commitment to provide 125 LCEBs on the Tyne and Wear network, these vehicles will operate within Tyne and Wear for an undetermined period. Therefore there is a lack of continued certainty of provision of such vehicles.
- (mm) In the QCS, the introduction of an entire fleet of newer modern LCEBs within two years will be mandatory, delivering a newer and greener fleet to Tyne and Wear. However the QCS will not guarantee the use of LCEBs, although providing these vehicles will be incentivised during the procurement of contracts.
- (nn) The QCS delivers benefits in terms of vehicle emissions, although it is acknowledged that the VPA Proposal is offering some features for a undetermined period that the QCS cannot guarantee.

## Summary

- (oo) Across all of the Bus Strategy deliverables it is clear that the QCS outperforms the VPA Proposal in relation to the scale of benefits that can be delivered.
- (pp) While the VPA Proposal offers some benefits across the majority of the deliverables, the scale of these benefits is inferior to the QCS in nearly all cases.

### 6.5.24 Assessment of the VPA Proposal: Affordability Analysis

- (a) The VPA Proposal has been modelled using the Nexus Affordability Model, as described in Section 1.6. The VPA Proposal version of the Nexus Affordability Model can be summarised as follows:

- (i) The start date of the VPA Proposal is assumed to be 2015/16 which is two years prior to the modelled implementation date of the QCS.
- (ii) The ENCTS reimbursement is modelled to increase in line with RPI due to the existence of a clause within the VPA Proposal. This deviates from the reimbursement principles of 'no better no worse' as detailed in section 1.4.4(b). This increases the ENCTS reimbursement above the forecast within the Do Minimum Scenario in the short term. The VPA Proposal requires the ENCTS reimbursement to be uplifted by RPI each year. In the first year of the VPA Proposal these additional ENCTS payments to Operators will require a commensurate increase in public sector financial support for buses, putting additional pressure on Nexus' budget. Whilst in the longer term, increases in ENCTS reimbursement will be marginally lower under the VPA Proposal than the Do Minimum Scenario, the need to keep increasing the level of ENCTS reimbursement by RPI will significantly outweigh the level of savings delivered by the VPA Proposal, even accounting for the £2 million of savings to Nexus.
- (iii) The savings proposed in the VPA Proposal remove the requirement on Nexus to fund some discretionary services. This slows down the modelled decline in patronage. Whilst Nexus has modelled the savings being achieved in full, the risk remains that this may be unachievable.
- (iv) In 2015/16 the VPA Proposal will introduce a fares proposal which is estimated to increase patronage by 525,000 per annum, predominantly through more attractive 16-18 years old fare products.

- (v) Full benefits of the proposed customer charter have been allocated from 2015/16 in the same way as benefits from the QCS Customer Charter have been modelled.
- (vi) The costs and benefits associated with 50 additional buses have been included within both VPA Proposal assessments. These have been modelled to start being introduced to the network from 2016/17 and are assumed to last for the remaining duration of the VPA Proposal. Nexus believes that there is risk that these additional buses could potentially be removed from service at any time and therefore acknowledges that the patronage uplift attributed to this deliverable is a risk which should be considered by the NECA.

6.5.25 Assessment of the VPA Proposal: Economic Analysis

- (a) In line with the requirements of the Public Interest Test to monetise benefits associated with the QCS (see paragraph 5.2.2(k)) Nexus has undertaken an economic assessment of the QCS. The models used to provide this assessment have also been used to assess the economic performance of the VPA Proposal.
- (b) As expected based on Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS, the VPA Proposal does offer clear economic benefits over the Do Minimum Scenario. This is illustrated in the table overleaf.

Indicator (compared to Do Minimum)	VPA	QCS
Scheme Cost	£65 million (90% confidence range £34m to £97m)	£100 million (90% confidence range £72m to £128m)
Monetised Benefits	£229 million (90% confidence range £59 million to £410 million)	£373 million (90% confidence range £247 million to £514 million)
Net Benefits (benefits minus costs)	£165 million (90% confidence range £-9 million to £346 million)	£272 million (90% confidence range £149 million to £413 million)
Efficiency Ratio (benefits divided by costs)	3.54 (90% confidence range 0.87 to 8.33)	3.73 (90% confidence range 2.41 to 5.62)

- (c) The table also shows that the scale of benefits, and the scale of net benefits, associated with the VPA Proposal are not commensurate with those offered by the QCS. Looking at the 90% most likely range of scenarios from risk modelling, it is evident that in all scenarios the QCS offers considerable net benefits whereas at the higher end of the risk scale, the benefits of the VPA Proposal are forecast to be eliminated and there is a risk of the VPA Proposal performing worse than the Do Minimum Scenario. Coupled with the lack of certainty regarding VPA Proposal benefits set out above, this is a matter of concern.

#### 6.5.26 Assessment of the VPA Proposal: Conclusion

- (a) The QCS provides a high degree of certainty in attaining its benefits, which will enable the achievement of the Bus Strategy Objectives and Deliverables. This certainty is a result of the contractual

requirements that Nexus will place on successful bidders, and the robustness of the financial assessment that underpins the Scheme.

- (b) This contrasts with the position under the VPA Proposal, where Nexus is not confident that it will be able to enforce with certainty the delivery of the benefits that are to be provided under the VPA Proposal over the equivalent period to the QCS.
- (c) It should be noted that if the VPA Proposal was terminated, or if an Operator withdrew, Operators would be able to return to commercial operation, without the constraints imposed by the VPA Proposal, meaning that in some circumstances Operators may be incentivised to seek early termination of the VPA Proposal.
- (d) Nexus therefore has significant concerns about the overall enforceability and certainty of the VPA Proposal when compared to the relative certainty and enforceability of the QCS, and the individual Quality Contracts under the QCS.
- (e) As a consequence, Nexus considers that the likelihood of achieving the benefits associated with the VPA Proposal is materially lower than for the QCS.
- (f) It is clear that while the VPA Proposal may offer benefits, whether assessed qualitatively or monetised, these benefits are of a scale that is not commensurate with those likely to be provided by the QCS. The quantitative assessment of VPA Proposal benefits above supports the qualitative assessment of VPA Proposal benefits, that whilst the VPA could provide some improvement to the bus network in Tyne and Wear at relatively modest net cost, the scale of benefits (and costs) is outweighed by those available from the QCS.
- (g) As a consequence, Nexus considers that the scale of the benefits associated with the VPA is materially lower than for the QCS.

- (h) Whilst the VPA Proposal's attributes mean that it goes some way towards addressing many of the Tyne and Wear Bus Strategy Objectives and Deliverables, there remains doubt and uncertainty regarding the deliverability of these over the full term of the VPA Proposal. Further, and as set out in this assessment, it is clear that the benefits of the VPA Proposal, and the certainty of those benefits, would in practice be insufficient to avoid many of the adverse impacts in Tyne and Wear of the Do Minimum Scenario.

## 6.6 Proportionality

### 6.6.1 Introduction to proportionality

(a) In this section, Nexus sets out its proportionality analysis. In so doing, Nexus considers both the proportionality test under section 124(1)(e) of the Transport Act and the proportionality balancing exercise required by Article 1 of the First Protocol of the Convention Rights scheduled to the Human Rights Act 1998.

(b) Criterion (e) requires that the Combined Authority must be satisfied that:

*“any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraph (a) to (d)”*

(c) The Guidance, to which regard must be had under section 134A of the Transport Act 2000, explains that criterion (e):

*“63 ... is designed to ensure that the LTA has properly considered any adverse impacts on operators, taking them fully into account by weighing them up against the relevant benefits when determining whether to proceed with a QCS.”*

(d) In addition, Nexus recognises that the QCS potentially engages the Operators’ right to the peaceful enjoyment of their possessions under Article 1 of the First Protocol. Nexus has sought legal advice and is content to proceed on the basis that the introduction of a QCS will interfere with the peaceful enjoyment by Operators of their possessions (namely, the goodwill of their businesses in the Tyne and Wear region).

- (e) Nexus notes that the proportionality test under section 124(1)(e) of the Act is closely aligned with, but not identical to, the proportionality analysis required under A1P1. Specifically, while section 124(1)(e) appears to focus on the proportionality of the benefits against impacts on Operators *as a whole*, it is clear that A1P1 requires proportionality to be assessed in respect of the impacts on individual Operators. Throughout this report, Nexus has sought, insofar as it has been able to do so, to identify and quantify both overall and individual Operator impacts. In what follows, Nexus therefore considers both levels of impact in assessing proportionality. Nexus considers that this approach satisfies both section 124(1)(e) and A1P1.
- (f) Nexus is aware that it bears the burden of demonstrating that the adverse effects are proportionate to the relevant benefits. The purpose of this section is therefore to set out Nexus' judgment as to those effects and benefits, and to explain Nexus' consequential conclusion and recommendations to the Combined Authority as to the proportionality of the QCS. We begin by setting out the framework within which Nexus has reached that conclusion.
- (g) Nexus recognises that one of the advantages of proportionality as a test is that it provides a method and a structured approach within which to assess the balance between the benefits and adverse effects of the QCS. In order to inform its approach to its proportionality assessment Nexus has therefore sought legal advice on the requirements of the proportionality test. By analogy with proportionality in the Human Rights field, Nexus has been advised that there are four elements to the legal test for proportionality, as recently restated by Lord Sumption in *Bank Mellat v HM Treasury (No 2)* [2013] 3 WLR 179 at [20]. Suitably amended to reflect the present situation, these four elements are:

- (i) Whether the objectives sought to be achieved through the QCS are sufficiently important to justify the adverse effects on operators;
  - (ii) Whether the QCS is rationally connected to those objectives;
  - (iii) Whether a potentially less intrusive measure, such as a VPA, could have been used; and
  - (iv) Whether, having regard to these matters and to the severity of the consequences, a fair balance has been struck between the rights of the Operators and the interests of the persons living and working in the QCS Area.
- (h) Although these matters are separate, the court continued on to recognise that *“in practice they inevitably overlap because the same facts are likely to be relevant to more than one of them”*. Except where it is convenient to do so, Nexus has not therefore sought to artificially separate out the elements in its consideration of proportionality. However, it is to be noted that as regards the third element, Lord Sumption clarified that *“the question is whether a less intrusive means could have been used without unacceptably compromising the objective”*. The so-called “least intrusive means” test does not therefore amount to an insistence that the least intrusive measure is adopted. Instead it requires the Combined Authority to consider whether the desired aims sought from the QCS can be achieved without unacceptable compromise to its stated objectives by a less intrusive measure. This of course reflects the Guidance on criterion (d), that the cheapest option (whether in terms of cost or impacts) will not necessary be the option that must be adopted.
- (i) In assessing the adverse effects and the benefits flowing from the QCS, so as to enable an assessment to be made as to the

proportionality of the QCS, the Guidance explains (at paras 65 and 66) that it is necessary to consider the following:

- (i) The nature of the adverse effect or benefit;
  - (ii) The likelihood of the adverse effect or benefit; and
  - (iii) The likely scale of impact of the adverse effect or benefit.
- (j) Nexus has been advised that it follows that its analysis of the proportionality of the QCS does not have to be exclusively, or even primarily, an arithmetical exercise whereby the benefits and costs of the QCS are simply calculated and compared. Indeed, the Guidance expressly recognises that *“it will not necessarily be possible to place a cash value on each of the impacts identified...”* (64, third bullet), and while Nexus has sought to monetise the impacts (and benefits) Nexus’ work has confirmed that not all impacts (and benefits) can be quantified.
- (k) Instead, assessing the proportionality of the QCS requires the exercise of judgment: judgment both as to what the costs and benefits of the QCS are and judgment in the reaching of an overall conclusion as to whether, taking into account those costs and benefits, the QCS is proportionate. That much is clear from the Guidance, which states:

*“67. To satisfy itself that the proportionality criterion is met, the LTA will need to consider whether – taking into account all relevant considerations – the benefits to people living or working within the scheme area are likely to be sufficient to justify the scale of adverse impacts identified. In reaching this judgement, it would be appropriate for the LTA to attach different weight to different benefits and adverse impacts, according to the likelihood of those benefits and adverse impacts arising in practice.”*

- (l) Although not expressly stated, the weight accorded must also be allowed to vary depending on the nature of and scale of the adverse impact or benefit. Where impacts and benefits can be meaningfully quantified in monetary terms with a reasonable degree of certainty, Nexus has done so, and has used those figures in its analysis, albeit subject to qualification in some instances. It has not, however, sought to simply "balance off" quantified benefits against adverse effects, since (as noted above) proportionality does not require an arithmetical or mechanistic approach. Where impacts and benefits cannot be quantified, whether reliably or at all, Nexus has instead approached them in qualitative terms. The inevitable degree of uncertainty in the prediction of benefits and adverse effects has also been taken into account by Nexus when judging the proportionality of the QCS.
- (m) Any exercise of judgment necessarily involves an element of subjectivity, as the Guidance recognises (at paragraph 64), but at all stages of its analysis Nexus has sought to explain the evidence and process behind the judgments it has reached.
- (n) In line with the Guidance, Nexus has relied upon Operators to substantiate many of the alleged adverse impacts that the Operators are best placed both to identify and quantify (see para 69). Operators and others have been able to make representations through both Informal Stakeholder Engagement and Statutory Consultation processes. That said, Nexus is aware of the duty under *Secretary of State for Education and Science v Thameside Metropolitan Borough Council* [1977] AC 1014 (the so called "Thameside duty") to take reasonable steps to acquaint itself with the relevant information necessary to make an informed decision as to whether criterion (e) is satisfied. Nexus has not therefore taken every adverse impact identified by the Operators at face value.

Instead, in accordance with the Guidance, Nexus has carefully considered each impact identified to assess its nature, likelihood and scale as well as considering whether there are other adverse impacts not identified by Operators. Where Nexus' consideration of those matters leads to it reaching a different conclusion to that advanced by an Operator or Operators, or identifying additional impacts, Nexus sets out its reasoning for preferring its own assessment (as the case may be).

#### 6.6.2 Approach

- (a) There are several general points which set the context for Nexus' assessment and which are explained below.
- (b) First, the earlier sections of this report have set out Nexus' conclusions on the Public Interest Test criteria (a) to (d). In reaching those conclusions, Nexus is aware of the limitations and uncertainties inherent in predicting future impacts and benefits. It is clear however that there will inevitably be material adverse impacts caused to existing Operators, particularly, though not exclusively, the three largest Operators in Tyne and Wear.
- (c) Secondly, Nexus has taken into account these uncertainties when carrying out its proportionality assessment. It recognises that the increased likelihood of an impact or benefit arising may increase the weight to be attached to that outcome, though of course the nature and scale of that impact or benefit is also relevant to weight. The inherent uncertainty is not something which Nexus can resolve. Although Operators have suggested that proportionality should be addressed on an assumption that the worst case scenario will materialise (that is, the impact on them will be the maximum impact) Nexus does not consider such an approach to be appropriate or required by law. The worst case scenario is a potential outcome to

be considered, but it is only one among many possible outcomes which falls to be weighed as part of the proportionality exercise.

(d) Thirdly, the assessment of benefits (and adverse impacts) takes place against the Do Minimum Scenario. The Do Minimum Scenario is explained in Section 1.4 where the following adverse impacts are identified:

(i) Declining patronage;

(ii) Cuts to services; and

(iii) Rising fares.

(e) In particular, Nexus draws attention to the following consequences arising from fewer people being able to afford regular travel by bus because of significant fare increases, and from there being fewer opportunities to travel by bus because of fewer bus services:

(i) Increased traffic volumes and congestion leading to longer journey times. This reduces productivity, makes journeys for passengers and other road users less reliable, and leads to poorer air quality and more road traffic accidents;

(ii) Reduction in access to employment caused by fewer and more expensive buses, and by increased congestion on highways. This impacts both individuals and businesses;

(iii) Reduction in some peoples' ability to participate as frequently or as easily in education, healthcare, and retail and social activity. This impacts on individuals, charities and public facilities;

(iv) Impact on peoples' daily lives, particularly older and disabled people through having to walk further to access bus services,

wait longer for the bus to arrive, interchange at remote locations, and in some cases curtail their activities earlier in the evening or start them later in the morning;

- (v) Particular impacts on children through higher fares and the withdrawal of school buses meaning that some children will be unable to study at the school of their choosing, have increased journey times for others and be required to interchange between commercial buses at remote locations. Other children may travel more frequently to school by car, reducing their independence and physical activity, and contributing to peak-hour traffic congestion. The impact is experienced by not only by children and their families, but also by schools and colleges;
  - (vi) Reduced travel horizons for some older and disabled people arising from the loss of certain bus services and discretionary fare schemes making travel more expensive and inconvenient; and
  - (vii) Fewer jobs in the local bus industry.
- (f) The extent to which the adverse consequences of the Do Minimum Scenario are avoided is relevant not only to the QCS but also to consideration of the VPA, which has been put forward by NEBOA as an alternative to the QCS and which is therefore relevant to the assessment of the QCS's proportionality.
- (g) Fourthly, it has been highlighted by Operators in their consultation responses that the adverse impacts of the QCS do not attract any right to compensation under the statutory scheme. A legal issue has been raised as to whether this inevitably makes the QCS disproportionate. Nexus has approached the matter on the basis that the absence of compensation is a factor relevant to the

proportionality of the QCS, but does not automatically render it disproportionate. The absence of compensation for losses which may be suffered is very much borne in mind by Nexus, and its assessment reflects its recognition that compensation will not be paid.

- (h) Fifthly, it will be apparent from the rest of this report that Nexus has informed its judgment by the use of modelling, the monetisation of benefits, and judgments as to the financial value of adverse impacts. While this approach has considerable value, it is inevitably founded upon a series of assumptions. The figures that Nexus has set out in this report should not therefore be taken to represent the precise value of any impact or benefits. In each case Nexus has made the best estimates it can with the information available to it, but these nevertheless remain estimates of varying degrees of reliability. Moreover, not every adverse impact or benefit can be monetised, not every equivalent monetary value should necessarily carry the same weight, and some monetary values do not entirely reflect the extent of the impact or benefit.
- (i) The reasoning set out below takes into account Nexus' assessment of the statutory tests as a whole and its evaluation of the consultation responses. Nexus has not sought to repeat or even summarise all of that material in this section and its reasons need to be seen in that context.
- (j) Finally, the judgments expressed here are of course the views of Nexus' officers. It is understood that the NECA will consider this report, with the assistance of a covering report presented by the Lead Chief Executive for Transport and will reach its own conclusions on the important matter of proportionality, and indeed, the other Public Interest Test criteria.

### 6.6.3 Assessment of Improvements in Well-Being

- (a) When considering benefits it is necessary to consider “*the improvement in the well-being of persons living or working in the area to which the proposed scheme relates, and in particular, to the achievement of the objectives mentioned in [Public Interest Test criteria (a) to (d)]*”.
- (b) Nexus considers that the avoidance of the Do Minimum Scenario and the addition of further improvements will lead to the achievement of the objectives of the Bus Strategy for Tyne and Wear: growth in bus patronage; stable bus services with local accessibility being maintained; and better value for public money. Achieving these objectives will lead to wider beneficial impacts including an increased modal share for buses and decreased use of private cars, which together lead to improved conditions for all highway users and reduced environmental impacts arising from transport.
- (c) Nexus has set out above its assessment of the extent to which the QCS achieves the objectives set out in Public Interest Test criteria (a) to (d), and has demonstrated that the QCS satisfies those objectives. Those assessments, and particular that in relation to criterion (b), shows that the improvement in well-being resulting from the QCS is significant and wide-spread among residents and workers in the area. Nexus also judges there is a high likelihood of securing these benefits for the reasons it has given earlier in this report. In particular, the QCS will avoid the adverse consequences of the Do Minimum Scenario set out in Section 1.4. Nexus considers that in itself to be a substantial benefit.
- (d) In addition, further improvements over the current situation will be achieved because:

- (i) New initiatives to grow patronage and influence modal shift will be introduced;
  - (ii) No cuts to services will be required, because of the sustainable funding position set out in the Nexus Affordability Model; and
  - (iii) The trend of above-inflationary fare increases will be curtailed for all bus passengers, the Under 16 reduced fare scheme will be retained, and significant reductions will be available for 16-18 year olds and students.
- (e) In assessing the well-being to persons living and working in the QCS Area, Nexus has identified a range of improvements in the following categories:
- (i) Achievement of local policies;
  - (ii) Bus network and accessibility;
  - (iii) Passenger benefits;
  - (iv) Fares and ticketing; and
  - (v) Governance, community involvement and transparency.
  - (vi) Employees
- (f) Nexus has attempted to place a monetised value on the benefits of the QCS, which amounts to £373 million over the ten years of the QCS (which across a range of risk outcomes varies from £247 million to £514 million). That figure does not include all benefits of the QCS because not all of those benefits can be monetised. It therefore understates the overall benefits.
- (g) The certainty of these benefits being achieved is high because of the very nature of the legislation under which a QCS is made, in that the

QCS will be required to deliver those aspects of the Scheme upon which the achievement of the Scheme's objectives rest, in order for the Public Interest Test criteria to be satisfied.

- (h) The delivery of those aspects of the QCS that deliver well-being to persons living and working in the QCS Area will be the subject of contractual obligations between Nexus, as contracting authority, and Operators awarded Quality Contracts. The contractual remedies and incentives put in place by Nexus will ensure that these contractual obligations have a high degree of certainty in relation to their delivery. Further aspects that deliver the well-being benefits associated with the QCS will be delivered by Nexus itself, for instance the developments required to Smartcard systems. Nexus has a high degree of certainty that it can deliver those aspects of the QCS that it is responsible for, because it is already an experienced and skilled delivery partner in public transport schemes.
- (i) Furthermore, the analysis set out in the affordability assessment demonstrates that the QCS is affordable within the assumptions made, and that a sizeable financial contingency has been set aside to manage the risk of those assumptions being inaccurate. When coupled with the legal requirement on the NECA to fulfil the Scheme's objectives, and the fact that the features that deliver well-being benefits will become a contractualised obligation on Operators, this adds to the high likelihood that the benefits of the QCS will be realised.
- (j) It is acknowledged that some residents and workers will experience some negative effects from the introduction of the QCS, even though the QCS will deliver net benefits overall. The figures set out above reflect that net benefit (in other words, the figures take into account monetised disbenefits). The negative effects of the QCS include:

- (i) As set out in paragraphs 2.2.3(e) and 2.2.3(f), some adult fares will increase at the start of the QCS although these fares will then rise less steeply through time such that as the QCS progresses these increases in fares will reduce compared to their Do Minimum Scenario equivalents);
  - (ii) The quality of some existing vehicles may already be higher than the QCS requirement, and these may be lost to the area if the Operators concerned do not win any Quality Contracts or having won them decide to employ vehicles of the minimum specification; and
  - (iii) A small number of bus company employees (who are not Relevant Employees for the purposes of TUPE) may be at risk of redundancy if their employer does not win contracts covering its existing work, or fails to secure an adequate amount of work, and fails to redeploy them.
- (k) These disbenefits are acknowledged by Nexus but given low weight in the light of the scale of the benefits they must be set against, and the uncertainty of some of the disbenefits arising.
- (l) The alternative option of a VPA offers some improvements beyond the Do Minimum Scenario, but the social and economic benefits are much lower – with a low certainty of delivery. Alternative QCS designs have also been considered but would either give rise to far greater adverse effects, or deliver far fewer benefits. They have not therefore been pursued.
- (m) Nexus considers that, taken together, the benefits of the proposed scheme are high. The certainty of their delivery is high. The improvement in well-being will apply to a very wide range of people who live and work in Tyne and Wear. Any negative effects on well-

being are limited in nature and scale. Therefore Nexus attaches very substantial weight to the improvement in well-being.

#### 6.6.4 Assessment of Adverse Effects

- (a) Nexus' assessment has taken into account impacts on Operators as a whole, as well as impacts on individual Operators, to the extent that it has been possible to do so. When considering individual Operators, Nexus has recognised the different position of the three large Operators compared to the smaller Operators.
- (b) Overall, existing Operators will be adversely affected by the QCS. In very broad terms:
  - (i) Although they have an incumbency advantage from depot ownership and existing employees, there is great uncertainty over whether they will in fact win Quality Contracts that cover the entirety of their existing network;
  - (ii) Even where an existing Operator wins Quality Contracts that cover the entirety of its existing business, the effect of the QCS will (with the possible exception of Arriva) be to reduce their profit margin and lower their returns;
  - (iii) Where they do not win any Quality Contracts that cover their existing business, they will lose their future profit-earning potential and there may well also be a cost to them of exiting the market;
  - (iv) Where they win some Quality Contracts that cover their existing business (but not the entirety of it), their total profit will be reduced; and

- (v) Where they do not win any, or only win some, Quality Contracts that cover their existing business there may be cross-boundary impacts on their work elsewhere in the North East.
- (c) For reasons already explained, Nexus is unable to predict the outcome of the procurement process and hence the precise impact on Operators. It has, however, had regard to a figure which it considers to represent the maximum impact on Operator profits overall, amounting to some £227 million. It has also had regard to an equivalent minimum figure, amounting to some £85 million.
- (d) The maximum detriment figure is based on the assumption that existing Operators will secure none of the Quality Contracts that cover their existing business, but since there is an advantage that applies to existing Operators due to their knowledge of the Tyne and Wear market, Nexus considers this scenario to be very unlikely. For this reason, although it is acknowledged as being a possibility, Nexus does not attach significant weight to it.
- (e) Conversely, the minimum detriment figure is based on the assumption that all existing Operators win Quality Contracts that cover all of their existing business. Because Nexus has designed a procurement process that will drive a high degree of market competition, it also considers this scenario to be very unlikely, and has not attached significant weight to it.
- (f) Consequently, Nexus considers that the actual adverse effect is likely to be between the maximum and minimum detriment, depending on how many contracts are won and by whom. It is not possible to reliably predict that outcome, and therefore Nexus has also had regard to that inherent uncertainty.
- (g) Notwithstanding that uncertainty, Nexus has in this Section also attempted to quantify adverse impacts on Operator profits at an

individual Operator level. As regards the larger Operators, this assessment shows that the maximum and minimum impacts vary greatly in their quantum depending on the Operator in question.

[REDACTED].

For the same reason given above, Nexus is not able to say with certainty what the actual impacts will be. Nexus considers the actual impacts will lie somewhere between the maximum and minimum depending on the outcome of the procurement process, and Nexus has had regard to that uncertainty in its assessment of the proportionality of the QCS.

(h) [REDACTED].

- (i) In respect of smaller Operators, Nexus notes that the bus market in Tyne and Wear may provide a high proportion, or the entirety of, their business, acknowledging that some Operators' main business is coach hire or taxi operation. However, all smaller Operators (with a

single exception) exclusively operate Secured Bus Service contracts today, rather than Commercial Bus Services. As Nexus has explained, these services will be withdrawn over time under the Do Minimum Scenario. Therefore, while the QCS would require them to re-tender for their businesses, with the consequent risk of them losing their businesses, the QCS would actually present these Operators with an opportunity to continue running their businesses over the period of the QCS, which they would not otherwise have. In addition, smaller Operators are already subject to the risk of losing their existing business to another Operator when their existing contracts end and are re-let.

- (j) Nexus has not been able to estimate the impact on each individual smaller Operator due to a lack of publically available information and a lack of responses to Consultation. While it has sought to gauge and quantify the impact on smaller Operators as a group, the figures are not reliable and do not, in Nexus' view, represent an accurate forecast of the likely impact on those smaller Operators. Again, Nexus has had regard to that uncertainty in its assessment.
- (k) Nexus therefore recognises that there are benefits and disadvantages to the QCS in respect of smaller Operators, but overall, taking into account the effects of the Do Minimum Scenario and the uncertainty identified above, in its judgment there is a net benefit to smaller Operators from the QCS.
- (l) Above, Nexus has examined the adverse impacts of the QCS on profits. However, it recognises that other forms of loss may arise. In its assessment it has considered the extent to which the QCS may result in adverse impacts caused by stranded assets (such as redundant depots and non-conforming vehicles). As set out above, there is uncertainty as to the extent to which such losses might arise and there are various ways in which Nexus would expect Operators

to mitigate any potential losses in this respect. Further, the quantum of such losses is judged to be relatively small. For these reasons, Nexus does not attach significant weight to these potential adverse impacts.

- (m) Operators in Consultation raised concerns that the QCS would result in them incurring significant liabilities in relation to pension payments. Nexus has assessed this potential adverse impact at an individual Operator level, using information provided by Operators in their Consultation feedback where possible. Nexus considers that the suggested level of liability put forward by Stagecoach is unlikely to arise, however Nexus accepts that there is a likelihood of some enhanced liability, for reasons explained in Section 6.3.10. In relation to Arriva, Nexus does not consider that the circumstances necessary to give rise to enhanced pension liability are likely to arise, and therefore the likelihood of this adverse effect is low. Go North East has not provided figures or details in relation to their potential pension liabilities should a QCS be introduced, so Nexus has assumed that these would be negligible. For the reasons set out in Section 6.3.10, Nexus has assumed that there will be no adverse impact on smaller Operators due to defined benefit pension scheme liability. Nonetheless, in assessing adverse impacts, to ensure a robust assessment, Nexus has used the figures provided by Operators.
- (n) In assessing adverse effects on Operators due to TUPE and redundancy costs, Nexus recognises the potential for adverse effects in terms of redundancy costs associated with 'out of scope' employees and adverse effects linked to the transfer of employees. However, the scale of the impacts depends on a number of factors, in particular the outcome of the procurement process and the number of employees involved in the subsequent TUPE transfer.

Nexus has included the redundancy cost figures provided by Operators in its financial assessment of adverse effects above.

- (o) Operators also raised concerns about wasted bid costs where they fail to win back some of their existing business. Nexus recognises this as a potential adverse impact and has included it in its financial assessment of adverse effects above.
- (p) There are also a number of impacts that, on consideration, Nexus does not in fact consider to be relevant adverse impacts. These include operational losses, the costs of providing higher specification vehicles, the possibility of other QCSs being introduced in other local authority areas and impacts on persons outside of the QCS Area. Even if they were relevant adverse impacts, they are not factors to which Nexus would attach any material weight.
- (q) Nexus therefore accepts that the adverse effects of the QCS are potentially high in the case of certain Operators, and Nexus attaches significant weight to these potential impacts. Smaller Operators may experience significant adverse effects, but overall Nexus regards the position to be beneficial to such Operators who without the QCS may be left without any opportunity to run their businesses.

#### 6.6.5 Assessment of the VPA

- (a) In assessing the VPA Proposal, Nexus has considered the nature, likelihood and scale of the benefits the VPA Proposal has the potential to bring about so as to inform its assessment of whether (to paraphrase *Bank Mellat*) “*the VPA could be used without unacceptably compromising the objectives to be delivered by the QCS*”. For the reasons outlined below, Nexus has concluded that adopting the VPA rather than the QCS would unacceptably compromise those objectives. It follows that, in Nexus’ opinion, the VPA Proposal option does not constitute the “*least intrusive means*”

for acceptably attaining the objectives sought, and the existence of the VPA Proposal does not prevent the QCS being proportionate under the terms of criterion (e).

- (b) As explained in Section 6.5, the VPA Proposal could offer material benefits compared to the Do Minimum Scenario. However, Nexus is of the view that the current structure of the VPA Proposal does not provide sufficient certainty of continued or complete delivery for Nexus to recommend to NECA that it should attribute significant weight to the VPA Proposal continuing to be delivered as envisaged for the full duration of its term. In particular, the VPA Proposal does not commit to provide the savings which Nexus requires from the existing Secured Bus Service budget, only providing an on-going commitment by Operators to seek to achieve such savings. This could leave Nexus with a material shortfall in its Secured Bus Services budget, and the loss of Accessibility which the QCS is intended to avoid. It would also lead to significant loss of business amongst small Operators, commensurate with the Do Minimum Scenario.
- (c) Even if the VPA Proposal were to successfully achieve the benefits identified as being capable (but not certain) of being delivered under it, Nexus is still of the view that the QCS would deliver material and additional benefits over and above those delivered by the VPA Proposal. Nexus has set out that comparison at Section 6.5 and Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS. Additionally, the QCS delivers materially greater aspects of the Combined Authority's Bus Strategy and Local Transport Plan.
- (d) Nonetheless, Nexus recognises that the VPA would have materially fewer adverse impacts on Operators as compared to the QCS. It would represent less of a constraint on their commercial freedom to operate services and would have a lower impact on Operator profits.

However, this is to be expected given the VPA Proposal's lesser benefits.

- (e) Nexus therefore considers that the two key factors of:
  - (i) uncertainty of delivery; and
  - (ii) the more limited extent to which the VPA Proposal would in any event contribute towards achieving the Public Interest Test criteria (a) to (d);

mean that the VPA Proposal unacceptably compromises on the objectives sought to be delivered by the QCS. Those same factors significantly reduce the weight that Nexus attaches to the VPA Proposal as a potential alternative to the QCS.

#### 6.6.6 Conclusion

- (a) Nexus has considered carefully the responses to consultation and carried out its own assessment of the merits of the QCS against the relevant statutory criteria. Where appropriate it has sought external advice to assist it in its analysis. It has sought and followed legal advice on the approach to be taken to proportionality.
- (b) While it acknowledges that there will be adverse impacts on Operators, the extent of which will depend upon the outcome of the procurement process and commercial decisions made by the Operators themselves, it considers that the benefits that will be delivered by the QCS are sufficiently important to justify those adverse effects. It acknowledges that the VPA Proposal is also intended to deliver benefits, without the adverse impacts that the QCS will cause. However, for reasons already explained, Nexus does not consider that the VPA Proposal is a real alternative to the QCS because it would not sufficiently secure the objectives which the QCS

is intended to achieve, and which the QCS has a very high likelihood of achieving. There are considerable disadvantages to the VPA Proposal as set out in this report.

- (c) Having regard to all the potential impacts and benefits of the QCS, and taking into account the VPA Proposal, Nexus considers that a fair balance has been struck between the rights of the Operators (whether individually or taken as a group) and the interests of the community.
- (d) Nexus is therefore of the view that any adverse effects of the proposed QCS on Operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the QCS relates and, in particular, to the achievement of the objectives mentioned in paragraph (a) to (d) of the Public Interest Test. Nexus therefore considers that criterion (e) is satisfied. It also considers that the requirements of Article 1 of the First Protocol to the Convention are met.



7. **APPENDICES**

7.1 Appendix 1 –Approach to Risk Assumptions

7.2 Appendix 2 – Value for Money, Economic Appraisal Derivation

7.3 Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS



## **Appendix 1 – Approach to Risk Assumptions**

# QCS Value for Money Assessment: Record of Risk Assumptions

2014 update following consultation

Wednesday, 27 August 2014

**Prepared for:**

Nexus

Nexus House, St James' Boulevard

Newcastle-upon-Tyne, NE1 4AX

**Prepared by:**

Steer Davies Gleave

West Riding House, 67 Albion Street

Leeds, LS1 5AA

0113 385 6400

[www.steerdaviesgleave.com](http://www.steerdaviesgleave.com)

## Introduction

- Nexus is consulting on a proposal to introduce a Bus Quality Contract Scheme (QCS) for Tyne and Wear
- The Value for Money appraisal allows an assessment of the benefit of the proposed scheme and an objective comparison with an alternative Voluntary Partnership Agreement (VPA) option
- A ‘risk simulation’ of possible outcomes has been undertaken, the result being a forecast range of results rather than ‘central case’ values
- This report sets out the risk assumptions made in the value for money assessment including sources and justification, setting out in turn:
  - Economic appraisal assumptions which have no risk distribution applied
  - Economic appraisal assumptions which have a risk distribution applied for the VfM assessment
  - The derivation of the risk distributions where these have been applied within the affordability model for the VfM assessment
- It does not set out the justification of the assumptions behind Nexus’ affordability model (whether or not a risk distribution has been applied)
- Changes since the 2013 Nexus Proposal submission are marked with a (\*)

## Static Appraisal Assumptions - Appraisal Period, Price and Value Base

- The economic appraisal follows the latest DfT guidance (WebTAG, last updated January 2014).
- The appraisal of the QCS option is undertaken over the ten year life of the scheme, also taking into account advance set-up costs
- The VPA option is assumed to be introduced one year earlier (\*) than the QCS and is therefore appraised over an assumed eleven year life, ending in the same year as the QCS for consistency
- Both options are assessed against a Do Minimum (DM) reflecting a forecast of what would happen without the QCS or VPA
- The affordability model forming the inputs to the appraisal is in nominal terms and represents annual total demand, revenue and operating costs
- Appraisal values are derived as follows:
  - Prices are in real terms with a 2010 base
  - Present values are discounted to 2010 at 3.5%
  - Appraisal is undertaken including indirect taxation (ie in market prices) at an average rate of 19%

## Static Appraisal Assumptions - User Benefit Values

User economic benefit values are sourced from WebTAG Unit A1.3. Risk is not applied to these values, as variation is already included from other assumptions and the resulting appraisal would not be consistent with DfT Guidance.

### ■ Base year (2010) values of time (\*)

■ Passengers on employer's business	£16.63
■ Commuters	£6.81
■ Other passengers	£6.04

### ■ Real increases in values of time (\*)

- All passenger VOTs increase in line with forecast GDP per capita changes

■ National journey purpose splits	Bus	Car (*)
■ Passengers on employer's business	1.4%	5.0%
■ Commuters	24.3%	20.3%
■ Other passengers	74.3%	74.7%

## Static Appraisal Assumptions - External Benefit Values

External (non-user) economic benefit values are sourced from WebTAG Unit A5.4.

■ Values are unit rates of impact per vehicle km removed from the highway in 2010 prices and values:

■ Congestion costs	11.8p
■ Highway infrastructure impact	0.1p
■ Accident costs	1.6p
■ Air pollution costs	0.1p
■ Noise costs	0.1p
■ Climate change costs	0.09p
■ Indirect taxation costs (fuel duty loss)	-5.1p

■ The calculation takes into account changes in car and bus km, using the industry standard assumption that a bus is equivalent to 2 pcu (passenger car units)

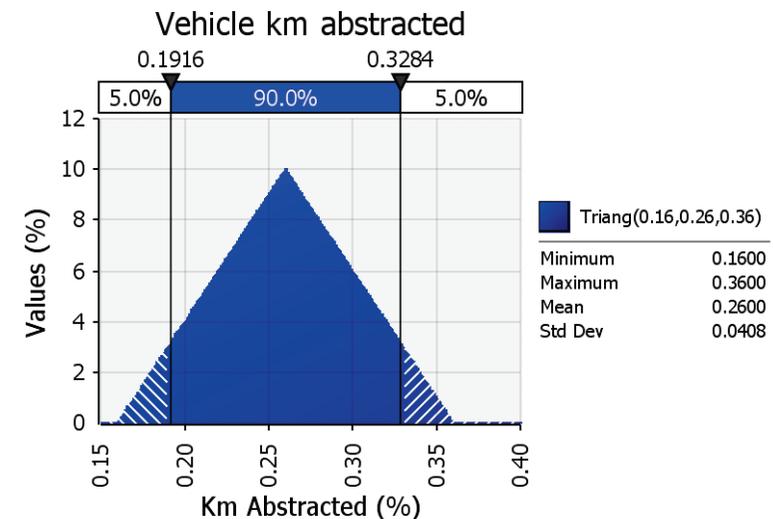
- Change in demand is factored by an average passenger journey distance of 5.9 km (\*) based on data within the affordability model (risk is applied to this value, see later)
- Change in bus hours operated is factored by an average bus speed of 18 km/h based on project team experience

## A: Economic Appraisal Assumptions with Risk Distributions

- The following slides present the source and justification of the following economic appraisal assumptions which have risk distributions applied:
  - A.1 Vehicle km abstraction percentage
  - A.2 Assumed set-up cost
  - A.3 On-going cost assumptions
  - A.4 Infrastructure cost assumptions
  - A.5 Smartcard ticketing system cost assumptions
  - A.6 Other investment cost assumptions
  - A.7 Scheme introduction assumptions
  
- On each slide the chart represents the probability distribution, the y axis being probability and the area under the line summing to 100%
- The y axis scale therefore varies between graphs, being a function of the scale of the x axis

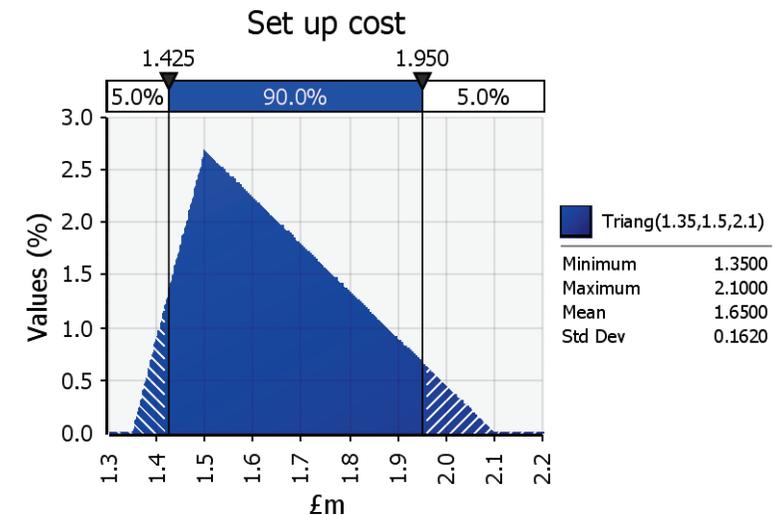
## A.1 Vehicle km abstraction percentage

- Used to calculate the external economic impacts of the scheme based on abstraction of car trips
- WebTAG Unit A5.4 specifies that 26% of the change in rail passenger km will be abstracted from highway. Although listed as rail guidance its use is considered appropriate given the modest scale of benefits resulting
- The risk distribution adopted represents variation in this value and its application outside a rail context
- A triangular distribution has been assumed allowing variation between 16% and 36% but not allowing non-credible, more extreme results
- This is considered to be a robust range of possible outcomes



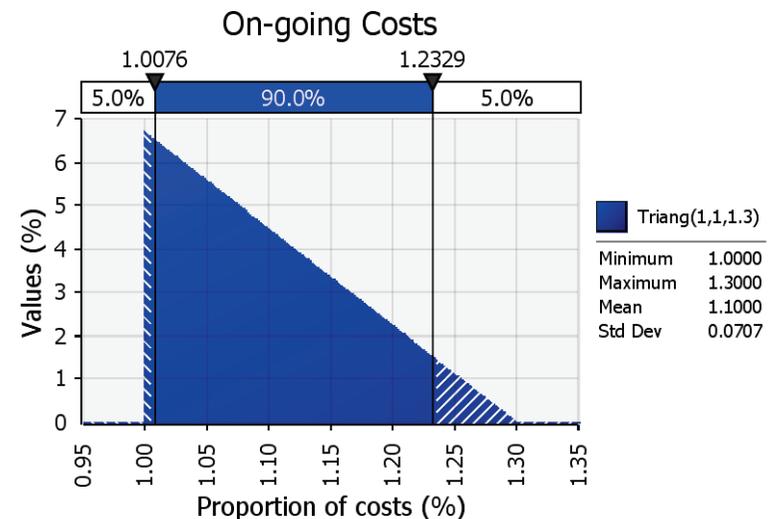
## A.2 Assumed set-up costs

- Used within the economic appraisal in the valuation of the costs to Nexus of setting up the scheme
  - A central estimate of £1.5 million for the QCS option has been provided by Nexus and confirmed as remaining appropriate
  - A central estimate of £0.2 million has been assumed for the VPA
- An asymmetric triangular risk distribution has been adopted to represent variation in this value
- The assumption has been allowed to reduce by up to 10% and increase by up to 40%. (\*) Results below this range are not considered to be credible and above it delivery of the scheme would not be practicable
- This is considered to be a robust range of possible outcomes



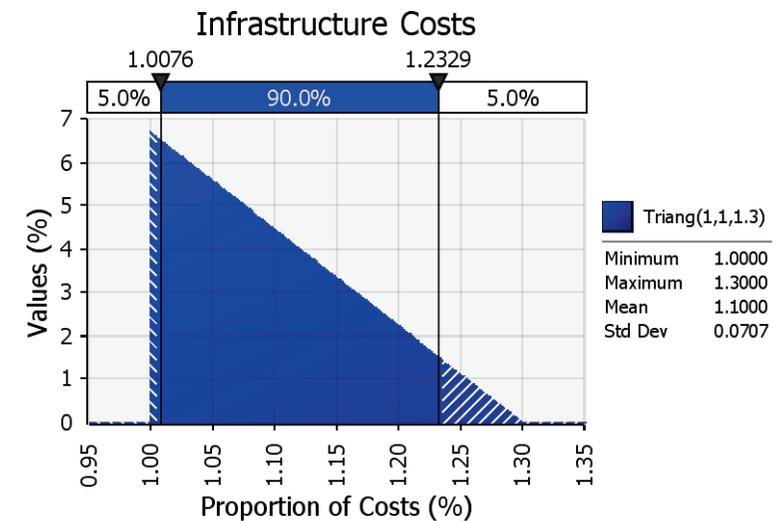
## A.3 On-going costs

- Used within the economic appraisal in the valuation of the annual scheme management (etc.) costs to Nexus
- Annual on-going cost are included within the model for:
  - Governance
  - Additional employees
  - Passenger focus
  - Marketing and branding
- A triangular risk distribution has been adopted to represent variation in this value
- The assumption has been allowed to increase uninflated costs by up to 30% but no further (\*)
- This is considered to be a robust range of possible outcomes given these costs are within Nexus' control



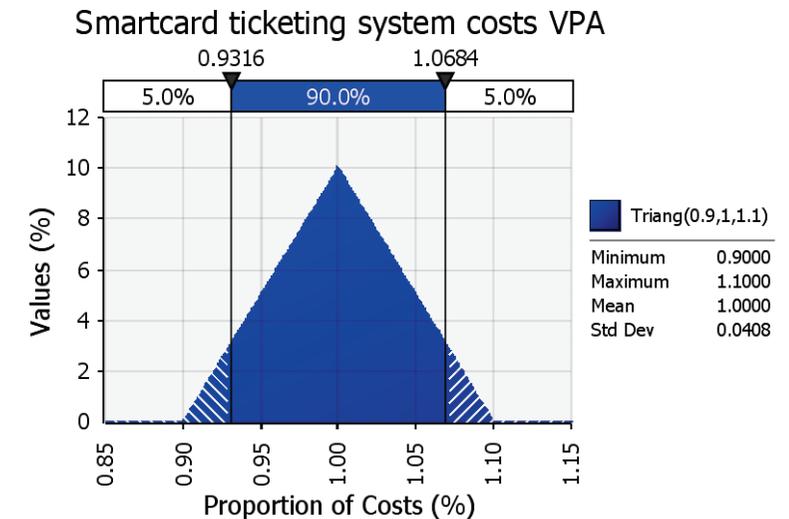
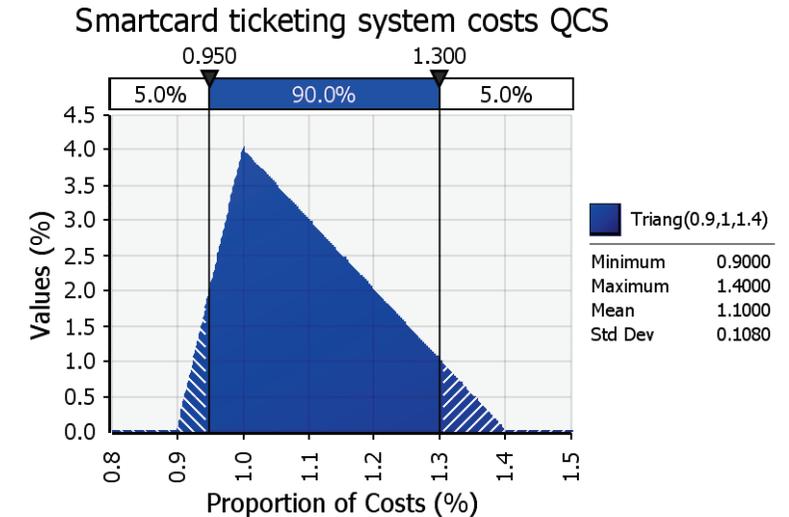
## A.4 Infrastructure investment costs

- Used within the economic appraisal in the valuation of infrastructure investment associated with the scheme
- Currently no additional associated investment is included within the model for either the QCS or VPA options
- A triangular risk distribution has been adopted to represent variation in any estimated value
- The assumption has been allowed to increase costs by up to 30% but no further (\*)
- This is considered to be a robust range of possible outcomes



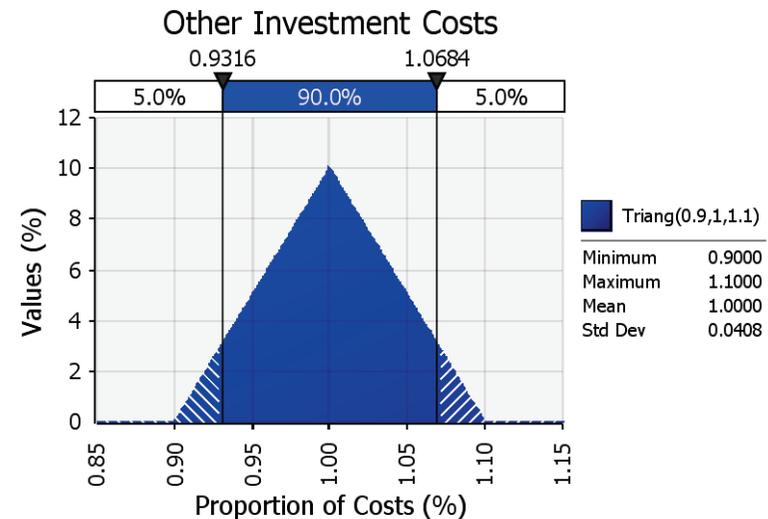
## A.5 Smartcard ticketing system costs

- Used within the economic appraisal in the valuation of smartcard ticketing costs.
- In the QCS option, this is represented by an initial smartcard system investment estimated at £1.86 million
- In the VPA option, this is represented by an initial cost for operating smartcard ticketing estimated at £0.2 million (\*)
- Triangular risk distributions have been adopted to represent variation in these values (\*)
  - In the QCS option, the assumption has been allowed to reduce costs by up to 10% and increase costs by up to 40%
  - In the VPA option, less variation is assumed (reduce or increase costs by up to 10%) since this is an operating cost as opposed to a capital investment
- This is considered to be a robust range of possible outcomes



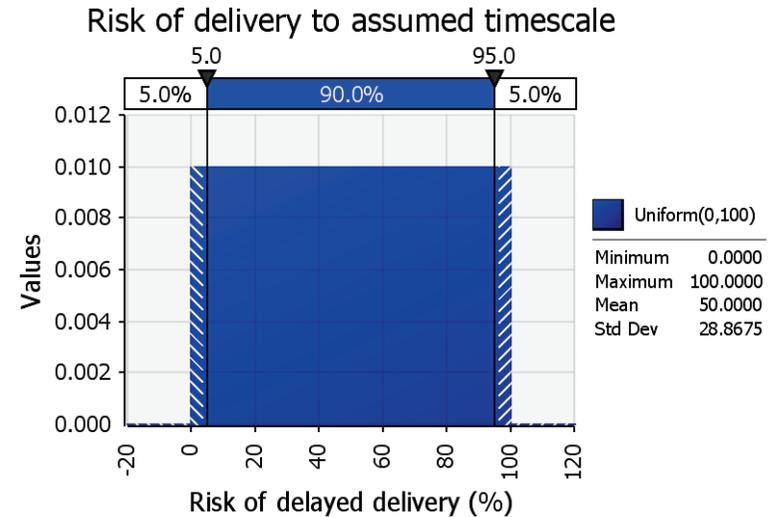
## A.6 Other investment costs

- Used within the economic appraisal in the valuation of other investment associated with the scheme
- In the QCS option, this includes contingency (\*)
- In the VPA option, no costs are included within the model
- A triangular risk distribution has been adopted to represent variation in this value
- The assumption has been allowed to reduce or increase costs by up to 10% but not further, as such costs can be estimated with an reasonable level of accuracy
- This is considered to be a robust range of possible outcomes



## A.7 Scheme introduction assumptions

- Used within the economic appraisal to represent the potential for delay in the introduction of the scheme
- A uniform risk distribution has been adopted and in 30% of occurrences it has been assumed that introduction of the scheme will be delayed beyond the expected introduction date
- This is considered to be a robust reflection of possible outcomes



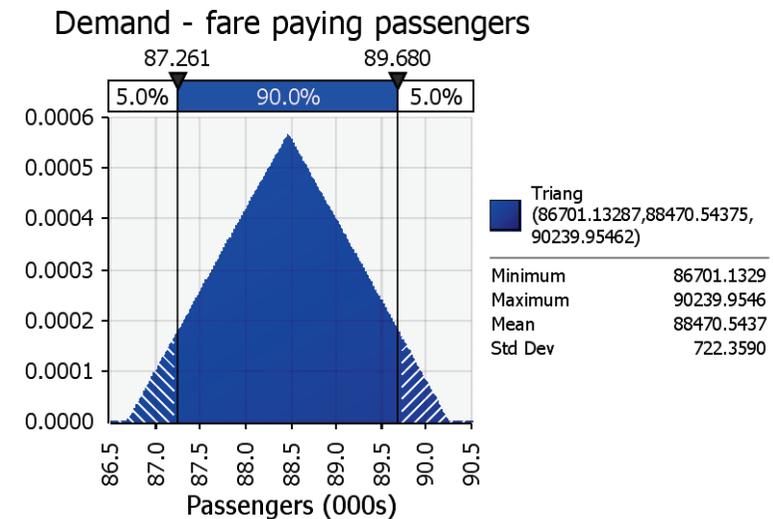
- Probability result between 0% and 70% QCS/VPA delivered to current timescale
- Probability result between 70% and 80% QCS/VPA delivered following one year delay
- Probability result between 80% and 90% QCS/VPA delivered following two year delay
- Probability result between 90% and 100% QCS/VPA delivered following three year delay

## B: Risk Distributions applied to Affordability Model Assumptions (base year)

- The following slides present the risk distributions assumed for the following (Nexus) base year assumptions within the affordability model:
  - B.1 Demand (fare payers, concessionary demand known to Nexus)
  - B.2 Base fare yield (fare payers, concessionary average known to Nexus and variation in it does not affect travel volumes)
  - B.3 Base fare yield adjustment (VPA only) (\*)
  - B.4 Bus hours operated
  - B.5 Peak vehicle requirement
  - B.6 Hourly bus operating cost
  - B.7 Per vehicle annual operating cost

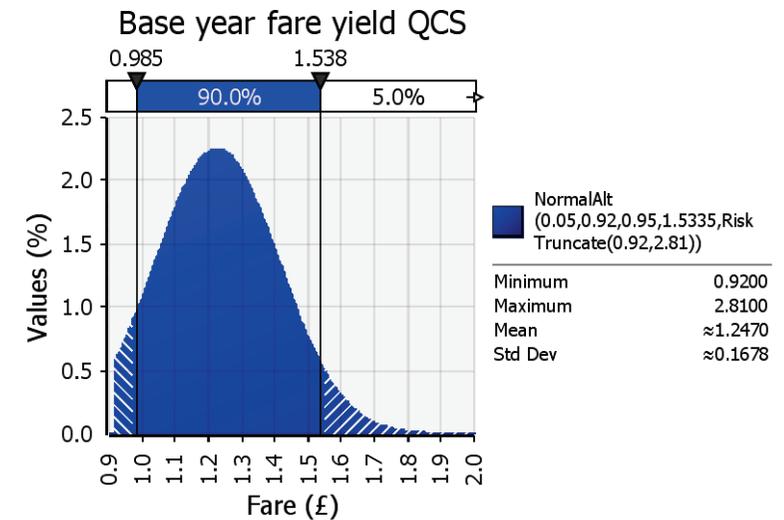
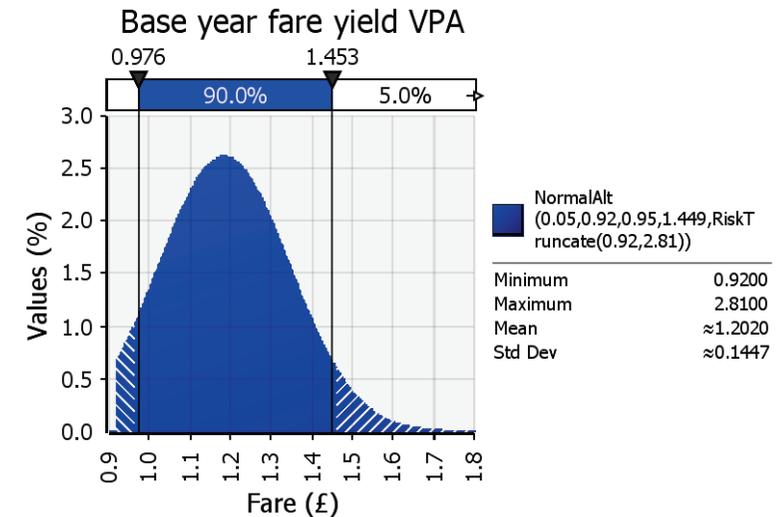
## B.1 Base year fare paying passengers

- The base from which changes in demand are forecast by the model and converted to revenue
- The base year demand (\*) has a known level of certainty
- A triangular risk distribution has been adopted to represent variation in this value
- The assumption has been allowed to reduce or increase passengers by up to 2%
- This is considered to be a robust range of possible outcomes based on the method of estimation



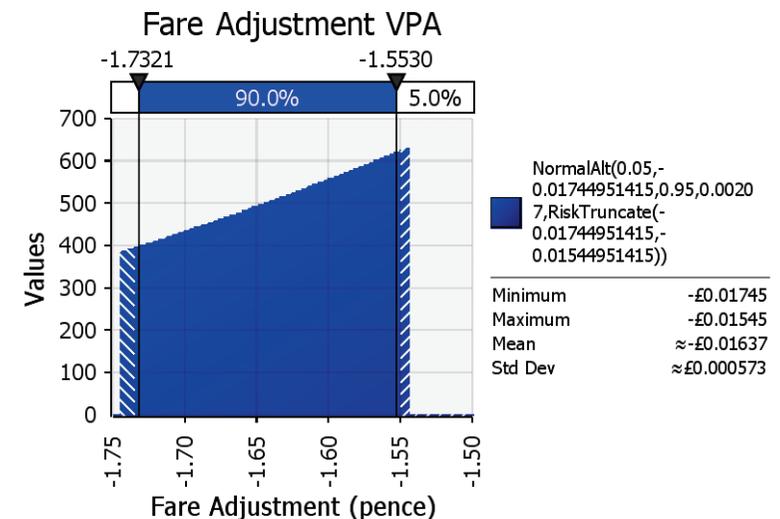
## B.2 Base year fare yield

- The base from which changes in demand are converted to revenue
- The average fare for each option has been taken from the affordability model (\*):
  - The average fare in the QCS opening year is £1.20
  - The average fare in the VPA opening year is £1.25
- A normal risk distribution has been adopted to reflect variation in fares paid around the average value (and uncertainty in that average)
  - The standard deviation has been derived such that the 5%ile is set at £0.92 (the minimum current cash fare)
  - The 95%ile has been set with reference to the average fare
  - The distribution has also been cut-off at the minimum cash fare
- This is considered to be a robust range of possible outcomes



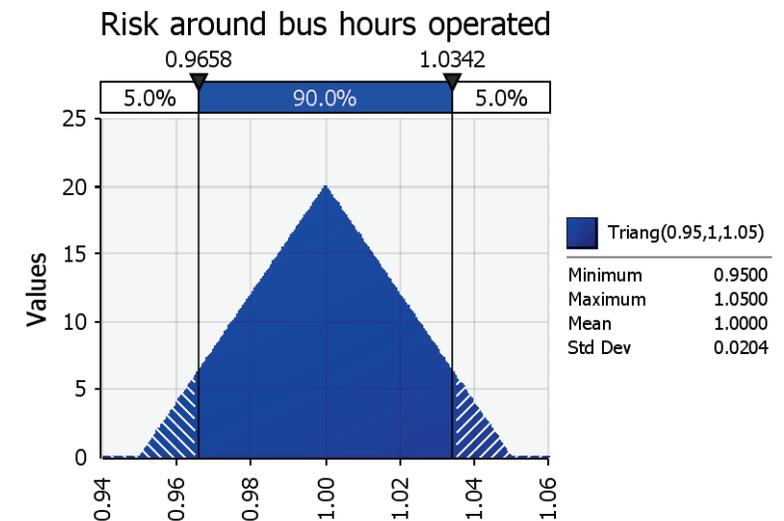
## B.3 Base year fare yield adjustment (\*)

- The base year fare adjustment applied to reflect the expected increase in patronage in the VPA option
- Consultation responses suggest that that patronage will increase by 525,000 as a result of a review of fares
- A normal risk distribution has been adopted to reflect variation in this adjustment representing variation in the increase in patronage
  - The assumption has been allowed to reduce or increase this adjustment by up to 1%
  - The 95%ile has been set with reference to the average fare adjustment
- This is considered to be a robust range of possible outcomes



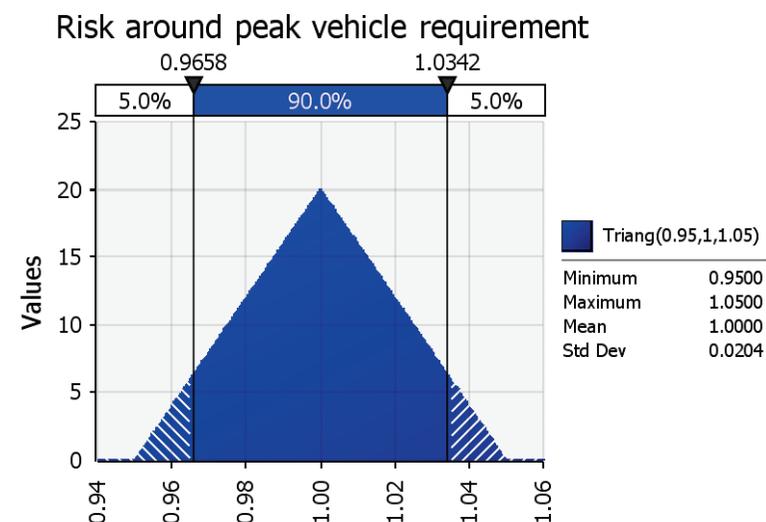
## B.4 Bus hours operated

- Used in the definition of the base from which changes in operating cost are forecast by the model
- A triangular risk distribution has been adopted to represent variation in this value
- The bus hours operated are multiplied by a risk around 1 to ensure consistency in different scenarios (\*)
- The assumption has been allowed to reduce or increase costs by up to 5%
- This is considered to be a robust range of possible outcomes based on the method of estimation
- This risk has been positively correlated with the peak vehicle requirement



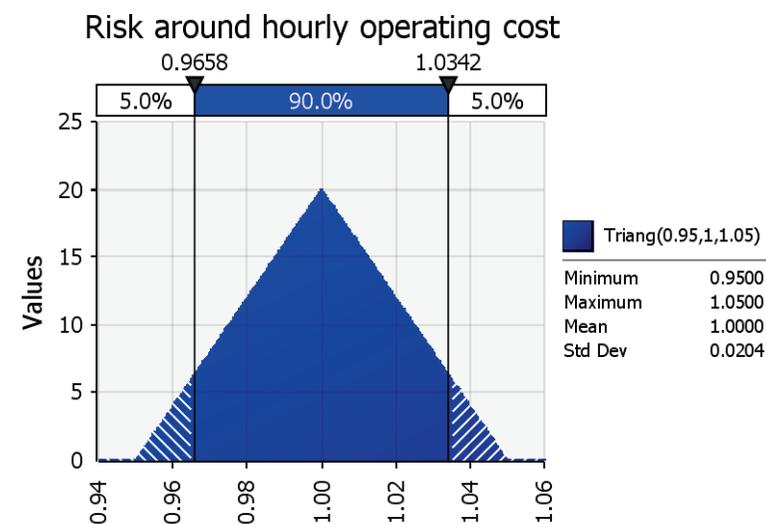
## B.5 Peak vehicle requirement

- Used in the definition of the base from which changes in operating cost are forecast by the model
- A triangular risk distribution has been adopted to represent variation in this value around a TAS central case assumption
- The peak vehicle requirement is multiplied by a risk around 1 to ensure consistency in different scenarios (\*)
- The assumption has been allowed to reduce or increase costs by up to 5%
- This is considered to be a robust range of possible outcomes based on the method of estimation
- This risk has been positively correlated with the bus hours operated



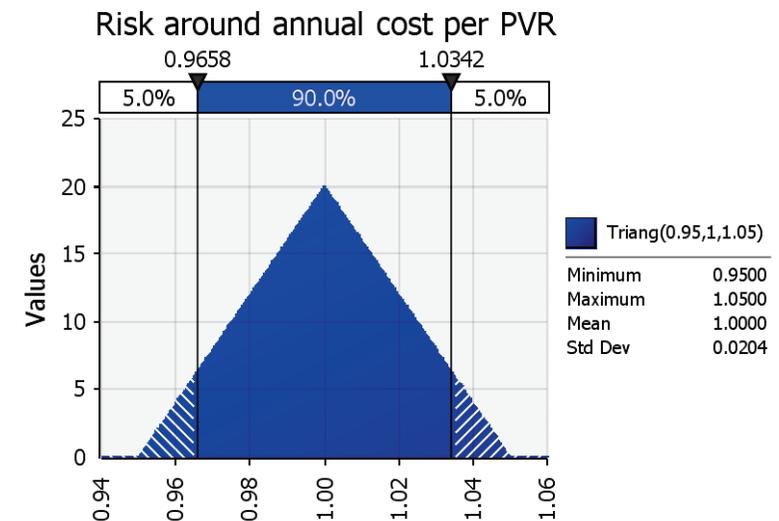
## B.6 Hourly bus operating cost

- Used in the definition of the base from which changes in operating cost are forecast by the model
- A triangular risk distribution has been adopted to represent variation in this value around a TAS central case assumption
- The hourly bus operating cost is multiplied by a risk around 1 to ensure consistency in different scenarios (\*)
- The assumption has been allowed to reduce or increase costs by up to 5%
- This is considered to be a robust range of possible outcomes
- This risk has been positively correlated with the annual cost per vehicle operated



## B.7 Per vehicle annual operating cost

- Used in the definition of the base from which changes in operating cost are forecast by the model, representing the costs which are not included within the hourly bus operating cost
- The annual operating cost per vehicle is multiplied by a risk around 1 to ensure consistency in different scenarios (\*)
- A triangular risk distribution has been adopted to represent variation in this value around a TAS central case assumption
- The assumption has been allowed to reduce or increase costs by up to 5%
- This is considered to be a robust range of possible outcomes
- This risk has been positively correlated with the hourly bus operating cost



## C: Risk Distributions applied to Affordability Model Assumptions (future year)

■ The following slides present the risk distributions assumed for the following (Nexus) future year assumptions within the affordability model:

- C.1 Assumed change in real fares
- C.2 Demand response to fares
- C.3 Bus hours operated
- C.4 Peak vehicle requirements
- C.5 Assumed operator margin
- C.6 Assumed network efficiency change
- C.7 Average trip duration
- C.8 Average trip wait
- C.9 Average trip access walk
- C.10 Soft measures benefit
- C.11 Percentage bus users receiving soft measures benefit

## C: Risk Distributions applied to Affordability Model Assumptions (future year)

C.12 Number of buses to replace (QCS only) (\*)

C.13 Savings target (VPA only) (\*)

C.14 Increased revenue per additional bus (VPA only) (\*)

C.15 National Trip End Model annual growth factors

C.16 General inflation

C.17 Real labour costs inflation

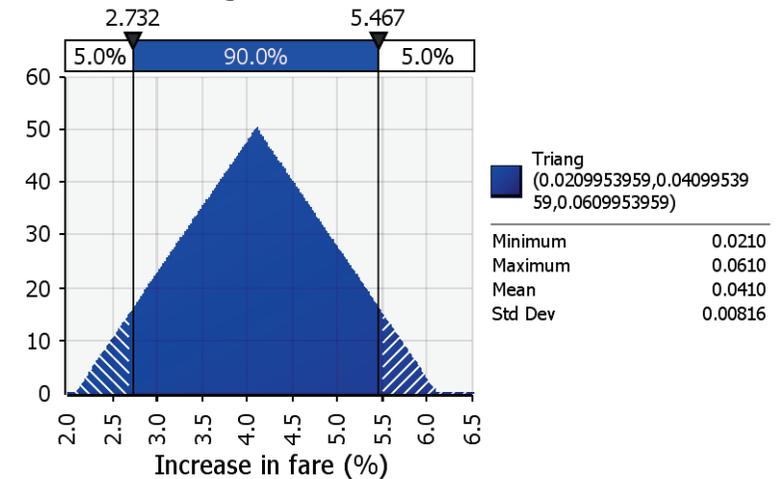
C.18 Real fuel costs inflation

C.19 Blended inflation

## C.1 Assumed change in real fares

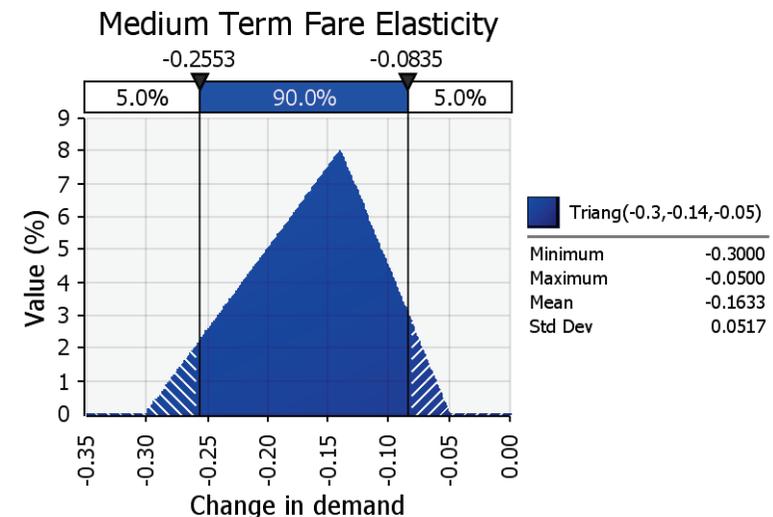
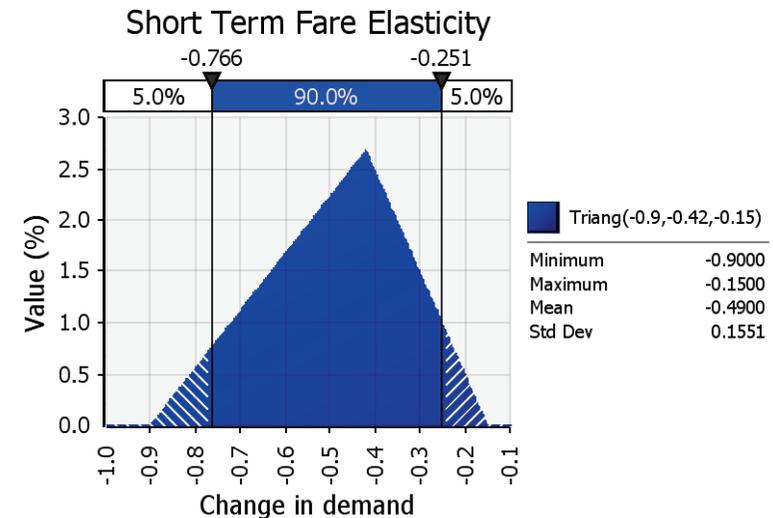
- The basis of the calculation of future revenue
- A triangular risk distribution has been adopted to represent variation in this value but excluding less credible, more extreme outcomes
- In all options, the assumed change has been allowed to reduce or increase by 2 percentage points (\*)
- These are considered to be robust ranges of possible outcomes

Assumed change in real fares - Year 1 VPA



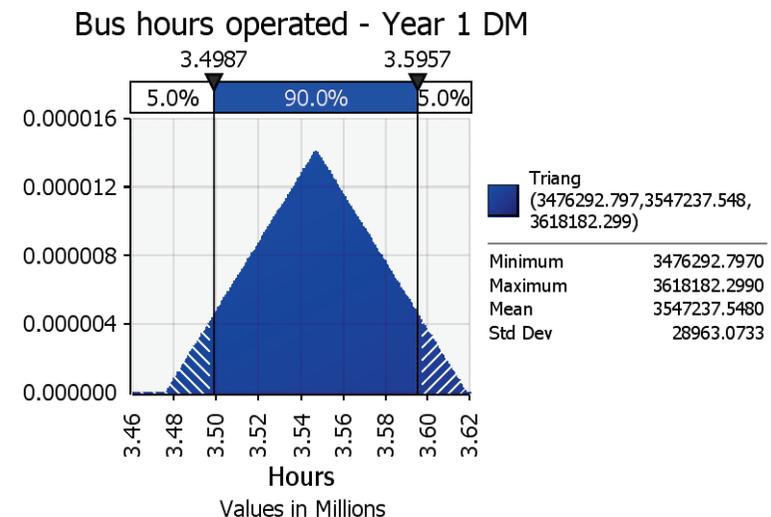
## C.2 Demand response to fares

- The parameters controlling the demand response to changes in fares
- A triangular risk distribution has been adopted to represent variation in this value, excluding non credible extremes (\*)
- The short term fare elasticity has been allowed to vary around the central value of -0.42; between -0.9 and -0.15
- The medium term fare elasticity has been allowed to vary around the central value of -0.14 between -0.3 and -0.05
- These are considered to be robust ranges of possible outcomes based on the TRL black book (assumption source)
- Short/medium term elasticities have been positively correlated



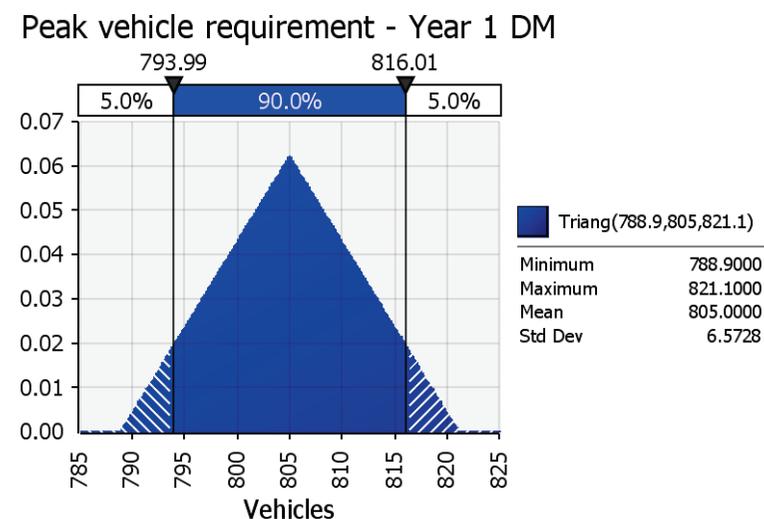
## C.3 Bus hours operated

- Used in the specification of changes in the bus network resulting in operating cost and demand changes
- A triangular risk distribution has been adopted to represent variation in this value around a TAS central case assumption (\*)
- The assumption has been allowed to reduce or increase costs by up to 2%
- This is considered to be a robust range of possible outcomes based on the method of estimation
- This risk has been positively correlated with the peak vehicle requirement



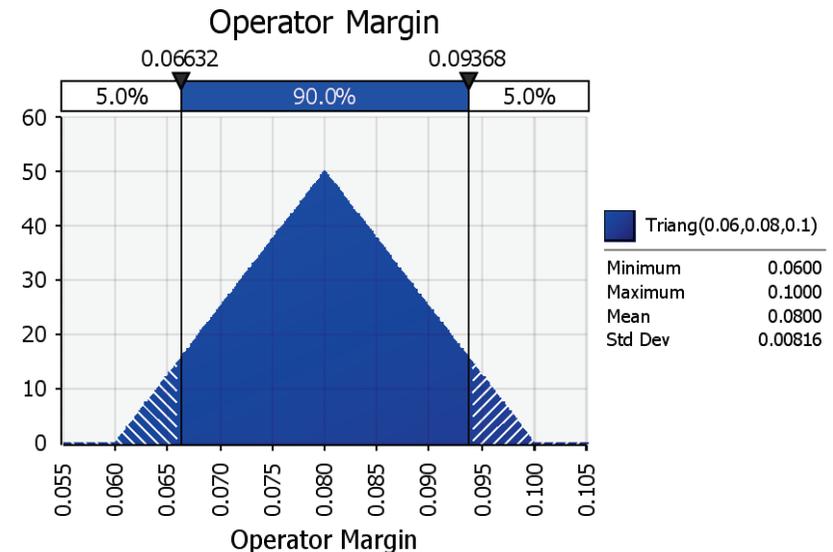
## C.4 Peak vehicle requirement

- Used in the specification of changes in the bus network resulting in changes in operating cost
- A triangular risk distribution has been adopted to represent variation in this value
- In all options, the change has been allowed to reduce or increase by 2 percentage points (\*)
- These are considered to be robust ranges of possible outcomes based on the method of estimation
- This risk has been positively correlated with the bus hours operated



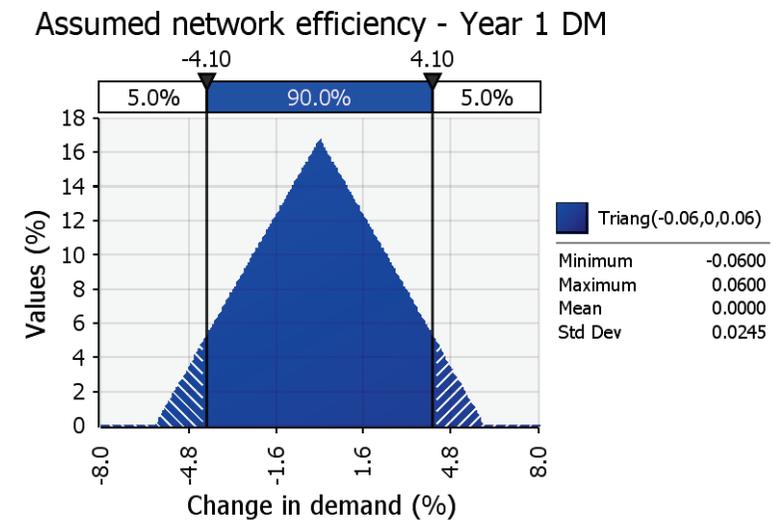
## C.5 Assumed Operator Margin

- Contract payments made to operators under the QCS have been assumed to include a margin, estimated to be an average of 8% based on Nexus' knowledge of the market
- A triangular risk distribution has been adopted to represent variation in this value taking into consideration the competitive nature of the procurement exercise and requirement for the contracts to remain attractive business propositions
- The assumption has been allowed to reduce or increase costs by up to 2 percentage points
- This is considered to be a robust range of possible outcomes



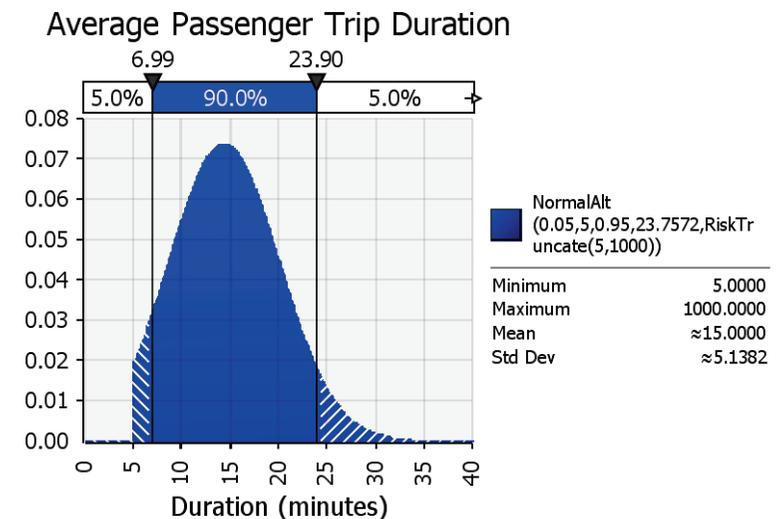
## C.6 Assumed network efficiency change

- Used in the specification of changes in the bus network resulting in operating cost but not demand changes
- The current central case assumption is of no change in network efficiency
- A triangular risk distribution has been adopted to represent variation in this value but excluding less credible, more extreme options
- In all options, the change has been allowed to reduce or increase by 6 percentage points (\*)
- These are considered to be robust ranges of possible outcomes



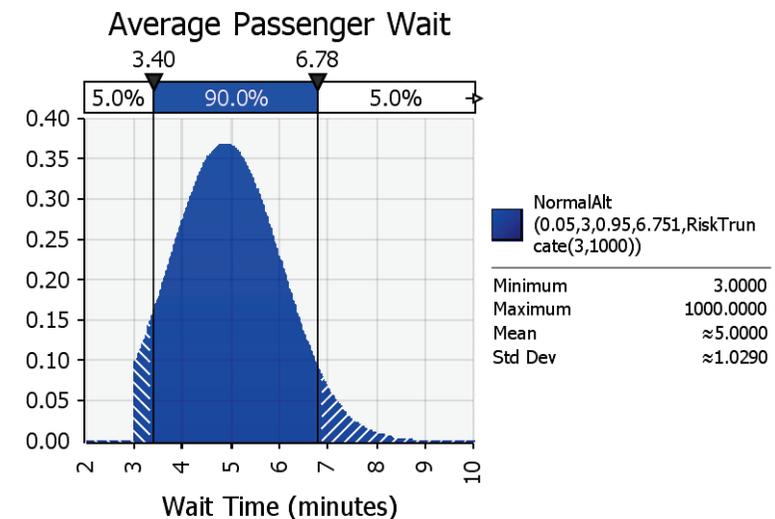
## C.7 Average passenger trip duration

- Used in the calculation of changes in demand from soft measures and equivalent time savings for the economic appraisal
- The distribution reflects variation around the 15 minute average (in addition to uncertainty in the average)
- A normal risk distribution has been adopted to represent variation in this value with some occurrences of higher deviation from the average
- A cut-off has been set at the shortest journey band length of 5 minutes
- The 95%ile has been set with reference to the model average value
- This is considered to be a robust range of possible outcomes



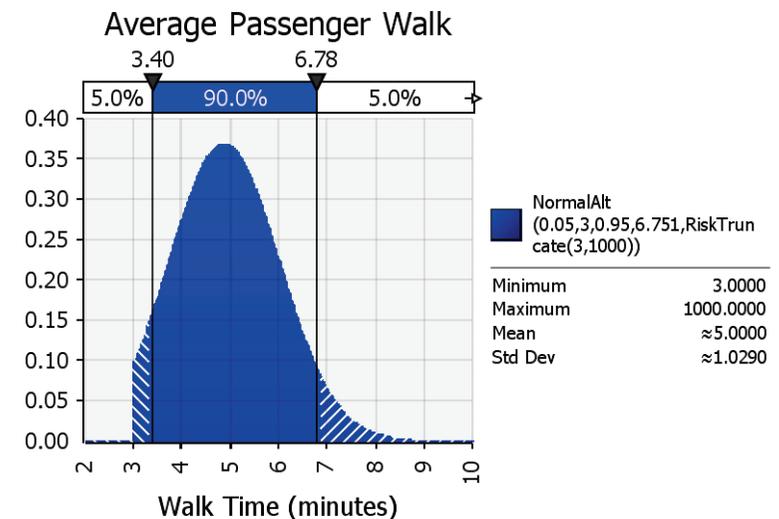
## C.8 Average passenger trip wait

- Used in the calculation of changes in demand from soft measures and equivalent time savings for the economic appraisal
- The distribution reflects variation around the 5 minute average (in addition to uncertainty in the average)
- A normal risk distribution has been adopted to represent variation in this value with some occurrences of higher deviation from the average
- A cut-off at 3 minutes represents the highest service frequency operated
- The 95%ile has been set with reference to the model average value
- This is considered to be a robust range of possible outcomes



## C.9 Average passenger trip access walk

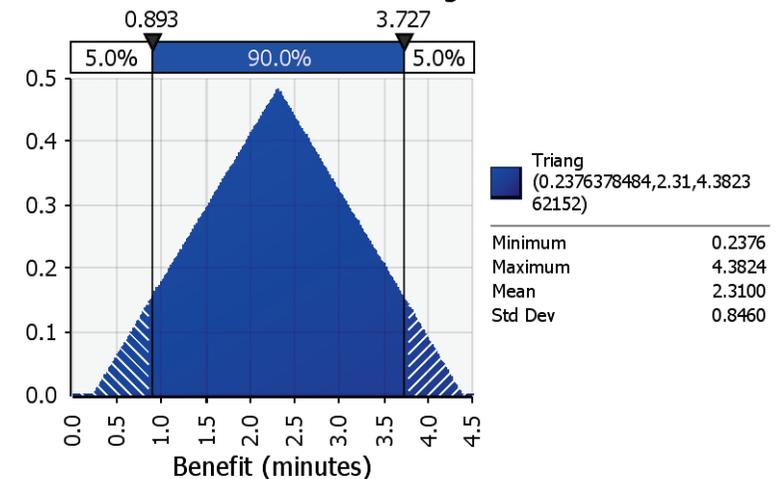
- Used in the calculation of changes in demand from soft measures and equivalent time savings for the economic appraisal
- The distribution reflects variation around the 5 minute average (in addition to uncertainty in the average)
- A normal risk distribution has been adopted to represent variation in this value with some occurrences of higher deviation from the average
- The minimum value has been cut-off at 3 minutes
- The 95%ile has been set with reference to the model average value
- This is considered to be a robust range of possible outcomes



## C.10 Soft measures benefit

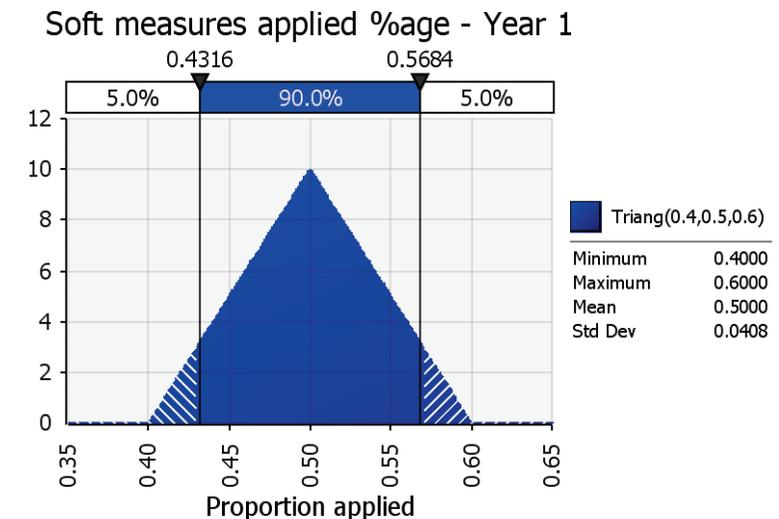
- Used in the calculation of the demand impact of soft measures
- The original soft measures research for DfT is based on what can be achieved in the current deregulated bus service context
- A triangular risk distribution has been adopted to represent variation in this value, deliberately excluding more extreme variations where the resulting values are not considered to be credible. For example occurrences of benefit values greater than the overall journey time or negative
  - The change has been allowed to vary by 2.5 standard deviations from the mean. This is based on the statistical approximation that 97% of values lie within 2.5 standard deviations of the mean (\*)
- This is considered to be a robust range of possible outcomes

Soft measures benefit - Package of soft measures



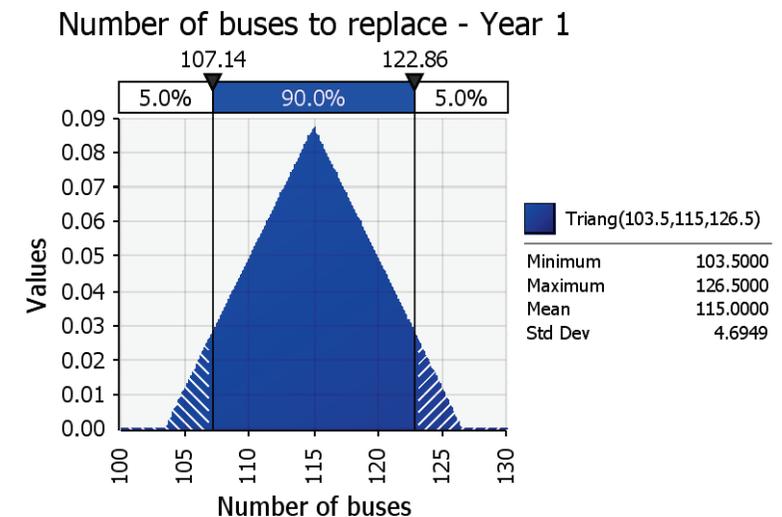
## C.11 Percentage of bus users receiving soft measures benefit (\*)

- Used in the calculation of the demand impact of soft measures
- Represents variation in the assumed pragmatic even split of passengers receiving the benefit of proposed soft measures between the first two years of the QCS and the VPA
- A triangular risk distribution has been adopted to represent variation in this value reflecting the nature of the base assumption
- The assumed change has been allowed to reduce or increase by 10 percentage points
- This is considered to be a robust range of possible outcomes



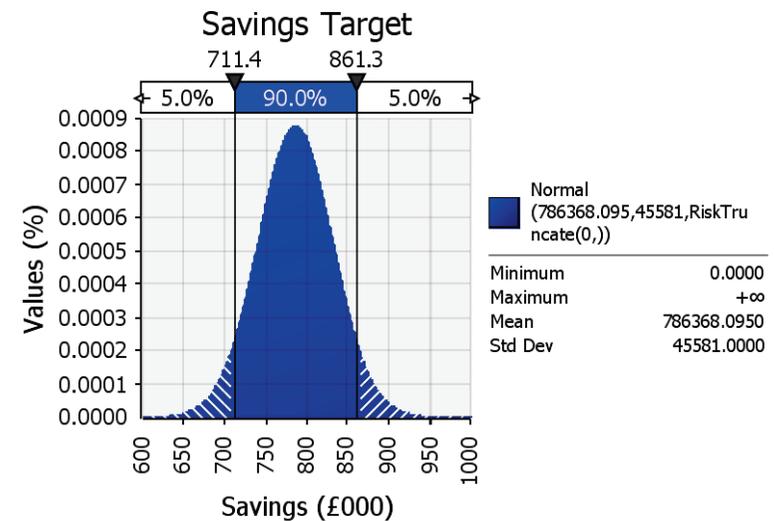
## C.12 Number of buses to replace (\*)

- Under the QCS scheme, some buses will require replacement to conform to vehicle standards:
  - 100% of vehicles must be Euro V standard or above by 2018
- The number of vehicles to be replaced has been estimated by Nexus
- A triangular risk distribution has been adopted to represent variation in this value reflecting the nature of the base assumption
- The assumed change has been allowed to reduce or increase by 10 percentage points
- This is considered to be a robust range of possible outcomes



## C.13 Savings Target (\*)

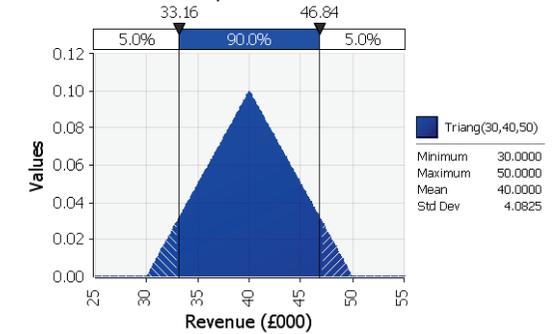
- The VPA scheme is expected to make additional savings as a result of service reconfiguration
- This represents further savings over and above the savings made from Agreed Service Actions
- The central case assumes that half of this target will be achieved
- A normal risk distribution has been adopted to represent variation in this value
- The minimum value has been set at £0 (no additional savings)
- The 95%ile has been set with reference to the model average value
- This is considered to be a robust range of possible outcomes



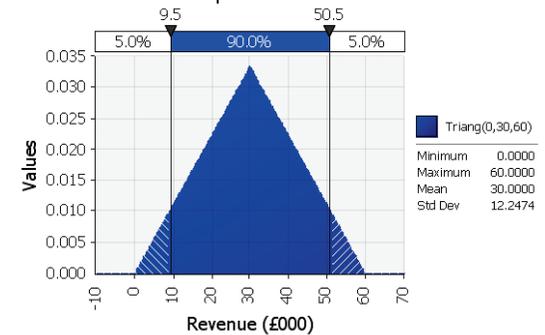
## C.14 Increased revenue per additional bus (\*)

- The VPA scheme assumes that the network will be expanded by 50 buses over the modelled period
- It is assumed to take 3 years for the revenue for a new bus to ramp up to 100%
- For each new bus, the following increases in revenue have been assumed: (\*\*)
  - Year 1: £40,000
  - Year 2: Year 1 + £30,000
  - Year 3: Year 2 + £20,000
- Triangular risk distributions have been adopted to represent variation in these values
  - In Year 1, it is assumed that the revenue can increase or decrease by £10,000
  - In Year 2, the additional revenue is assumed to be between ‘Year 1 + £0’ and ‘Year 1 + £60,000’
  - In Year 3, the additional revenue is assumed to be between ‘Year 2 + £0’ and ‘Year 2 + £40,000’
- This is considered to be a robust range of possible outcomes

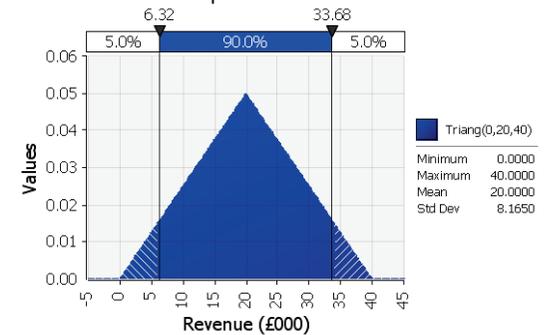
Increased revenue per additional bus - Year 1



Increased revenue per additional bus - Year 2

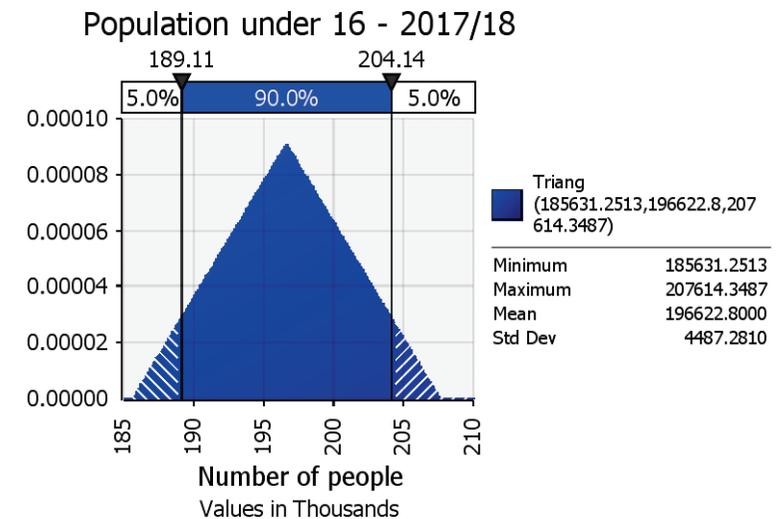


Increased revenue per additional bus - Year 3



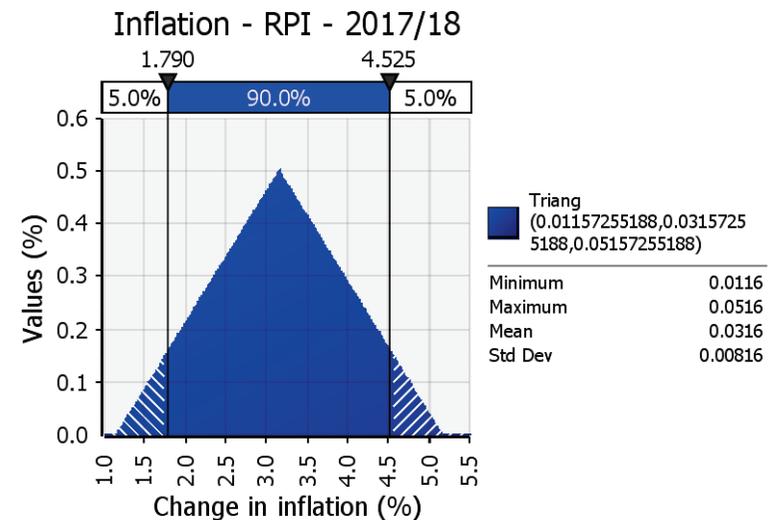
## C.15 National Trip End Model annual growth factors

- Used in the forecasting of future demand based on demographic changes
- Variation has been based on guidance provided with the original source
- A triangular risk distribution has been adopted to represent limited variation in this value down to guidance suggested 'low' and 'high' growth alternatives
- The assumed change has been allowed to vary by 2.5% x the square root of the number of years from the base (as specified by guidance)
- This is considered to be a robust range of possible outcomes



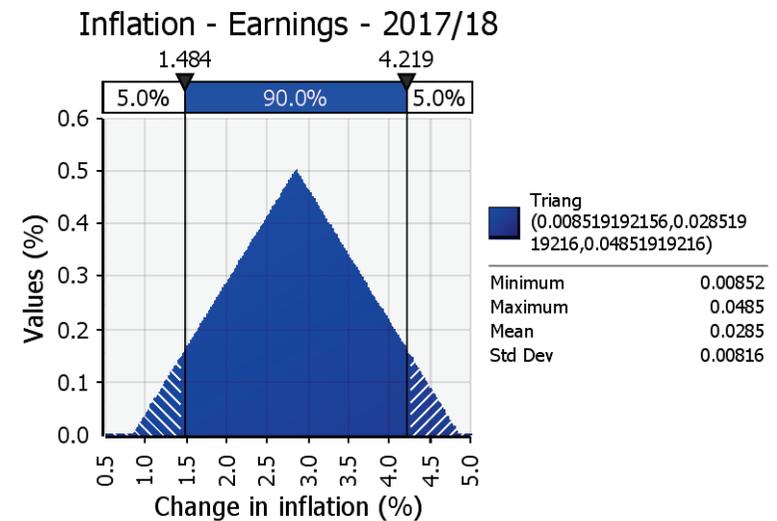
## C.16 General inflation

- Used in the conversion of revenues and costs between nominal and real values
- A triangular risk distribution has been adopted to represent variation in this value
- The assumed change has been allowed to reduce or increase by 2 percentage points, representing a material change in the base assumption. Changes beyond this range are not considered to be credible
- This is considered to be a robust range of possible outcomes



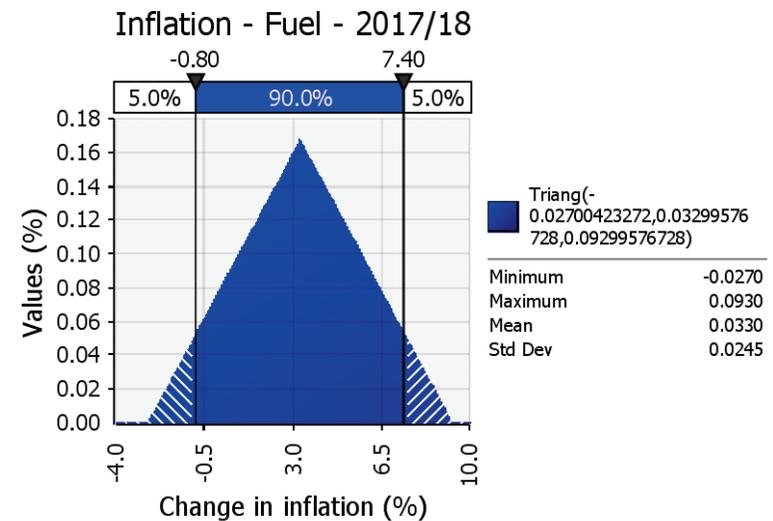
## C.17 Real labour costs inflation

- Used in the calculation of operating costs and blended inflation
- A triangular risk distribution has been adopted to represent variation in this value
- The assumed change has been allowed to reduce or increase by 2 percentage points around the central assumption, (\*) representing a material change. Changes beyond this range are not considered to be credible
- This is considered to be a robust range of possible outcomes



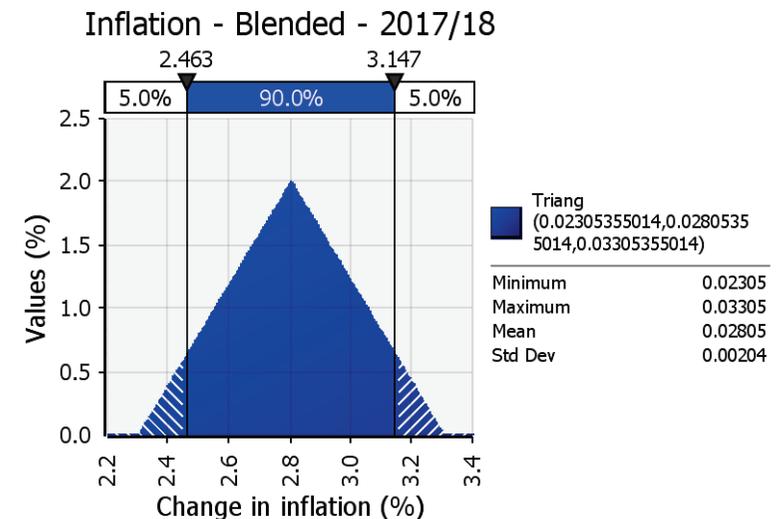
## C.18 Real fuel costs inflation

- Used in the calculation of blended inflation
- A triangular risk distribution has been adopted to represent variation in this value
- The assumed change has been allowed to reduce or increase by 6 percentage points around the central assumption, (\*) representing a material change. Changes beyond this range are not considered to be credible
- This is considered to be a robust range of possible outcomes



## C.19 Blended inflation (\*)

- Derived from General inflation, Real labour costs inflation and real fuel costs inflation
- Used in the calculation of operating costs
- A triangular risk distribution has been adopted to represent variation in this value
- The assumed change has been allowed to reduce or increase by 0.5 percentage points around the central assumption, representing a material change. Changes beyond this range are not considered to be credible
- This is considered to be a robust range of possible outcomes



## Affordability Model Assumptions with No Risk Distribution Applied

- Sensitivity testing was used to demonstrate that the following affordability model future year assumptions were not material to the economic appraisal result and therefore no specific risk distribution was required:
  1. Behavioural value of time (sufficient variation allowed for in the average yield to which this is applied)
  2. Demand response to generalised journey cost (sufficient variation allowed for in the input average trip length, wait, walk and fare assumptions)
  3. Demand response to population change (sufficient variation allowed for in the underlying growth forecasts)
  4. Demand (business and consumer trips) response to employment change (sufficient variation allowed for in the underlying growth forecasts)
  5. Demand response to GDP change (sufficient variation allowed for in the underlying growth forecasts)
  6. Demand response (business and consumer trips) to car ownership change (sufficient variation allowed for in the underlying growth forecasts)
  7. Demand response to economic activity change (sufficient variation allowed for in the underlying growth forecasts)
  8. Demand response to change in supported service network (demand on these services is known to Nexus which supports them)

**Appendix 2 – Value for Money, Economic Appraisal Derivation**

# QCS Value for Money Assessment: Economic Appraisal Derivation

2014 update following consultation

Wednesday, 27 August 2014

**Prepared for:**

Nexus  
Nexus House, St James' Boulevard  
Newcastle-upon-Tyne, NE1 4AX

**Prepared by:**

Steer Davies Gleave  
67 Albion Street  
Leeds, LS1 5AA  
0113 385 6400

[www.steerdaviesgleave.com](http://www.steerdaviesgleave.com)

# Introduction

- This report summarises the Value for Money appraisal of Nexus' proposed Bus Quality Contract Scheme (QCS) for Tyne and Wear and the Voluntary Partnership Agreement (VPA) alternative
- The benefits of the scheme have been assessed as a comparison of the Do Minimum (DM = business as usual) and QCS or VPA options
- This report sets out the measures included within the economic appraisal, identifying the impact of modelled measures on:
  - The public
  - Transport operators
  - Local and Central Government
- This document sets out the derivation of the conventional 'static' central case appraisal
- A separate Value for Money assumptions report includes details of the risk simulation undertaken around the central case results

## Appraisal Drivers

■ A review of the affordability model identified the inputs influencing the monetised economic appraisal as follows:

1. Bus Network Service Level
2. Fares
3. Service Operating Costs
4. Soft Measures
5. Costs and Savings
6. Mode Shift from/to Highway

## 1) Bus Network Service Level

- Changes in the overall level of bus service offered are represented through:
  - Bus Hours operated - influencing both passenger demand and operating costs
  - Peak Vehicle Requirement - influencing only operating costs
  
- The relationship between changes in supported bus hours operated and the number of passengers travelling on those services is based on an elasticity of -0.46 (\*)
  
- This calculation does not directly give the change in journey time required for the appraisal
  - The passenger benefits are therefore calculated on the basis of the change in average journey time which would give an equivalent change in demand
  - The total benefit is sensitive to the model's average journey time assumption
  - The appraisal standard 'rule of a half' is applied - ie passengers continuing to travel receive the full time benefit/disbenefit but generated/lost passengers receive half of the impact
  - The total minutes journey time change are summed for each year and monetised

## 2) Fares

- The change in average fare paid forms an input to the model with two impacts:
  - Passengers benefit from a reduction in fares/disbenefit from an increase
  - Farebox revenue varies from the change in fare and the resulting change in demand
- The relationship between changes in fare and the number of passengers travelling is based on an elasticity of -0.42 in the year of the change increasing to an equivalent total of -0.56 (\*) from year two
- The elasticity is applied to the change in real fare (ie excluding base inflation)
- This change in average fare is used directly in the appraisal
  - The 'rule of a half' is applied - passengers continuing to travel receive the full fare change while generated/lost passengers receive half of the impact
  - The total fare changes are summed for each year
- Farebox revenue is also used in the appraisal
  - Revenue is converted into market prices (including indirect taxation) for consistency
  - Consumer spending on untaxed PT fares results in a reduction in HMT income
  - Whether public/private sector takes revenue risk is represented

### 3) Service Operating Costs

- Service operating costs vary in response to changes in bus hours operated and peak vehicle requirement

- Inputs into the model include annual changes in:

- Labour
- Fuel
- Other operating costs

These are common between DM/QCS/VPA scenarios

- The change in service operating cost is used directly in the appraisal

- Converted into market prices (including indirect taxation) for consistency
- The assumed operator's margin is included for QCS where the public sector takes full revenue risk

## 4) Soft Measures

- Equivalent journey time benefits from ‘Soft Measures’ (as established by Aecom’s report for DfT and now (\*) included within the its Web Transport Appraisal Guidance) are specified as an input to the model
- The demand response is derived based on comparing an assumed average journey time (walk + wait + in-vehicle-time) with/without the benefit based on an elasticity of -0.9
- The benefit is specified as an equivalent time saving and is directly used in the appraisal
  - The benefit is applied to the proportion of passengers specified as receiving the benefit
  - The ‘rule of a half’ is applied - ie passengers continuing to travel receive the full time benefit/disbenefit but generated/lost passengers receive half of the impact
  - The total minutes journey time change are summed for each year and monetised
- The derivation of benefits for ‘Soft Measures’ is the same as for ‘Network service level’

## 5) Costs and Savings

- The costs and/or savings of the interventions represented are converted into market prices (including indirect taxation) for consistency and included within the appraisal
  
- Items included within the model are:
  - Revenue losses from intervention
  - Assumed reduction in child concessionary fare payments
  - Assumed reduction in supported service payments
  - Revenue from supported services (net cost)
  - Implementation
  - Management
  - Other operator income transferred to Nexus

## 6) Mode Shift from/to Highway Impacts

- WebTAG Unit A5.4 sets out a process for calculating the external costs of car use based on the change in vehicle km on the highway network
- The change in bus km on the highway is derived from the change in bus hours operated and the existing bus service km data contained within the model
- The change in car km is based on the change in passenger km travelled and assumptions of the proportion switching to/from car and average car occupancy (taken from WebTAG)
- The external costs of car use calculated include changes in:
  - Congestion
  - Highway maintenance costs
  - Accidents
  - Noise
  - Air quality
  - Fuel duty

## Economic Appraisal - Value for Money Measures

### ■ The Net Present Value (NPV) is the sum of the net costs of QCS vs DM affecting:

- The public
- Private transport operators
- Nexus
- T&W Districts
- Boundary authorities
- Central Government

A positive NPV signifies that the option represents value for money, with the highest NPV being the greatest value for money

### ■ The **Effective** measure is variation around the Present Value of Benefits (PVB) (\*)

### ■ The **Economic** measure is the Present Value of Costs (PVC)

### ■ The **Efficient** measure is expressed as the ratio of the Effective measure to the Economic measure

- The Effective, Economic and Efficient measures are not directly comparable with a standard DfT BCR having been adapted for a non capital project and representing a shorter (10 year) period



**Appendix 3 – Impacts Comparison Table for Do Minimum, VPA and QCS**

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	Do Minimum	VPA Proposal	QCS
<b>A. Arrest the decline in bus patronage</b>			
<i>Forecast change in patronage (2016/17 baseline)</i>	A reduction of 67 million bus trips over the ten-year period March 2017 to March 2027.	An increase of 44 million trips compared to the Do Minimum over the eleven-year period March 2016 to March 2027.	An increase of 90 million trips compared to Do Minimum over the ten-year period March 2017 to March 2027.
<b>B. Maintain (and preferably grow) Accessibility</b>			
<i>Forecast change in Accessibility</i>	Secured Bus Services withdrawal begins in 2017 <sup>†</sup> , fully withdrawn by 2022 <sup>†</sup> , leading to loss of Accessibility to key facilities, services, employment, health and education sites.	<p>Assuming April 2016 start date, the VPA provides firm commitment to transfer up to £440k per annum (by 2019/20) of secured services into commercial operations, increasing by inflation each year after that, and maintaining levels of accessibility where services are retained. Some of these savings have, at August 2014, already been delivered in advance of the VPA being agreed.</p> <p>The VPA provides commitment to consider how a further £1.6m per annum of savings in respect of Secured Bus Services could be made. Some of these services may be retained as commercial routes, others may be rationalised or removed, these details are to be determined. The impact on restoring lost accessibility therefore is uncertain.</p> <p>Withdrawal of remaining Secured Bus Services by 2020<sup>†</sup> would be partially offset by the connections provided by the remaining commercial bus network.</p> <p>The VPA provides a commitment to seek to maintain current commercial service levels, but these may decline. Any certainty of impact on accessibility cannot be assessed.</p> <p>VPA provides a Kickstart proposal of 50 buses to be deployed on commercial network. This may improve Accessibility, but the scale of improvement is unknown, as Operators are not committing to any specific routes being utilised by these buses, and therefore the accessibility benefits that may be provided are unknown.</p>	The accessibility offered by the full existing network is intended to be preserved for the life of the QCS, and will be subject to affordable improvements and amendments implemented during the Annual Development Cycle. Retained accessibility will improve access to jobs, training, shopping, health and leisure destinations for a range of local users, and maintain option values for potential passengers.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>People with restricted mobility</i>	<p>Nexus funded discretionary services such as Secured Bus Services (including Scholars and Works Services), and Taxicard are likely to be fully withdrawn by 2025+ having a significant adverse impact on accessibility for people with restricted mobility.</p>	<p>See 'forecast change in accessibility' description for detailed impacts. Retention of accessibility associated with £440k is secured. Some accessibility may be retained/enhanced as a result of the 50 Kickstart buses and the identification of £1.6m savings in secured Bus Services, but this cannot be fully quantified. Changes to commercial networks may reduce accessibility in those affected corridors. Therefore whilst some accessibility improvements are treated as certain compared to the Do Minimum (the 440k savings), others are less so.</p>	<p>Nexus funded discretionary services are retained, retaining existing accessibility levels. Metro Gold Card eligibility is improved, providing card holders with free travel on Metro and access to bus services before 9:30am on weekdays and open to residents served by QCS services in Durham and Northumberland, increasing the accessibility of the network compared to the current position.</p>
<b>C. Deliver better value for public money</b>			
<i>Public spend</i>	<p>The levy (including the existing revenue cash contribution) is expected to remain frozen at existing levels until 2026+, with an increasing proportion of those funds being required to fund the statutory ENCTS.</p> <p>The total levy payable over the ten years modelled is £517m, in relation to supporting bus services, but levy is insufficient to fund statutory duties with a further £2.2m required to fund the ENCTS reimbursements from 2025 onwards.</p>	<p>Core public spend remains £517m over the ten years modelled, but levy is insufficient to fund statutory duties with a further £2.2m required to fund the ENCTS reimbursements from 2025 onwards.</p>	<p>Core public spend remains £517m over the ten years modelled, and is sufficient to fund statutory duties associated with ENCTS reimbursements for the duration of the Scheme.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Delivery of Nexus Discretionary Funded Services</i>	<p>Nexus discretionary funded services such as Secured Bus Services (including Works and Scholars Services), and Taxicard start to be withdrawn in 2017<sup>†</sup> and are likely to be fully withdrawn by 2025<sup>†</sup>.</p>	<p>VPA retains Secured Services valued at £440k per annum (by 2019/20) with high degree of certainty.</p> <p>VPA commitment to further saving of £1.6m per annum is relatively certain, but impact on accessibility is unknown.</p> <p>VPA does not commit operators to retain existing networks, which may result in further pressures on secured services.</p> <p>Other Nexus discretionary funded services such as Taxicard are likely to be withdrawn due to funding pressures<sup>†</sup>.</p>	<p>Funding for all Nexus discretionary funded services is retained.</p> <p>Metro Card Gold eligibility is improved, providing card holders with free travel on Metro and access to bus services before 9:30am on weekdays and open to residents served by QCS services in Durham and Northumberland.</p>
<i>Delivery of Non-Discretionary Nexus Funded Services</i>	<p>Statutory obligation to reimburse Operators for ENCTS continues, with the average fare calculation linked to bus operator commercial fare changes.</p>	<p>As Do Minimum.</p>	<p>Whilst the statutory obligation to reimburse operators for ENCTS remains, this will only need to be expressly linked to an average fare calculation to commercial fare changes on excluded services thereby largely reducing the financial risk associated with the reimbursement.</p> <p>On QCS services the existing funding will simply form part of the cost of securing the QCS network, including the provision of concessionary travel. Nexus will bear risks associated with funding the ENCTS, the continued need to fund the scheme has been reflected fully in the affordability modelling.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	Do Minimum	VPA Proposal	QCS
<b>1. Introduce a fully integrated, multi-modal Tyne and Wear public transport network, built around a high frequency core strategic network</b>			
<i>High frequency core bus network (15 minute frequency or better Monday to Saturday daytime and minimum every 30 minutes evening/Sunday)</i>	Core network Secured Bus Services start to be withdrawn in 2017 <sup>†</sup> and likely to be fully withdrawn by 2022 <sup>†</sup> . Core commercial services retained, subject to commercial considerations that may precipitate reduction or withdrawal.	Secured Bus Services reduced from 2017 onwards and likely to be withdrawn by 2020, other than where operators retain them commercially as part of the delivery of savings. Commercial core services may be reduced in corridors where operators consider it justified for commercial and operational reasons, but as this is uncertain it has not been included in the affordability model. No material changes to commercial network envisaged during first 12 months of VPA. Kickstart proposals for commercial services likely to strengthen core services in some corridors.	Core secured/commercial services offered by the full existing network are preserved for the life of the QCS, and will be subject to affordable improvements and amendments implemented during the Annual Development Cycle. This will result in improved levels of accessibility compared with the Do Minimum.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Secondary bus network (30 minute frequency or better Monday to Saturday daytime)</i>	<p>Secondary Secured Bus Services start to be withdrawn in 2017+ and likely to be fully withdrawn by 2022+. Secondary commercial services retained, subject to commercial considerations that may precipitate reduction or withdrawal.</p>	<p>Secondary Secured Bus Services reduced from 2017 onwards and likely to be withdrawn by 2020, other than where operators retain them commercially as part of the delivery of savings. Commercial secondary services may be reduced in corridors where operators consider it justified for commercial and operational reasons, but as this is uncertain it has not been included in the affordability model.. No material changes to commercial network envisaged during first 12 months of VPA. Kickstart proposals for commercial services may strengthen core services in some corridors.</p>	<p>Secondary secured/commercial services offered by the full existing network are preserved for the life of the QCS, and will be subject to affordable improvements and amendments implemented during the Annual Development Cycle. This will result in improved accessibility compared with the Do Minimum.</p>
<i>Remaining bus network</i>	<p>Remaining Secured Bus Services will be fully withdrawn by 2022+ and Schools Services and Works Services likely to be fully withdrawn by 2025+. Remaining commercial services retained, subject to commercial considerations that may precipitate reduction or withdrawal.</p>	<p>Remaining Secured Bus Services, Schools Services and Works Services reduced from 2017 onwards and likely to be withdrawn by 2020, other than where operators retain them commercially as part of the delivery of savings. Commercial remaining services may be reduced in corridors where operators consider it justified for commercial and operational reasons, but as this is uncertain it has not been included in the affordability model.. No material changes to commercial network envisaged during first 12 months of VPA.</p>	<p>Remaining secured/commercial services retained, and will be subject to affordable improvements and amendments implemented during the Annual Development Cycle. This will result in improved accessibility compared with the Do Minimum.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Other modes (Ferry, Metro, Rail and Taxi)</i>	Taxicard service withdrawn†. Metro and Rail services protected due to different funding streams.	As Do Minimum.	Taxicard service retained, giving accessibility to people who find it difficult to use conventional buses.
<i>Network planning</i>	Network planning across Tyne & Wear remains fragmented as a result of each operator focussing on meeting its own needs. Opportunities for Nexus to influence network planning greatly diminished as no Secured Bus Services likely to be retained after 2022†.	Network planning fragmentation is reduced to some extent as a result of significant network changes being discussed by Local and T&W Boards. Network planning influence retained for the proportion of Secured Bus Services that may be funded by the VPA. Processes in VPA (Network Review, Change Process, Service Reconfiguration) provides opportunity for the Bus Strategy objectives to be introduced into the planning of commercial networks, albeit that the final decision on whether and how changes are implemented rests solely with operators.	Nexus has responsibility for all network planning providing opportunities for a holistic review of the network. The decisions on network change will be made with direct reference to Bus Strategy objectives. Section 106 agreements that deliver public transport improvements will be centrally co-ordinated and contracted (unless the proposal meets the criteria for an excluded service). Overall, the planning of the network will provide benefits by being more in tune with passenger needs as a result of the QCS.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Network planning: Cross boundary</i>	<p>Opportunities for Nexus to influence network planning greatly diminished and fragmented, due to lack of budget influence as Nexus-funded cross-boundary Secured Bus Services will be withdrawn due to insufficient funding†.</p>	<p>Cross-boundary services excluded from VPA. Service change dates are staggered as a result of the VPA's fixed change dates within Tyne &amp; Wear, which may lead to fragmented changes if cross-boundary changes and internal changes occur on different dates. VPA will use reasonable endeavours to agree common change dates for cross-boundary services, but a degree of uncertainty remains.</p>	<p>Many cross-boundary services are included in the QCS and will benefit from holistic review by a single body that will fully engage with cross-boundary local transport authorities and bus users.</p> <p>Collaboration Agreement provides further protection and network planning input for services.</p> <p>Cross-boundary services covered that are excluded from QCS will be planned by commercial operators as per Do Minimum, but will be required to comply with certain quality standards and accept QCS multi-trip ticket products.</p> <p>Overall, the planning of the network will provide benefits by being more in tune with passenger needs as a result of the QCS.</p>
<p><b>2. Provide a unified and consistent customer offer and guarantee standards of customer service through the implementation of a 'Customer Charter'</b></p>			
<i>Simple, integrated Information</i>	<p>Each Operator provides printed and online information in their corporate formats. No printed Nexus information provided as Secured Bus Services likely to be withdrawn. Multi-Operator information will be available from Nexus via Traveline, Journey Planner and Transport Direct and other third party proprietary providers.</p>	<p>As Do Minimum, but with a common partnership branding added to Operator specific and multi-operator materials. All timetables will show effective date and include a map or diagram of route, the main stopping points and contact details for further information. Nexus will provide printed information for any retained fully Secured Bus Services. Operators will provide for part-secured services, although any changes instigated by Nexus must be funded by Nexus.</p>	<p>Nexus will manage and deliver common marketing and information templates and distribution channels for all bus services covered by the QCS, integrated where necessary with other modes.</p> <p>Simplified fares information available on all QCS vehicles and at all bus stops. Information and marketing for excluded services will continue to be provided by commercial operators.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Network stability</i>	<p>A commercial network where changes are determined by Operators in accordance with their business objectives, subject to existing forms of public consultation, with a statutory notice period of 56 days. Most changes generally applied on two fixed change dates per annum for each district, 12 fixed change dates across Tyne &amp; Wear.</p> <p>No network stability for Secured Bus Services network as this is likely to be withdrawn over the period of the Do Minimum.</p>	<p>A commitment to no “material” commercial network changes in the first 12 months of the VPA Proposal.</p> <p>A subsequent aim to use reasonable endeavours to maintain network stability. Changes to services will be discussed with relevant Partnership Board(s) prior to final decision made by operators, based on commercial considerations (consultation enhanced compared to Do Minimum). Commitment by Operators to apply changes on 1 of five fixed change dates; changed services will be operated for a minimum of 90 days before further change or cancellation. However, VPA provides no sanction for departing from these fixed change dates and ultimately make decisions whether to change or withdraw services, notwithstanding nature of discussions with Partnership Board(s).</p>	<p>Nexus are mandated to maintain a stable network, with a limit placed on how much network flexibility can be implemented annually. This stability is expected to give customers confidence in and security about operation of their bus services.</p> <p>Any future network changes will be determined through the Annual Development Cycle on fixed change dates, with the service changes determined by the CA, taking into account impacts on residents' access to employment, education, health, leisure and other facilities, providing greater network stability driven by the concerns of passengers rather than directly driven by commercial concerns. In the event of major unanticipated changes in bus demand, an Emergency Network Change Procedure is available that may be utilised, but again this requires decisions to be based upon passenger needs.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Service standards</i>	<p>Service standards vary by Operator and by service, subject to the commercial viability of each business unit.</p> <p>The most frequent and profitable commercial routes are typically operated with newer higher quality buses, while marginal services are typically operated by older lower quality cascaded buses.</p>	<p>VPA provides a commitment to invest in new vehicles during the life of the Agreement, which may be an enhancement on the investment profile that would occur in the Do Minimum.</p> <p>VPA provides commitment that all vehicles will comply with Euro III emissions standards, and sets out transition of existing three major operators to lower emission buses. The VPA only applies to the services of the existing large operators, not the standards of any service operated in Tyne and Wear.</p>	<p>A standard specification across all bus services, in excess of the VPA Proposal in terms of the accelerated delivery of a full fleet of lower emission vehicles (Euro V or better) after first two years of QCS. While this may lead to a slight reduction in vehicle quality for some services, compared with the Do Minimum, other services will see improvements and overall this will provide an uplift in quality for the Tyne and Wear network.</p> <p>A maximum average fleet age for each quality contract will maintain a high quality of vehicles throughout at least the first seven years of the QCS. Common standards for vehicles, drivers, punctuality and reliability monitored and enforced as a contractual condition.</p>
<i>Clean buses</i>	<p>Operators assumed to retain existing commitment to regularly clean vehicles internally and externally, as per their individual processes and charters. Minimum standards are set within existing voluntary agreements and these are monitored regularly for compliance.</p>	<p>Commitment from Operators to clean most buses internally daily prior to entering service. No additional commitment to cleaning buses externally, beyond Do Minimum. Compliance with clean bus standards self-reported by operators. Performance reported periodically.</p>	<p>Contractual requirement for all buses operating Quality Contract services to be cleaned daily internally/externally prior to entering passenger service, with failure leading to contractual deductions and ultimately poor performance could lead to replacement.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Performance</i>	<p>Punctuality and reliability targets set and enforced by Traffic Commissioner. Additional local monitoring and performance reporting undertaken in East Gateshead and South Tyneside as part of existing voluntary agreements (South Tyneside partnerships are currently in abeyance). Payments made by all partners to a Service Improvement Fund for performance not complying with minimum standards within East Gateshead. Headline performance of each Operator at a regional level reported publicly.</p>	<p>Punctuality and reliability targets set and enforced by Traffic Commissioner. Additional local monitoring and performance reporting extended to cover all five districts and reported publicly with scrutiny by local and regional bus boards. Payments made to a Service Improvement Fund by all partners for performance not complying with minimum standards across Tyne and Wear. These minimum standards are below the requirements of the Traffic Commissioner (lower thresholds, some delays/lost miles excluded) and therefore should be met by operators complying with their legal obligations under their service registrations, and what they are strictly speaking required to deliver under the Do Minimum. Level of payments may not incentivise performance. Fund used to address issues adversely affecting local performance.</p>	<p>All performance standards set by the CA and included within each contract specification. Whilst standards match the Traffic Commissioner standards, there will be local monitoring and enforcement with deductions for non-compliance with performance standards and bonus payments for good performance, in order to incentivise good performance, providing a greater incentive to comply than under the Do Minimum or VPA. Results by service publicly available and scrutinised by CA/Nexus. Continued failure to meet performance standards will result in escalation through a breach of contract procedure, with potential for replacement of operators who perform poorly, providing customers with a more consistent high standard of bus service.</p>
<i>Customer charter</i>	<p>Fragmented approach to customer contact with each Operator offering own Customer Charter.</p>	<p>One Customer Charter structure provided in draft, to cover all services. Each Operator retains contact with customers.</p>	<p>A single, simple Customer Charter with Nexus acting as one central point of contact on all customer service matters.</p>
<i>Driver training</i>	<p>All drivers to hold an appropriate driving licence, have passed the Certificate of Professional Competence (CPC) including subsequent periodic training, and receive route learning/ ticket machine/ disability awareness training.</p>	<p>As Do Minimum.</p>	<p>As Do Minimum.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>DBS clearance</i>	Secured Scholars' services likely to be withdrawn†, so requirements for standard or enhanced DBS checks on services used by students will progressively diminish as these journeys will generally be made on commercial services.	As Do Minimum. Secured Scholars' services likely to be withdrawn†.	All Scholars' services will be retained, all drivers will have a contractual requirement to hold a valid Standard DBS Certificate, or Enhanced DBS Certificate (where required). This provides students and parents with additional reassurance compared with the Do Minimum about their safety and security when travelling to and from school.
<i>Fleet livery</i>	Individual Operators each have their own corporate livery with route specific liveries used on some services. Secured Bus Services are likely to be withdrawn, so common Nexus livery for these services will be lost†.	As Do Minimum but with addition of Partnership sub-branding applied to all buses delivering partnership services. Some retained Secured Bus Services may still be operated using Nexus livery.	All buses operating Quality Contract services will carry an upgraded single Nexus livery within two years (>=50% from start of QCS), providing passenger benefits through the certainty of a single brand associated with high standards of operation (for example ability to use simple and consistent ticketing products, good standards of vehicle quality, good standards for punctuality and reliability). Excluded services retain corporate (in some cases route specific) livery at the discretionary of individual operators.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<b>3. Ensure that bus users are fully consulted prior to network changes</b>			
<i>Consultation over network changes</i>	<p>No obligation for commercial Operators to consult with the public on network changes but some consultation does occur. Inconsistent approach applied between Operators with some network changes not consulted on at all. Structured consultation processes in place through Voluntary Partnership Agreement boards covering East Gateshead and South Tyneside, although the South Tyneside partnerships are currently in abeyance.</p>	<p>Commitment in Change Procedure to consult Local and T&amp;W Boards, the public and stakeholders on significant service changes (although network reviews undertaken by operators are excluded from Change Procedure). Commitment for operators to consider the findings of such consultation. However, ultimately remains a commercial decision for operators whether, having considered such findings, they make a network change.</p>	<p>Public consultation is central to the production of the Annual Development Cycle and Business Plan, which will develop bus network changes based on user feedback (subject to financial constraints). All proposals to change services considered by elected members in public meetings and subject to public scrutiny prior to member's approval. A Bus User Consultative Forum provides the public and business with a route to bring ideas for network development directly to Nexus.</p>
<i>Consultation over fare changes</i>	<p>No obligation for commercial Operators to consult with the public on fare changes. Advance notification of fare changes provided to Partnership Boards covering East Gateshead and South Tyneside, although the South Tyneside partnerships are currently in abeyance.</p>	<p>No obligation for commercial Operators to consult with the public on fare changes. Commitment to only change each commercial fare product group once per year. Advance notification of changes to a fare group (not individual fares) provided to Nexus, if increase is above the prevailing inflation rate. This information is subject to a data sharing agreement and Nexus may not share it beyond the Combined Authority. This does not place any additional controls over the fares, only ensuring that Nexus are aware of the change in advance.</p>	<p>Public consultation will be undertaken on the Annual Development Cycle Business Plan, which covers fare change proposals. Proposals to change all fares considered by elected members in public meetings, and subject to public scrutiny. Local Bus Boards and User Consultative Forum will provide all users and stakeholders the opportunity to raise issues regarding fares, for inclusion in the Business Plan (subject to financial constraints).</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	Do Minimum	VPA Proposal	QCS
<b>4. Ensure that all infrastructure is accessible and of a high standard and includes measures to improve safety</b>			
<i>On-street</i>	<p>Nexus and local highway authorities provide modern accessible bus stops, shelters and stations that are clean, safe and well maintained.</p> <p>Additional monitoring of standards is required in Voluntary Partnership Agreement areas with penalties for non-compliance.</p>	<p>As Do Minimum but with additional monitoring of standards in all areas and a requirement to pay into a Service Improvement Fund for all non-compliance.</p> <p>Partnership working will incentivise highway authorities to deliver “whole journey” experience improvements to passengers.</p>	<p>As Do Minimum, with monitoring of standards extended to all bus stops and bus stations in Tyne and Wear. The ability of Combined Authority and its constituent local highway authorities to jointly manage highway infrastructure and the bus network enhances the prospects for delivering a high quality “whole journey” experience to passengers.</p>
<i>Accessible buses</i>	<p>PSVAR requires that all buses weighing up to 7.5 tonnes will be fully accessible from 01 January 2015, all full size single deck buses (over 7.5 tonnes) will be fully accessible by 01 January 2016 and all double deck buses will be fully accessible by 01 January 2017. Some Operators’ fleets are already 100% wheelchair accessible.</p>	<p>Commitment in VPA Draft Customer Charter to be 100% wheelchair accessible on “regular network services” from commencement of the Agreement (April 2015) ahead of PSVAR.</p> <p>Providing accessible buses is not the subject of a key performance indicator or a SIF payment.</p>	<p>100% low floor fleet by QCS start date (March 2017).</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Destination displays (PSVAR)</i>	<p>Destination displays located on the front and side of all buses to show service number and destination, and service number (as a minimum) on rear. Compliance checked by national DVSA Officers/Traffic Commissioner. Any remaining Secured Bus Services would be compliance-checked by Nexus, should resources be available.</p>	<p>As Do Minimum with additional local monitoring and penalties for non-compliance (including where incorrect destination or service numbers are observed) and payment made to a Service Improvement Fund. Compliance checked by operators.</p>	<p>Only electronic displays permitted on all QCS services, enhancing visibility for all passengers including those with poor sight. Failure to display correct front and side destination and service number information considered a service failure and disincentivised by appropriate financial deductions. Failure to display correct rear service number considered a vehicle defect and disincentivised by appropriate financial deductions. Local monitoring undertaken by Nexus Compliance Officers.</p>
<i>Improving safety</i>	<p>No requirements for buses to be fitted with CCTV systems although in practice almost all of fleet is now fitted to help reduce insurance costs/claims and some buses internally fitted with screens showing scrolling images from throughout the vehicle. School bus drivers required to have passed standard DBS check, or enhanced DBS check where a "regulated activity" as defined in paragraph 1 of part 1 of schedule 4 of the Safeguarding Vulnerable Groups Act 2006 is being carried out, although this requirement will diminish as School Buses are withdrawn.</p>	<p>VPA Customer Charter provides a commitment to equip all vehicles with CCTV image capture and recording for vehicle interior and exterior from commencement of the Agreement and some buses internally fitted with screens showing scrolling images from throughout the vehicle. School bus drivers required to have passed standard DBS check, or enhanced DBS check where a "regulated activity" as defined in paragraph 1 of part 1 of schedule 4 of the Safeguarding Vulnerable Groups Act 2006 is being carried out, although this requirement will diminish as School Buses are withdrawn.</p>	<p>Passengers on QCS buses will benefit from measures to improve safety and security. Each Quality Contract bus equipped internally and externally with digital CCTV image capture and recording equipment which shall be in working condition and images regularly monitored by the Contractor's staff. School bus drivers required to have passed standard DBS check, or enhanced DBS check where a "regulated activity" as defined in paragraph 1 of part 1 of schedule 4 of the Safeguarding Vulnerable Groups Act 2006 is being carried out. All School Buses retained.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	Do Minimum	VPA Proposal	QCS
<b>5. Adopt Accessibility standards and targets across the Tyne and Wear Network</b>			
<i>Bus Strategy Targets</i>	<p>Baseline performance of network measured using Tyne and Wear Accessibility model and targets set against which to assess future variations in the network.</p> <p>While commercial network changes will often maintain or enhance access to key destinations for some users, there is no formal link between the accessibility standards and network changes.</p> <p>Achievement of accessibility standards will diminish as Secured Bus Service network is removed†.</p>	<p>As Do Minimum, but with some Secured Bus Services retained as part of the £2m Nexus Savings, subject to commercial considerations.</p>	<p>Accessibility criteria used as an input to the Annual Development Cycle network review programme, which will feed into the Annual Business Plan.</p> <p>Maintaining and improving accessibility standards will therefore be an element of the annual network review process (subject to financial constraints) leading to this being a focus of the review, leading to a retention of current accessibility.</p> <p>Retained accessibility will improve access to jobs, training, shopping, health and leisure destinations for a range of local users compared to either the Do Minimum or VPA Proposal, and maintain option values for potential passengers (that is, the value that people place on having a bus service available for use).</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	Do Minimum	VPA Proposal	QCS
<b>6. Introduce a common brand and accessible high quality buses</b>			
<i>Branding (information and marketing)</i>	Each Operator has own branding policy and guidelines for application on buses, information and marketing collateral.	As Do Minimum but with addition of agreed Partnership sub-branding on all Partnership buses, information and marketing collateral.	All Quality Contract information and marketing collateral will be prepared centrally by Nexus using common and consistent branding. Printed information will be available from multiple outlets, as well as on all vehicles. Online information will be available from a single, comprehensive and consistent website and app. These features will provide passengers with easy to access and consistently presented information about their journey choices across Tyne and Wear.
<i>Branding (fleet livery)</i>	Individual Operators each have their own corporate livery with route specific liveries used on some services. Secured Bus Services that are fully secured by Nexus have NexusBus or route specific livery but such services will be phased out†.	As Do Minimum but with addition of Partnership sub-branding applied to all buses delivering partnership services.	All buses operating Quality Contract services in common livery within two years of the QCS commencement (potentially earlier). Vehicle livery consistent with printed and online information and marketing materials. Excluded services retain corporate (in some cases route specific) livery. A consistent livery will provide passengers with the certainty of a common brand associated with high standards of operation (for example ability to use simple and consistent ticketing products, good standards of vehicle quality, good standards for punctuality and reliability).
<i>Staff uniform</i>	All drivers to wear corporate uniform of employer.	As Do Minimum.	As Do Minimum

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Engine Type/Emissions</i>	Annual fleet replacement with progressive improvement in engine standards and reduction in harmful emissions, as mandated by European vehicle emission standards.	As Do Minimum but with a defined commitment for investment and replacement in the fleet. The VPA provides commitments regarding the fleet operated by three main operators in Tyne & Wear: <ul style="list-style-type: none"> <li>. all vehicles Euro III standard or better by end of March 2016;</li> <li>. by end of March 2017 fleet is 68% Euro V/VI;</li> <li>. by end of March 2019 fleet is 81% Euro V/VI.</li> </ul>	QCS will accelerate introduction of Euro V/VI vehicles across the T&W fleet - fleet is mandated to be 100% Euro V/VI standard within two years of QCS commencement (by 2019). The QCS requires that: <ul style="list-style-type: none"> <li>. all vehicles Euro III standard or better at QCS commencement (2017);</li> <li>. at QCS commencement (2017) fleet is 60% Euro V/VI, all subsequent new/replacement vehicles will be Euro V/VI;</li> <li>. at second anniversary of QCS (2019) fleet is 100% Euro V/VI and remains 100% throughout contract term (7+1+1+1).</li> </ul> Annual fleet replacement for non QCS fleet continues. Operators may choose to stop or slow investment in new vehicles during transition period prior to QCS. Users of local services will benefit from cleaner air on bus, while waiting for their bus and within the general environment, the latter benefit extends to all people living and working in Tyne and Wear.
<i>CCTV</i>	No requirements for buses to be fitted with CCTV systems although in practice almost all of fleet is now fitted to help reduce insurance costs/claims.	VPA Draft Customer Charter provides a commitment to equip all vehicles with CCTV image capture and recording for vehicle interior and exterior from commencement of the Agreement.	Passengers on QCS buses will benefit from measures to improve safety and security. Each Quality Contract bus equipped internally and externally with digital CCTV image capture and recording equipment which shall be in working condition and images regularly monitored by the Contractor's staff.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Accessible buses (PSVAR legal requirements)</i>	PSVAR requires that all buses weighing up to 7.5 tonnes will be fully accessible from 01 January 2015, all full size single deck buses (over 7.5 tonnes) will be fully accessible by 01 January 2016 and all double deck buses will be fully accessible by 01 January 2017. Some Operators' fleets are already 100% wheelchair accessible.	Commitment in VPA Draft Customer Charter to be 100% wheelchair accessible on "regular network services" from commencement of the Agreement (April 2015). Providing accessible buses is not the subject of a key performance indicator or a SIF payment.	100% low floor fleet by QCS start date (March 2017), providing accessibility to all buses for people with mobility impairments, and with pushchairs and buggies.
<i>Destination displays (PSVAR requirements)</i>	Destination displays located on the front and side of all buses to show service number and destination, and service number (as a minimum) on rear. Compliance checked by national DVSA Officers/Traffic Commissioner. Any remaining Secured Bus Services would be compliance-checked by Nexus, should resources be available.	As Do Minimum with additional local monitoring and penalties for non-compliance (including where incorrect destination or service numbers are observed) and payment made to a Service Improvement Fund. Compliance checked by operators.	Only electronic displays permitted on all QCS services, enhancing visibility for all passengers including those with poor sight. Failure to display correct front and side destination and service number information considered a service failure and disincentivised by a significant financial deduction. Failure to display correct rear service number considered a vehicle defect and disincentivised by a financial deduction. Local monitoring undertaken by Nexus Compliance Officers.
<i>Smart enabled ETMs</i>	All buses fitted with ITSO enabled ETMs, data available to operators for commercial needs. Operator specific smart season passes and stored travel rights (through NESTI) will be enabled.	As Do Minimum.	As Do Minimum, but with all data available to Nexus, allowing passenger benefits from improved integrated network planning. ETMs will be used to deliver passenger benefits associated with a single simplified ticketing proposition for all QCS bus services, such as QCS-wide and multi-modal smart season passes, smart pay as you go and a smart fare cap.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Communications</i>	Movement towards all buses being fitted with two-way voice/data communications as part of AVL and Real Time initiatives.	VPA Customer Charter requires that a majority of vehicles are fitted with a means of communication to control centres.	QCS mandates that all vehicles are fitted with operable two-way communications with control centres/depots throughout the contract term.
<i>Heating &amp; ventilation</i>	No area wide systems in place to monitor temperature on board buses, although passengers will provide feedback to Operators if environment is unpleasant and ultimately may choose not to travel if problems persist.	As Do Minimum.	Vehicles will be required to provide a decent standard of heating during cold weather and ventilation during warm weather, providing passenger benefits associated with a consistent standard for on-board environment.
<i>Fleet age</i>	Average age of fleet is approximately 8 years with annual fleet investment/replacement. Buses operational on average for 16 years.	As Do Minimum but with commitment to fast-track fleet replacement to achieve minimum Euro III standard by end of March 2016.	Passengers benefit from the provision of newer vehicles with lower emissions on many routes. Requirement to maintain an average fleet age of 7 years during the seven year QCS contract term, relaxed to 8 years during the first two years and increased by one year during each discretionary additional year. No vehicle in operation can be more than 15 years old.
<i>Vehicle refurbishment</i>	All operators will undertake internal and external refurbishment based on commercial needs and maintaining their assets.	As Do Minimum.	QCS Operators will be required to deliver a mid-life programme for refurbishing their vehicles internally, externally, mechanically and structurally pursuant to the contract.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Soft measures</i>	<p>Operators are likely to progressively roll-out 'soft' measures designed to increase patronage, including but not limited to, audio-visual next stop announcements, plugs for lap-tops and mobile phones, free customer WiFi, improved seating. Investments made in accordance with commercial needs.</p>	<p>VPA commits operators to equip new buses in the T&amp;W fleet with free customer WiFi, to operate on appropriate routes. Otherwise, as Do Minimum.</p>	<p>Provision of soft measures such as those in Do Minimum to be incentivised through procurement process but cannot be guaranteed. The quality contracts will maintain the flexibility to allow installation of new innovations and equipment to QCS buses, subject to funding availability.</p>
<b>7. Work with Operators to create a more integrated network through timetabling and ticketing initiatives</b>			
<i>Governance</i>	<p>Commercial Operators determine Commercial Bus network with input from key stakeholders (including Nexus/LA's). Nexus ability to specify remaining Secured Bus Service network diminishes to zero by 2022, when that network is fully withdrawn†.</p>	<p>VPA will establish District and T&amp;W Partnership Boards, with equal representations from local authorities/Combined Authority and Bus Operators. These Boards will consider network changes and make recommendations to commercial operators, but operators are not obliged to enact these recommendations. Matters related to joint marketing, joint funding bids and Service Improvement Fund spend will be decided by the Boards. Dispute Board will intervene when District or T&amp;W Boards cannot achieve a majority decision. A full seat on board of Network Ticketing Limited for a CA member to provide greater influence over fares. Operators can withdraw from VPA in a range of circumstances.</p>	<p>QCS will establish Local Bus Boards and a Tyne &amp; Wear-wide governance based upon the Tyne &amp; Wear Sub-Committee set up to advise the Combined Authority. These Boards will have wide ranging powers to take advice from Nexus' network planning team in determining network changes and fare increases enacted annually, in the context of delivering an affordable and accessible network. A User Consultative Forum with an independent chair will be established to capture and report back on the views of public transport users and stakeholders, these views will be used to drive continuous improvement and inform the Annual Development Cycle.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<b>8. Ensure affordability for both the customer and the taxpayer</b>			
<i>For taxpayer</i>	<p>The levy (including the existing revenue cash contribution) is expected to remain frozen at existing levels until 2026<sup>†</sup>, with an increasing proportion of those funds being required to fund the statutory ENCTS.</p> <p>The total levy payable over the ten years modelled is £517m, in relation to supporting bus services, but levy is insufficient to fund statutory duties with a further £2.2m required to fund the ENCTS reimbursements from 2025 onwards.</p>	<p>Core public spend remains £517m over the ten years modelled, but levy is insufficient to fund statutory duties with a further £2.2m required to fund the ENCTS reimbursements from 2025 onwards.</p>	<p>Core public spend remains £517m over the ten years modelled, and is sufficient to fund statutory duties associated with ENCTS reimbursements for the duration of the Scheme.</p>
<i>For customer</i>	<p>Bus fares determined by a balance of commercial considerations including operator investment needs, operator cost base and operator profit aspirations, tempered by customer ability to pay (fare increases will not affect ENCTS users' affordability, but may increase ENCTS reimbursements). Fares are assumed to increase by bus industry costs plus 2%, based on trends in the last decade.</p>	<p>As Do Minimum.</p>	<p>Bus fares will be determined through a democratically accountable process which will balance the needs of passengers with the maintenance of a financially sustainable network. Fare revenue surpluses will be reinvested to improve bus user experience and satisfaction. Fares increases will be capped at no more than the Retail Price Index.</p>
<b>9. Simplify fares and ticketing and improve integrated ticket products</b>			
<i>Complexity</i>	<p>Complex range of tickets offering customer choice, but which can be confusing for new passengers.</p>	<p>As Do Minimum, but with an additional tier of ticketing involving premium priced multi-Operator bus-to-bus tickets.</p>	<p>A simple set of ticket types available for single or multi-mode travel, encouraging bus travel by allowing passengers to easily select the best product for their needs.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Consistency</i>	Numerous inconsistent pricing structures, including different approaches for different ticket types.	Consistency of pricing structure aided by provision of premium priced multi-Operator bus-to-bus tickets. Single Operator tickets continue to be set at discretion of individual Operators.	A simple zone-based pricing structure, consistent across all ticket types and modes of travel (regardless of Operator). For the majority of short and medium distance bus journeys, the QCS provides a consistent flat fare offer. This consistency encourages bus travel by allowing passengers to easily select the best product for their needs, including the smartcard daily fare cap.
<i>Elderly and people with restricted mobility</i>	ENCTS unchanged but discretionary local ticket products (such as Taxicard) likely to be withdrawn†.	As Do Minimum.	Taxicard retained. Metro Gold Card will have improved eligibility criteria.
<i>Adult tickets (interoperability)</i>	Operator-specific adult bus tickets cannot be used on other Operators' services.	New premium priced multi-Operator bus-to-bus ticketing offered through Network One.	There is a single simplified range of QCS tickets that are generally cheaper than those available in the Do Minimum, which can be used on any QCS service regardless of Operator. Any operator-specific tickets purchased on excluded services will not be valid on QCS services. Multi-trip QCS products will be valid on excluded services.
<i>Adult tickets (multi-modal)</i>	Multi-modal commercial adult ticketing available through Network One for a premium price.	As Do Minimum.	As Do Minimum, delivered by Nexus rather than Network One. Multi-modal fares for the QCS will be lower than the Do Minimum.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Adult tickets (Transfare tickets to allow transfer between modes)</i>	Transfares available for adult single multi-modal trips. Current sales of Transfares are very low, representing 0.3% of all bus journeys.	As Do Minimum.	Transfares replaced by a competitively priced daily multi-trip multi-modal ticket, available in paper form and on Smartcards (through daily fare cap). Some 43% of current Transfare purchases would be cheaper in the QCS, the remainder either the same price or more expensive.
<i>Child tickets</i>	Funding constraints result in multi-modal child concessionary fares likely to be withdrawn from 2017 <sup>†</sup> . Operator-specific commercial child ticketing available which costs a minimum of £0.25 (42%) more for each single trip.	As Do Minimum.	Multi-modal child concessionary ticket retained and eligibility expanded to include residents of adjacent local authority areas on QCS services.
<i>Students and young people (interoperability)</i>	Operator-specific student and young people's tickets cannot be used on other Operators' services. Multi-modal commercial tickets available through Network One for a premium.	Reasonable endeavours will be made to implement through Network One a new premium priced weekly and 4-weekly multi-operator multi-modal ticket products available for students and 16-18 year olds.	New discount priced weekly, 4-weekly and term-time ticket products available for students and 16-18 year olds (16-18 fare introduced at an equivalent price to the under-16 child fare). All student and young people's tickets can be used on any QCS service and any mode, regardless of Operator.
<i>Smart ticketing</i>	Operator-specific Smartcards available for some Operator's products. Nexus Pop card to be accepted for Pay As You Go ticketing through NESTI programme.	Operators committed to implement season tickets on smartcards across 90% of network (i.e. excluding Arriva) by December 2014. Intention to allow Network One season products to be provided on smartcards as technology allows, but timescales not defined.	A single Smartcard proposition for all public transport, allowing for season ticket purchase and pay as you go purchases.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Smart daily price cap</i>	No daily price cap on Pay As You Go travel, potentially leading to higher cost of travel where used across different operator services or where multiple single trips are made.	As Do Minimum	Daily price cap such that where customers travel using 'Pay As You Go', the amount deducted from the Smartcard is capped at the appropriate day ticket price for the travel undertaken, irrespective of the bus services and other modes used.
<i>Price changes</i>	Bus fares determined by a balance of commercial considerations including operator investment needs, operator cost base and operator profit aspirations, tempered by customer ability to pay (fare increases will not affect ENCTS users' affordability, but may increase ENCTS reimbursements). Fares are assumed to increase by bus industry costs plus 2%, based on trends in the last decade.	As Do Minimum.	Bus fares will be determined through a democratically accountable process which balances the needs of passengers with the duty to maintain a financially sustainable network. Fare revenue surpluses will be reinvested to improve bus user experience and satisfaction. Fares increases will be capped to no more than the Retail Price Index.
<i>Frequency of price changes</i>	No limit on the number of commercial price changes each year, to any type of ticketing. Typically commercial operators alter fares once a year.	Changes to commercial fare group prices limited to once per year.	All fare changes to be limited to once per year.
<i>Impact of pricing structure</i>	No change in the impact of pricing structure, as this will be open to Operators to determine on a case by case basis.	Multi-Operator bus-to-bus tickets will offer a cheaper alternative to multi-modal tickets for some passengers.	An average fare reduction of 2.5% over the average prices that were in place during the year up to August 2012. The introduction of one simple zone-based pricing structure will mean that compared to today across T&W 67% will see reduced fares, 11% will pay the same, and 22% will see increased fares.

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<b>10. Set improved environmental standards for the bus fleet</b>			
<i>Engine Type/Emissions</i>	<p>Annual fleet replacement with progressive improvement in engine standards and reduction in harmful emissions, as mandated by European vehicle emission standards.</p>	<p>As Do Minimum but with a defined commitment for investment and replacement in the fleet. The VPA provides commitments regarding the fleet operated by three main operators in Tyne &amp; Wear:</p> <ul style="list-style-type: none"> <li>. all vehicles Euro III standard or better by end of March 2016;</li> <li>. by end of March 2017 fleet is 68% Euro V/VI;</li> <li>. by end of March 2019 fleet is 81% Euro V/VI.</li> </ul>	<p>QCS will accelerate introduction of Euro V/VI vehicles across the T&amp;W fleet - fleet is mandated to be 100% Euro V/VI standard within two years of QCS commencement (by 2019). The QCS requires that:</p> <ul style="list-style-type: none"> <li>. all vehicles Euro III standard or better at QCS commencement (2017);</li> <li>. at QCS commencement (2017) fleet is 60% Euro V/VI, all subsequent new/replacement vehicles will be Euro V/VI;</li> <li>. at second anniversary of QCS (2019) fleet is 100% Euro V/VI and remains 100% throughout contract term (7+1+1+1).</li> </ul> <p>Annual fleet replacement for non QCS fleet continues. Operators may choose to stop or slow investment in new vehicles during transition period prior to QCS.</p> <p>Users of local services will benefit from cleaner air on bus, while waiting for their bus and within the general environment, the latter benefit extends to all people living and working in Tyne and Wear.</p>
<i>Driver behaviour management systems</i>	<p>100% of fleet of large commercial Operators fitted, with associated schemes in place to address poor results and reward good results. Small Operators (mainly Secured Bus Services) do not have systems in place.</p>	<p>As Do Minimum (No Secured Bus Services in operation).</p>	<p>100% of QCS buses fitted and associated training schemes put in place to reward good performance and address poor results as part of contractual requirements.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

<b>Bus Strategy Objectives/ Deliverables</b> <i>Key indicators for each objective</i>	<b>Do Minimum</b>	<b>VPA Proposal</b>	<b>QCS</b>
<i>Low Carbon Emission Buses (LCEBs)</i>	<p>Operators currently have 84 LCEBs (at August 2014) operating on services that would be covered by a QCS, and 10 LCEBs on an excluded service which predominantly operates within Tyne and Wear, all part-funded by the Green Bus Fund. A further 8 LCEBs will be delivered later in 2014. Nexus is not aware of further plans to introduce LCEBs. A further round of Government funding for LCEBs is anticipated but cannot be relied upon at this stage.</p>	<p>The VPA commits operators to provide up to 125 LCEBs within the first three years of the Agreement</p>	<p>No requirements for LCEB specified, but this will be incentivised during procurement process. Nexus will work with operators to secure funding for LCEBs, as they do now, where an economic and social case can be made. Some routes currently served by LCEBs may be served by conventional Euro V/VI buses. LCEBs will provide passenger benefits associated with lower emissions.</p>

Items marked with a dagger † denote assumptions about future funding made for modelling purposes. Final decisions will rest with the North East Combined Authority.

**Appendix D: Cross-Boundary Bus Collaboration Protocol**

# **CROSS BOUNDARY BUS COLLABORATION PROTOCOL**

relating to the implementation of a Quality Contracts Scheme in Tyne and Wear

## **1. INTRODUCTION:**

- 1.1 Pursuant to the Durham, Gateshead, Newcastle upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014, the North East Combined Authority ('NECA' or 'Combined Authority') was established and many of the powers of the former Tyne and Wear Integrated Transport Authority and Durham and Northumberland County Councils under the Transport Acts 1968, 1985 and 2000 were transferred to the NECA.
- 1.2 The NECA is considering the establishment of a Quality Contracts Scheme ('QCS') which will regulate local bus services in the Tyne and Wear Area, in accordance with the Transport Act 2000 (as amended).
- 1.3 If a QCS is established by the NECA, the Traffic Commissioner will not accept new registrations for local bus services operating in the Tyne and Wear Area except where such services have been excluded from the QCS or have been granted a Clearance Certificate by the Combined Authority. The Traffic Commissioner will continue to allow registrations in respect of local bus services to the extent that they operate within the Council Areas.
- 1.4 Following implementation of the QCS by the NECA, the majority of local bus services in the Tyne and Wear Area will be provided by means of quality contracts that will be let by Nexus on behalf of the NECA. Such quality contracts will include requirements for service specification, fares and ticketing, timetables, vehicle standards, and customer service standards.
- 1.5 In order to mitigate adverse impacts that the QCS may raise in County Durham and Northumberland, officers of Durham County Council and Northumberland County Council and of Nexus, have developed this Protocol. This Protocol provides reassurance that the County Councils will be reimbursed for any reasonable expenditure required to maintain the current levels of accessibility on local bus service affected by the introduction of the QCS in Tyne and Wear.
- 1.6 Therefore in accordance with Part 2 of the NECA Constitution, NELB has agreed this Protocol in respect of the discharge of certain transport functions by Durham County Council and Northumberland County Council (together the 'Councils'), TNEC, TWSC and Nexus (hereinafter referred to as 'the Parties').

## **2. DEFINITIONS**

- 2.1 The definitions in this clause apply in this Protocol:

**"Accessibility"** means maintaining access standards (in terms of route penetration and frequency) to key services and facilities at the level as at the Implementation Date;

**"Affected Party"** means a Party who is the subject of a Force Majeure Event;

**"Affected Services"** means those Local Services operating in the Relevant Council Area on the Implementation Date that can be shown to be, and are agreed by the Combined Authority and Nexus, as adversely affected (by reference to either Accessibility or vehicle standards) by the implementation of the QCS;

**"Annual Development Cycle"** means the annual process used to provide a consistent, open and transparent approach regarding changes to the bus network, to ensure they support the objectives of the QCS set out in part 3 of Annex 7 of the Tyne and Wear Quality Contracts Scheme for Buses;

**"Business Day"** means any day, other than a Saturday or a Sunday, when banks in the City of London are open for business;

**"Clearance Certificate"** has the meaning given to it in section 6B(8) of the Transport Act 1985, when issued by the Combined Authority;

**"Combined Authority Chair"** means the chairperson of the Combined Authority at the relevant time;

**"Commencement Date"** means the date on which this Protocol is made;

**"Commercial Service"** means a Local Service which is not a Secured Service;

**"Concessionary Travel"** means the carriage of customers:

- (a) eligible for travel concessions pursuant to a travel concession scheme made pursuant to section 93 of the Transport Act 1985; or
- (b) entitled to a concession pursuant to section 145A(1) of the Transport Act 2000;

**"Council Area"** means the local government area of Durham or the local government area of Northumberland;

**"Cross Boundary Group"** shall have the meaning given to it in clause 6.1;

**"Cross Boundary Service"** means any service which crosses the boundary from/to the Tyne and Wear Area to/from the Relevant Council Area;

**"De Minimis Payments"** means payments made pursuant to a service subsidy agreement which is excluded from the requirement to tender in section 89(1) of the Transport Act 1985 pursuant to the Service Subsidy Agreements (Tendering) (England) Regulations 2002 (as amended or replaced);

**"Dispute"** means any dispute, difference or question of interpretation arising out of or in connection with this Protocol (including any dispute regarding pre-contractual negotiations, the existence, validity or termination of this Protocol or the consequences of non-existence or invalidity of this Protocol) whether contractual or non-contractual;

**"Dispute Resolution Process"** means the process for resolving Disputes arising under this Protocol set out in clause 17;

**"EIR"** means the Environmental Information Regulations 2004 together with any guidance and/or codes of practice issued by the Information Commissioner or any central government body in relation to such Regulations;

**"Emergency Network Change Procedure"** means a procedure for emergency variations to local bus services and/or fares provided for under the QCS outside of the Annual Development Cycle;

**"ENCTS Card"** means a statutory travel concession permit as defined in section 145A(3) of the Transport Act 2000;

**"ENCTS Scheme"** means the English National Concessionary Travel Scheme specified by section 145A of the Transport Act 2000 which obliges operators to waive the fare on eligible journeys for eligible older and disabled people producing an ENCTS Card within England and requires travel concession authorities to reimburse operators in accordance with section 149 of the Transport Act 2000;

**"Enhancements"** shall have the meaning given to it in clause 14.1;

**"Event"** means a trigger event set out in column 2 of the table in clause 5.2 affecting the Relevant Council in the Relevant Council Area ;

**"Evidence"** means evidence of an Event as set out in column 3 of the table in clause 5.2;

**"Financial Year"** means each year commencing on 1 April and ending on 31 March;

**"Force Majeure Event"** means the occurrence after the Commencement Date of any event or occurrence (including fire, flood, violent storm, pestilence, explosion, malicious damage, any industrial action by the workforce of the Affected Party or by the workforce of a critical or key supplier, armed conflict, acts of terrorism, nuclear, biological or chemical warfare, or any other disaster, natural or man-made) which materially adversely affects the ability of a Party to perform its obligations (in whole or in part) under this Protocol, and which is outside the reasonable control of the Affected Party and is not attributable to any act or failure to take reasonable preventative action by the Affected Party;

**"FOIA"** means the Freedom of Information Act 2000 and any subordinate legislation made under that Act from time to time, together with any guidance and/or codes of practice issued by the Information Commissioner or any relevant central government body in relation to such legislation;

**"Gold Card"** means a ticket product made available by Nexus which extends the eligibility of an ENCTS Card to travel modes other than bus and times of day other than those specified in the ENCTS Scheme in return for a fixed payment by the user, or any future replacement of such card;

**"Implementation Date"** means the date of the QCS being made;

**"Initial Response"** means a response by Nexus on whether the Evidence provided by the Relevant Council is sufficient to support a claim made by the Relevant Council;

**"ITSO"** means the specification that provides interoperability for smart ticketing schemes and which is available via the ITSO website from time to time;

**"Local Service"** has the meaning given to it in section 2 of the Transport Act 1985;

**"NESTI"** means the programme funded by the 12 Local Authorities in the North East, the Combined Authority and Nexus, which will create a Smart Ticketing infrastructure that covers the public transport network in the North East, working in partnership with public transport operators;

**"Operator"** means an operator of a Local Service;

**"Phase"** means the Transition Phase, the Second Phase or the Third Phase as set out in column 1 of the table in clause 5.2;

**"QCS"** means the quality contracts scheme to be made by the Combined Authority and administered by Nexus in the Tyne and Wear Area;

**"QCS Network"** means the network of bus services to be provided by Nexus in accordance with the QCS;

**"QCS Service"** means a bus service that forms part of the QCS Network;

**"Quality"** means vehicle quality;

**"Quarterly"** means a period of three (3) months starting on 1 April, 1 July, 1 October and 1 Jan;

**"Relevant Council"** means either Durham County Council or Northumberland County Council as the case may be;

**"Relevant Council Area"** means the local government area of the Relevant Council where an Event occurs;

**"Response"** means a response to an Event set out in column 4 of the table in clause 5.2;

**"Second Phase"** means the period from the end of the Transition Phase to the end of three (3) years after commencement of the operation of the QCS;

**"Secured Service"** means a Local Service partly or fully secured by a service subsidy agreement pursuant to section 89 to 92 of the Transport Act 1985;

**"Service Users"** means users of bus services in the Relevant Council Area, including both residents of and visitors to, the Relevant Council Area;

**"Third Phase"** means the phase of the QCS from the beginning of year four (4) to the end of year ten (10) of the QCS;

**"Transition Phase"** means the period between the Combined Authority deciding to proceed with the QCS to the award of a quality contract by Nexus under the QCS;

**"Tyne and Wear Area"** means the area covering the local government areas of Gateshead, Newcastle Upon Tyne, North Tyneside, South Tyneside and Sunderland;

**"Tyne and Wear Sub Committee"** means the committee established by the Combined Authority pursuant to the constitution of the Combined Authority; and

**"Year"** means a period of twelve (12) months commencing on the Implementation Date.

- 2.2 Clause, Schedule and paragraph headings shall not affect the interpretation of this Protocol.
- 2.3 A person includes a natural person, corporate or unincorporated body (whether or not having a separate legal personality) and that person's legal and personal representatives, successors and permitted assigns.
- 2.4 The Schedules form part of this Protocol and shall have effect as if set out in full in the body of this Protocol. Any reference to this Protocol includes the Schedules.
- 2.5 A reference to a company shall include any company, corporation or other body corporate, wherever and however incorporated or established.
- 2.6 Words in the singular include the plural and vice versa.
- 2.7 A reference to one gender shall include a reference to the other genders.
- 2.8 A reference to a statute or statutory provision is a reference to it as it is in force for the time being, taking account of any amendment, extension or re-enactment and includes any subordinate legislation for the time being in force made under it.
- 2.9 A reference to writing or written includes email.
- 2.10 Documents in agreed form are documents in the form agreed by the Parties and initialled by them for identification.
- 2.11 References to clauses and Schedules are to the clauses and Schedules of this Protocol; references to paragraphs are to a paragraph of the relevant Schedule.
- 2.12 Where the words include(s), including or in particular are used in this Protocol, they are deemed to have the words "without limitation" following them and, where the context permits, the words other and otherwise are illustrative and shall not limit the sense of the words preceding them.
- 2.13 Any obligation in this Protocol on a person not to do something includes an obligation not to agree or allow that thing to be done.

### **3. COMMENCEMENT AND DURATION**

This Protocol shall begin on the Commencement Date and shall continue on the terms of this Protocol until the expiry of the QCS.

### **4. PURPOSE AND SCOPE**

4.1 The purpose of this Protocol is to seek to ensure that:

4.1.1 the transition to, implementation of, or ongoing operation of the QCS does not directly result in:

4.1.1.1 a decline in Accessibility for Service Users; or

4.1.1.2 increased financial outlay for the Councils;

4.1.2 where reasonably possible, the benefits of the QCS, once implemented, are extended to Service Users; and

4.1.3 any future changes to the QCS Services take into account the benefits and detriments of such changes to Service Users as well as users of QCS Services in the Tyne and Wear Area.

4.2 The Parties acknowledge that following implementation of the QCS by the Combined Authority, the majority of local bus services in the Tyne and Wear Area will be provided pursuant to quality contracts let by Nexus on behalf of the Combined Authority. Nexus shall ensure that such quality contracts shall include requirements for service specification, fares and ticketing, timetables, vehicle standards, and customer service standards. Each Party shall collaborate with the other Parties during the term of this Protocol to achieve continuous improvement in the quality and delivery of the QCS.

4.3 Where the Combined Authority considers that a new Commercial Service proposed by an Operator within the Tyne and Wear Area will not have an adverse effect on QCS Services, the Combined Authority shall provide a Clearance Certificate to the Traffic Commissioner. The Parties acknowledge that for the Combined Authority to be satisfied that a Clearance Certificate can be granted the Operator may have to undertake (pursuant to a voluntary partnership agreement or otherwise) that the Commercial Service will comply with conditions specified by the Combined Authority or Nexus which benefit users of QCS Services including the acceptance of tickets from QCS Services.

4.4 The Parties agree that new and existing Cross Boundary Services will be granted Clearance Certificates by the Combined Authority, where possible, in accordance with clause 4.3. In the event that a Cross Boundary Service does have an adverse effect on the QCS Services, the Combined Authority shall use reasonable endeavours to seek to agree amendments to the registration (or proposed registration) of the relevant Cross Boundary Service that preserves the benefits of the Cross Boundary Service within the Council Area. For the avoidance of doubt, the Parties acknowledge and agree that there will be no charge levied on Operators of Cross Boundary Services by the Combined Authority or Nexus in respect of Clearance Certificates.

4.5 In order to limit detrimental impact on passengers caused by different fares regimes across the area of the Combined Authority, Nexus will use reasonable endeavours to seek to assist each Council in developing, and participating in, any multi-operator ticketing schemes promoted by the Councils that relate to areas served by the QCS Services, on the same basis as other

operators whose services are covered by the scheme(s). Such multi-operators ticketing schemes may include catering for cross-boundary travel on services to and from the Tyne and Wear Area.

## **5. OPERATION**

5.1 The Parties shall work together so that the QCS may be implemented and operated, and shall always have due regard to its aims and objectives as set out in clause 4.1.

5.2 In the case of an Event occurring during the Transition Phase, the Second Phase or the Third Phase of the QCS:

5.2.1 the Relevant Council shall use its best endeavours to provide Evidence of the Event within:

5.2.1.1 2 months in respect of a deterioration in Commercial Service or Secured Service Quality; or

5.2.1.2 1 month of the Event occurring in respect of all other Events,

in accordance with the table below; and

5.2.2 Nexus shall confirm receipt of notification of the Event and Evidence provided in accordance with clause 5.2.1, within five (5) Business Days and promptly assess the Evidence provided;

5.2.3 provided that the Evidence has been provided in accordance with clause 5.2.1, Nexus shall use its best endeavours to provide an Initial Response to the Relevant Council within either:

5.2.3.1 ten (10) Business Days of the date of notification of the Event; or

5.2.3.2 such other period as may be reasonable taking into account the number of Events notified to Nexus and the complexity of assessing those Events.

Where additional information is required the Council shall use its best endeavours to provide such additional information within ten (10) Business Days of the request, and this clause 5.2.3 shall then apply from the date that such information was provided, as if that was the date on which the Event was notified;

5.2.4 where the Initial Response indicates that the Evidence is either insufficient to support the claim or otherwise not accepted by Nexus and the Relevant Council disagrees with such Initial Response, the Relevant Council shall be entitled to refer the matter to the Dispute Resolution Process;

5.2.5 on receipt of the Initial Response referred to in clause 5.2.3 the Relevant Council shall prepare a Response (to include an appropriate procurement strategy if required) to address the Event within 10 Business Days;

5.2.6 on receipt of the proposed Response from the Relevant Council, the Parties shall use reasonable endeavours to promptly agree the Response;

- 5.2.7 on agreement of the Response, Nexus shall use reasonable endeavours to obtain outline approval for incurring the cost of the Response in accordance with Nexus standing orders within 6 weeks of agreement of the Response pursuant to clause 5.2.6;
- 5.2.8 within five (5) Business Days of Nexus obtaining an outline approval to meet the cost of the Response pursuant to clause 5.2.7, Nexus shall confirm the Response including specifying any requirements in respect of the procurement of services by the Relevant Council pursuant to the Response which may be reasonably required by Nexus in order to comply with the outline approval, provided that such confirmation shall remain subject to the final cost of the Response which is met by Nexus being no greater than the limit contained in the relevant outline approval;
- 5.2.9 where following the completion of any procurement or other action required pursuant to the Response, the total cost of implementing the Response, to be funded by Nexus, exceeds the limit contained in the relevant outline approval the Parties acknowledge that:
- 5.2.9.1 Nexus may be required to obtain further approvals to allow implementation of the Response and Nexus shall use reasonable endeavours to obtain such further approval as required within 1 month from it being determined that such limit has been exceeded; and/or
- 5.2.9.2 the Parties may need to agree modifications to the Response such that it can be funded within the approval,
- in which case clause 5.2 shall apply as required, in respect of the modified Response.
- 5.2.10 In the event that the Parties cannot agree a mutually acceptable Response, the matter will be referred to the Dispute Resolution Procedure.
- 5.2.11 For the purposes of this clause 5.2, the costs which Nexus shall pay to the Relevant Council shall be the cumulative costs of Responses which have been implemented and which Nexus have finally approved in accordance with clause 5.2.9.

1	2	3	4
Phase	Event	Evidence	Response
Transition and Second Phases	Full withdrawal of a Commercial Service resulting in reduced Accessibility and/or social exclusion	In respect of a service operating in part or in full within the Relevant Council Area undergoing such an Event, the Relevant Council shall, using best endeavours, prove, on the balance of probabilities, that the Event has been caused by the transition to or implementation of the QCS. The preferred method of proof will be for the Relevant Council to provide to Nexus confirmation from the Operator of such Commercial or Secured Service of the contribution or profit level of the service for the previous six (6) months, demonstrating a declining	Letting or varying one or more services which reinstates lost Accessibility
	Partial withdrawal of a Commercial Service, resulting in reduced Accessibility and/or social exclusion		Letting or varying one or more services which reinstates lost Accessibility

1	2	3	4
Phase	Event	Evidence	Response
	Reduction in frequency of a Commercial Service, thus reducing Accessibility	performance that cannot be attributed to other factors such as obvious demand change (e.g. closure of an employment site, relaxation of parking policy) or service impact (e.g. change in highways which would introduce additional journey time, or a change in alternative Commercial or Secured Services which could impact level of the service for the previous six (6) months) and the Relevant Council shall also provide sufficient evidence of the nature and extent of the impact on Accessibility and/or social exclusion to allow assessment of an appropriate response.	Letting or varying one or more services which maintains Accessibility
	Withdrawal or reduction of Secured Services (including home to school transport)		Letting or varying one or more services which reinstates lost Accessibility
	Deterioration in the Quality of Commercial Services or Secured Service (including home to school transport)		Letting or varying one or more services to the extent required to reinstate lost Quality
Third Phase	An adverse impact on a Commercial Service or Secured Service (including home to school transport) as specified above, but only where, and to the extent that (1) such Event had not been considered by the Combined Authority or Nexus previously (2) such Event had not previously occurred and (3) such Event is directly caused by the QCS (together " <b>Third Phase Requirement</b> ")	The relevant Evidence for an Event of this type as specified in the table above and such other evidence as is required to demonstrate that the Third Phase Requirements have been met as may be agreed by the Tyne and Wear Sub Committee	To be agreed by the Relevant Council and Nexus, both acting reasonably and considered by the Tyne and Wear Sub Committee

## 6. GOVERNANCE AND REPORTING

- 6.1 Nexus and Durham County Council shall establish a group, and Nexus and Northumberland County Council shall establish a group, in each case to oversee the management of Cross Boundary Services in respect of the relevant Council Area within one month of the Commencement Date (each a "**Cross Boundary Officer Group**").
- 6.2 Nexus and the Councils shall ensure that each of the Cross Boundary Officer Groups include one officer of the Relevant Council and one officer of Nexus. Nexus and each Council shall

ensure that the Cross Boundary Officer Group is appropriately supported by officers from the Relevant Council and Nexus to assist the Cross Boundary Officer Group in achieving its aims as set out in clause 6.3.

- 6.3 Each of the Cross Boundary Officer Groups shall meet once every three months or at such frequency as may otherwise be agreed and shall:
  - 6.3.1 evaluate any proposed changes to the QCS, or any consequences arising from the introduction of the QCS to identify whether they remain compliant with the terms of this Protocol and notify the Combined Authority where, and to the extent, that they do not;
  - 6.3.2 consider whether the development of the QCS supports the achievement of the local transport policies of that Council, the Combined Authority and the Combined Authority's other constituent councils;
  - 6.3.3 provide advice to the Tyne and Wear Sub Committee regarding the development of services affecting that Council and the Service Users within the context of this Protocol;
  - 6.3.4 keep under review the impact of the QCS on Commercial Services and Secured Services in that Council Area; and
  - 6.3.5 discuss those developments within Nexus's draft annual bus network business plan ("**Draft Plan**") that may affect that Council or that Council Area.
- 6.4 Each of the Cross Boundary Officer Groups shall report to the Tyne and Wear Sub Committee and the Relevant Council on a Quarterly basis on the impacts on bus services in their respective Council Areas.
- 6.5 Nexus shall prepare and submit the Draft Plan at least three (3) months in advance of the end of each Financial Year to the Tyne and Wear Sub Committee. Nexus shall ensure that the draft plan contains proposals for fares and services for the following Financial Year.
- 6.6 The Parties shall use reasonable endeavours to ensure that the Draft Plan shall be considered at the next meeting of the Tyne and Wear Sub Committee. Following this review, the Parties shall use reasonable endeavours to ensure that the Tyne and Wear Sub Committee consults each of the Councils regarding any aspect of the Draft Plan that may affect that Council and its Service Users.
- 6.7 If either Council considers that the Draft Plan has an adverse impact on Service Users, that Council may make requests to the Tyne and Wear Sub Committee for reasonable adjustments to the Draft Plan. The Parties shall use reasonable endeavours to ensure that the Tyne and Wear Sub Committee considers such requests.
- 6.8 Where the Tyne and Wear Sub Committee makes such adjustments to the Draft Plan to accommodate requests made by a Council, the Draft Plan shall be deemed to be approved by that Council.
- 6.9 Where the Tyne and Wear Sub Committee does not consider it possible to make any such reasonably requested adjustments to minimise the adverse effect of the Draft Plan on a Council and its Service Users, the Combined Authority will seek to procure that the Tyne and Wear Sub Committee promptly responds to that Council in writing, providing reasons. If that Council considers that the Tyne and Wear Sub Committee has failed to properly consider

such requests, then that Council shall be entitled to refer the matter to the Dispute Resolution Process.

- 6.10 During the initial twelve (12) month period of operation of QCS Services, Nexus will ensure and the Combined Authority will seek to procure that the Tyne and Wear Sub Committee will ensure that each Council Area is protected from any reductions or increases in fares, except by prior mutual consent in writing and in the event of a Dispute the matter will be referred to the Dispute Resolution Process.

## **7. FARES AND TICKETING**

- 7.1 Nexus and the TWSC<sup>1</sup> will use reasonable endeavours to ensure that any detrimental effect on travel by customers of Local Services within each Council Area is limited, whether the customer is boarding the relevant bus in the Tyne and Wear Area or such Council Area.
- 7.2 The Parties acknowledge and agree that changes to fare levels, fare products and fare zone boundaries following the Commencement Date will be covered by the Change Management Process set out at clause 12 and in respect of such changes, Nexus shall use all reasonable endeavours to seek to ensure that such changes, including increases in fares which may lead to a decrease in Accessibility, take into account the benefit and detriment of such changes to all users of such Services.
- 7.3 Nexus shall ensure that all QCS Services shall be implemented (save in the case of emergency) using vehicles that are equipped with smart ticket machines using the ITSO standard and accept smart ticket products using the NESTI infrastructure.

## **8. FUNDING**

- 8.1 In consideration of the Councils' support of the QCS, performance of its obligations under this Protocol and in particular provision of information in respect of any services deemed to be Affected Services, Nexus shall make any payments agreed or determined in accordance with clause 5.2.9 in accordance with clause 8.2.
- 8.2 Nexus shall make payments Quarterly on the basis of invoices, supported by any reasonable documentation required by Nexus in agreeing the Response to which such payment relates presented Quarterly by the Relevant Council which shall be accurate in all material respects. Nexus shall pay any agreed sums within 28 days of receipt of invoice.
- 8.3 In the event of any Dispute regarding payment, the matter shall be referred to the Dispute Resolution Process.
- 8.4 The Parties acknowledge and agree that payments by Nexus pursuant to this clause 8 shall be without prejudice to any claims or rights which Nexus may have against the Councils and shall not constitute any admission by Nexus as to the quality or accuracy of the information provided by the Councils under this Protocol.
- 8.5 Prior to making any payment under this clause 8, Nexus shall be entitled to make deductions or deferments in respect of any material Disputes or material claims whatsoever with or against the Relevant Council, arising from this Protocol.

---

<sup>1</sup> Reflects delegation to TWSC under NECA Constitution

## **9. CONCESSIONARY TRAVEL**

9.1 The Parties acknowledge that:

9.1.1 customers carrying ENCTS Cards will continue to be accepted onto eligible bus services to travel free of charge;

9.1.2 where a QCS Service operates cross boundary, Nexus will be reimbursed for Concessionary Travel in accordance with the Relevant Council's existing Concessionary Travel reimbursement arrangements, applying the relevant adult fares in place for the relevant period.

9.2 The Relevant Council shall be entitled to determine what enhancements to the ENCTS Scheme are applicable on QCS Services its Council Area subject to ensuring Nexus is reimbursed for such concessionary travel in accordance with the relevant legislation.

9.3 Nexus shall ensure that all ENCTS Card holders resident in the Council Areas will be eligible to purchase a Gold Card on equivalent terms to ENCTS Card holders resident in the Tyne and Wear Area. The Parties acknowledge and agree that no reimbursement will be sought from the Councils for eligible journeys (under the terms of the Gold Card) by holders of the Gold Card that occur outside of the hours stipulated under the ENCTS Scheme.

## **10. THE NETWORK**

10.1 The Parties acknowledge that the cost for any portion of a QCS Service operated in each Council Area will be borne by Nexus and the revenue earned on that portion of the QCS Service will accrue to Nexus, together with any additional financial expenditure which may result, unless the additional expenditure arises from a specific requirement of the Relevant Council that goes beyond the scope of the service that is currently provided.

10.2 The Parties acknowledge and agree that any proposed future network changes in respect of QCS Services will be covered by the Change Management Process set out at clause 12.

## **11. CUSTOMER CHARTER AND STANDARDS**

11.1 Nexus shall ensure that a customer charter will apply to all routes in the QCS Network, setting out the service levels and standards that customers can expect including punctuality, reliability and customer satisfaction. Nexus shall ensure that such standards will be the same across the Tyne and Wear Area.

11.2 Nexus shall seek to implement the customer charter in the Council Areas on QCS Services and where possible Nexus shall support any extension of the customer charter to Local Services which are not QCS Services within the Council Areas in collaboration with the Councils.

11.3 Nexus shall ensure that the QCS Services will include a requirement for all vehicles used to be low floor vehicles, save where a specific exemption has been applied or a specialist vehicle type has been specified in the QCS Service.

## **12. CHANGE MANAGEMENT PROCESS**

12.1 Subject to clause 12.2, in the event of a proposed change to a QCS Service the Parties agree that the process set out in the Annual Development Cycle in the QCS shall apply.

- 12.2 Where emergency variations to Local Services and/or fares provided for under the QCS require immediate intervention in order to continue delivering the QCS Service within available resources (including but not limited to major road works, significant Operator performance issues and Force Majeure Events) Nexus shall be entitled to vary Local Services and/or fares as reasonably appropriate in accordance with the Emergency Network Change Procedure in the QCS.
- 12.3 Nexus shall consult the Councils where reasonably possible and when time permits, in the case of such an event as referred to in clause 12.2. If a Council considers (acting reasonably) that Nexus has acted unreasonably when carrying out action referred to in clause 12.2, that Council may refer the matter to the Dispute Resolution Process.

### **13. AUDIT**

- 13.1 The Parties shall keep and maintain until six years after the Protocol has expired, or as long a period as may be agreed between the Parties, full and accurate records relating to the Protocol including:
- 13.1.1 the services provided under it;
  - 13.1.2 all expenditure reimbursed by Nexus and/or the Combined Authority;
  - 13.1.3 all payments made by Nexus and/or the Combined Authority;
  - 13.1.4 details of any agreed Response.
- 13.2 Each Party shall on reasonable request, afford the other Parties or any representative of the other Party such access to those records as may be required in connection with the Protocol.

### **14. VOLUNTARY ENHANCEMENTS BY THE COUNCILS**

- 14.1 The Councils may request enhancements to QCS Services including fares schemes, route extensions, timetable enhancements, or participation in marketing initiatives ("**Enhancements**").
- 14.2 Nexus agrees to work with the Councils in respect of their respective Council Areas to provide such Enhancements to QCS Services, subject always to such Enhancements being provided in a transparent and financially efficient manner.

### **15. INDEMNITY**

- 15.1 Subject to clause 15.2, any Party who is in material breach of any of the provisions of this Protocol shall indemnify and keep indemnified the other Parties from and against all losses, liabilities, expenses and payments resulting from that breach, without prejudice to any other right or remedy of the other Parties howsoever arising.
- 15.2 Neither Party shall be liable to the other in contract, tort (including negligence or breach of statutory duty) misrepresentation or otherwise under or in connection with this Protocol for any of the following losses or damages, whether direct or indirect, and even if such losses and/or damages were foreseen, foreseeable or known, or the relevant Party was advised of the possibility of them in advance:
- 15.2.1 loss of actual or anticipated profits;

- 15.2.2 loss of business opportunity;
- 15.2.3 loss of anticipated savings;
- 15.2.4 loss of goodwill;
- 15.2.5 loss of data; or
- 15.2.6 any indirect, special or consequential loss or damage howsoever caused.

## **16. NOTICES**

- 16.1 Any notice required by this Protocol to be given by any Party to the others shall be in writing and shall be served personally, by sending it by registered post or recorded delivery to the appropriate address notified to each of the others for such purposes and the address for postal or personal service shall be as set out in clause 16.3 as set out on page 1 of this Protocol.
- 16.2 Any notice served personally will be deemed to have been served on the day of delivery; any notice sent by post will be deemed to have been served forty eight (48) hours after it was posted; and any notice sent by email before 5pm will be deemed to have been served on the day of despatch and otherwise on the following day save where the deemed date of service falls on a day other than a Business Day in which case the date of service will be the following Business Day.
- 16.3 The address to be used for the purposes of a notice served under the provisions of clause 16.1 above shall be the address set out on page 1 of this Protocol against that Party or such other address as shall be notified by that Party to all of the other Parties in accordance with clause 16.1.

## **17. DISPUTE RESOLUTION**

- 17.1 If a Dispute arises, the matter shall be referred by any of the Parties to Nexus' Head of Network Planning who shall consider the matter and provide a decision within ten (10) Business Days.
- 17.2 If a Council (acting reasonably) is not satisfied with the decision made by Nexus' Head of Network Planning pursuant to clause 17.1, the matter may be referred by any of the Parties to the Director General of Nexus and the Head of Service of the Relevant Council who shall attempt in good faith to resolve the Dispute.
- 17.3 If attempts pursuant to clause 16.2 to resolve the Dispute are not successful within one (1) month of referral then any of the Parties involved may escalate the Dispute to the Thematic Lead for Transport in the Combined Authority and the Chief Executive of the Relevant Council or equivalent.
- 17.4 If attempts pursuant to clause 17.3 to resolve the Dispute are not successful within one (1) month of referral then any of the Parties involved may escalate the Dispute to the chair of the Tyne and Wear Sub Committee and the relevant portfolio holder of the Relevant Council who shall attempt in good faith to resolve the Dispute.
- 17.5 If attempts pursuant to clause 17.4 to resolve the Dispute are not successful within one (1) month of referral then any of the Parties involved may escalate the Dispute to the Transport North East Committee for resolution.

- 17.6 If attempts pursuant to clause 17.5 to resolve the Dispute are not successful within one (1) month of referral then any of the Parties involved may escalate the Dispute to the North East Leaders Board for resolution.

**18. RELATIONSHIP OF PARTIES**

Nothing in this Protocol, and no action taken by the Parties pursuant to this Protocol, shall constitute, or be deemed to constitute, a partnership between the Parties, or shall constitute either party as the agent, employee or representative of the other.

**19. DATA PROTECTION**

Each Party shall (and shall procure that any of its employees, servants or agents, involved in this Protocol) comply with any requirements under the Data Protection Act 1998.

**20. FREEDOM OF INFORMATION**

- 20.1 The Parties acknowledge that they are each subject to the FOIA and the EIR (the "Acts"). As part of each Party's duties under the Acts, they may be required to disclose information forming part of this Protocol to anyone who makes a reasonable request.

- 20.2 Where a request is received by any of the Parties pursuant to the Acts, the Party receiving the Request ("**Disclosing Party**") shall inform the other Parties of receipt of the request. The other Parties shall be entitled to identify relevant information as confidential and/or commercially sensitive to the Disclosing Party and the Disclosing Party shall allow the other Parties to make representations before the relevant information is released. The Disclosing Party shall give reasonable consideration to any representations made before releasing information.

- 20.3 Each of the Parties shall assist and cooperate with each other to enable any Party to comply with the information disclosure requirements under the Acts and in so doing will comply with any timescale notified to it by the Party subject to the request.

**21. WAIVER**

- 21.1 Failure by any Party at any time to enforce any one or more of the provisions of this Protocol or to require performance by the other Parties of any of the provisions shall not constitute or be construed as a waiver of the provision or of the right at any time subsequently to enforce all terms and conditions of this Protocol nor affect the validity of the Protocol or any part of it or the right of the Parties to enforce any provision in accordance with its terms.

- 21.2 No waiver of any of the provisions of this Protocol shall be effective unless it is expressed to be a waiver in writing and communicated in accordance with clause 16.

**22. FORCE MAJEURE**

No Party shall be liable for failure to perform its obligations under this Protocol if such failure results from a Force Majeure Event for the period in which the Force Majeure Event exists.

**Appendix E: QCS Affordability Analysis**

**A QUALITY CONTRACTS SCHEME**

**IN TYNE AND WEAR –**

**AFFORDABILITY ANALYSIS**

**TYNE AND WEAR PASSENGER TRANSPORT EXECUTIVE (NEXUS)**

**OCTOBER 2014**

## TABLE OF CONTENTS

1.	INTRODUCTION .....	4
1.1	Background .....	4
1.2	Bus Operator Profitability in Tyne and Wear .....	4
2.	THE AFFORDABILITY MODELLING .....	9
2.1	The “Do Minimum” Model .....	9
2.2	The “Do Something” Model .....	11
2.3	The “Do Voluntary Partnership Agreement” Model .....	11
3.	AFFORDABILITY MODEL INPUTS .....	13
3.1	Network Resource Levels .....	13
3.2	Network Costs .....	14
3.3	Patronage and Demand Levels .....	14
3.4	Farebox Revenue and Fare Increases .....	15
3.5	Additional Costs of the QCS .....	15
3.6	Additional Costs of the QCS – Employees .....	17
3.7	Other Modelling Adjustments .....	18
3.8	Inflation Assumptions .....	18
3.9	Soft Measures .....	19
3.10	The QCS Fares and Ticketing Proposal .....	19
3.11	Risk Contingency .....	20
4.	SERVICE LEVELS IN DO MINIMUM AND DO VPA MODELS .....	22
4.1	Do Minimum Funding Levels .....	22
4.2	Do VPA Funding Levels .....	24
5.	OVERVIEW OF THE QCS SCHEME COSTS AND REVENUES .....	24
5.1	Revenues and Funding .....	24

5.2 Scheme Surplus / Deficit..... 24

## 1. **INTRODUCTION**

### 1.1 **Background**

1.1.1 Nexus has analysed the current Tyne and Wear bus network and forecast the anticipated “Do Minimum” scenario which would transpire should there be no intervention. Following on from this assessment Nexus has consulted on proposals to introduce a Quality Contracts Scheme (referred to for the purposes of this analysis as the “Do Something” scenario) which would require Operators to tender for the ability to operate buses within the Scheme area. These proposals have been refined following Informal Stakeholder Engagement, Statutory and Supplemental Consultation and the final Nexus Affordability Model is described within this document.

1.1.2 The North East Bus Operators Association (NEBOA) has provided a proposal for a Voluntary Partnership Agreement (VPA) which has been considered and evaluated alongside the QCS, and is represented within the affordability analysis by the “Do VPA” scenario.

### 1.2 **Bus Operator Profitability in Tyne and Wear**

1.2.1 The statutory annual accounts for the 2012/13 period indicate that an average of 14% Earnings Before Interest and Tax (EBIT) margin has been earned by the three large incumbent Tyne and Wear Operators. This is consistent with operating margins that have been attained since 2009/10. In assessing the level of operating profits, Nexus has made assumptions about the proportion of activities within the QCS Area of each of the three large incumbent bus operators in Tyne and Wear, namely Stagecoach, Go North East and Arriva. Whilst Stagecoach (operating in Tyne and Wear as Busways) conducts all of its operations in the intended QCS Area, Nexus has made adjustments for Go North East and Arriva respectively using Continuous Monitoring Survey data (see paragraph 1.2.7 below) which provides statistically robust annual estimates of passenger demand and revenue on a Tyne and Wear basis, taking

into account passenger boardings within Tyne and Wear as a proportion of total boardings across the wider company structure.

1.2.2 The current level of EBIT margin is not equal between the Operators, with Stagecoach historically, i.e. since 2009/10, earning above 22% each year, Go North East earning circa 9% and Arriva approximately 3%.

1.2.3 Under a QCS Nexus has assumed an average EBIT margin of 8% would be paid on Quality Contracts. This value is considered reasonable based on analysis of similar regulated markets in London and Europe, although Nexus recognises that the actual value will depend on a range of factors including the commercial strategies to be adopted by bidders.

#### **Introduction to Modelling Process**

1.2.4 Nexus has developed three versions of its Affordability Model (Do Minimum, Do Something and Do VPA) each of which has been built using an adapted version of the National Bus Model (NBM) as a framework. This is discussed in the Public Interest Test report at section 1.6.

1.2.5 The Nexus Affordability Models are a spread sheet based, demand model that is populated with relevant variables from sources such as Continuous Monitoring Survey data and published operator accounts including patronage, sales, fares and revenue. It is designed to calculate the market impact on both demand and revenue resulting from possible changes to fare structures and pricing strategies, demographics and other modelled factors. The process of accounting for, and projecting, changes in passenger demand is based on the Black Book elasticities. The Black Book elasticities are used by the DfT and across the transport industry and are a key feature of some of the established transport models including the NBM and the PTEG Metropolitan Bus Model. The inputs into the Nexus Affordability Models are discussed in detail within section 3 to this document.

- 1.2.6 The Nexus Affordability Models have been developed by Nexus with advice from Steer Davies Gleave (SDG), particularly in respect of its integration with the Value for Money Assessment, and has been quality assured externally by Systra (formerly MVA). During the Statutory Consultation the Nexus Affordability Models were specifically made available to statutory consultees e.g. incumbent bus operators and other key stakeholders e.g. local authorities within Tyne and Wear as well as being publically available via the Nexus website and feedback from Consultation responses has been used to inform an update of the Affordability Models.
- 1.2.7 As outlined in paragraph 1.2.1, the Affordability Models use data derived from Nexus' Continuous Monitoring Surveys. The survey methodology was established and subsequently reviewed in partnership by Nexus and the University of Southampton's Statistical Social Sciences Institute. The survey provides annual estimates of passenger demand and revenue on a Tyne and Wear basis. The survey methodology was originally developed in 1986 and has evolved as required since then. The accuracy of the passenger estimates is audited regularly by the University of Southampton to validate the accuracy of Concessionary Travel, multi-mode season ticket patronage and total patronage.
- 1.2.8 Nexus' Continuous Monitoring staff conduct face to face interviews on bus services, recording passenger journey information, including boarding and alighting points, ticket type and fares paid for journeys. Over 400,000 bus passengers are surveyed per annum, on board more than 20,000 bus journeys. The survey data is scaled up to match farebox revenue or operated mileage declarations, as provided by the Operators on a periodic basis. This ensures that the data provides statistically robust estimates for all categories of fare paying and concessionary passengers.

## **Affordability – Estimate of Revenues and Turnover**

- 1.2.9 The data from Continuous Monitoring surveys has been used to establish the base patronage figures for the existing bus network. The Nexus Affordability Models incorporate various independently validated assumptions relating to service and demand elasticities which are used to forecast changes in patronage and fare revenue for the period up to the end of the proposed QCS.
- 1.2.10 Nexus requested detailed cost and revenue information from all Operators (letter dated 24 May 2012), however it has only been provided with high level figures from one Operator and the level of detail requested has not been provided by any Operator to date.
- 1.2.11 Annual revenue for the QCS has therefore been estimated using passenger numbers and average fares derived from Nexus Continuous Monitoring surveys conducted throughout 2012/13 and 2013/14.
- 1.2.12 The estimated revenue figures derived from Continuous Monitoring surveys were then validated against a separate approach which added actual revenues stated in the published annual accounts for the three main Operators to actual figures from Nexus' annual accounts in respect of Secured Bus Services. The validation exercise showed that the results from the two different approaches were comparable after taking into account the proportion of activities conducted by the individual Operators as explained in paragraph 1.2.1. This provided Nexus with extra confidence in the revenue figures it had derived from Continuous Monitoring Surveys.
- 1.2.13 The annual turnover of the Tyne and Wear bus market is therefore approximately £150m inclusive of public subsidy (excluding BSOG).

### **Affordability – Estimates of Expenditure**

- 1.2.14 Nexus also requested information regarding expenditure from the Tyne and Wear Operators within the letter dated 24 May 2012 but no information was provided. Therefore, similar to the methodology Nexus adopted to reconcile the revenue, two separate approaches were carried out to determine estimated bus operating costs on the basis of a cost per operating hour and an annual cost of Peak Vehicle Requirement (PVR), the two principal cost variants.
- 1.2.15 The first approach uses assumed or known operating costs adjusted for Tyne and Wear characteristics, such as driver pay rates, fuel and maintenance costs. These were then aggregated to provide overall hourly operating costs and an annual vehicle running cost for various types of vehicles.
- 1.2.16 The alternative approach considered actual costs stated in the published annual accounts for the three main Operators for the last available three financial years.
- 1.2.17 A validation exercise was then carried out by looking at the derived costs in order to determine whether there was any difference in the overall costs of the existing network. The reconciliation showed that the two approaches in relation to costs were within approximately 2% of each other. This was considered to be within acceptable tolerance margins to accept either method of derivation.
- 1.2.18 Nexus considered that the best approach to take forward was the one using industry costs, as these can more accurately estimate variations in cost for different vehicle types. The alternative approach of considering information from Operator accounts reflects variation in costs by individual Operator, but can only provide an average cost across all vehicle types.

### **Applicability to Public Interest Criterion (d)**

- 1.2.19 The outputs of the Nexus Affordability Models inform the Value for Money analysis which is discussed within Criterion (d) of the Public Interest Test. The

Models can also be used to compare the effect on service provision, patronage and public sector support required in each scenario. Many of these effects are incorporated into Nexus' analysis of Criterion (d) within the Public Interest Test report.

### **Linkages to the Spreadsheet Analysis**

1.2.20 The remainder of this document will explain the logic behind the inputs within the three scenarios of the Nexus Affordability Models. In doing so the processes that are undertaken to convert the inputs into the outputs will also be discussed.

## **2. THE AFFORDABILITY MODELLING**

### **2.1 The "Do Minimum" Model**

2.1.1 The Do Minimum model acknowledges that Operators will continue to operate commercial bus services within the QCS Area<sup>1</sup>. Clearly there may be changes in the parts of the bus network that are 'out of scope' for the QCS that may affect bus patronage and public funding. However it is only the QCS Area that will be directly affected by the QCS, and Nexus has therefore confined its modelling to 'in scope' services in order to maintain comparability between the Do Minimum and Do Something scenarios.

2.1.2 Nexus currently supplements the existing network with payments to Operators for Secured Bus Services which are either classified as "Minimum Cost" (where Nexus receives fare revenues), or "Minimum Subsidy" (where Nexus pays a subsidy towards the cost of operating the service, but the Operator retains the

---

<sup>1</sup> The Scheme area is not equal to the Tyne and Wear network, as approximately 11.4% of services (measured in terms of bus operating hours) in the current Tyne and Wear network are considered "out of scope" of the QCS area.

fare revenue). The annual gross cost of providing these services is £15.6m at 2014/15 levels.

2.1.3 Nexus is required by statute to reimburse operators on a “no better, no worse” basis for the carriage of ENCTS pass holders. Nexus also reimburses Operators for certain local discretionary concessions, such as the child scheme, in which reimbursement is provided for that revenue which has been lost through participation in the Scheme. The payments that Nexus makes to Operators for the reimbursement of ENCTS and other discretionary elements of its concessionary travel schemes is £40.6m at 2014/15 levels.

2.1.4 Since the ENCTS reimbursement is directly affected by changes in commercial fares which have historically increased each year above inflation, all other things being equal it has been assumed that Nexus will be liable for an increasing reimbursement each year. Therefore, assuming that the level of funding available to Nexus to support bus services is maintained at existing levels, the available funding for discretionary schemes (including child fare concessions, miscellaneous works and Secured Bus Services) will reduce each year. Please see the Public Interest Test Report, sections 1.4.3 – 1.4.6 for an explanation of Nexus’ assumption regarding available funding.

2.1.5 Accessibility and patronage levels are expected to fall substantially by the end of the 10 year period which has been modelled. This is a direct result of above inflation fare increases and reducing Secured Bus Services. Furthermore, there will be a need for the North East Combined Authority (NECA) to identify further resource in order to fund the statutory ENCTS reimbursement above the existing level of support for bus services within Tyne and Wear.

## 2.2 **The “Do Something” Model**

- 2.2.1 The Do Something Affordability Model uses the November 2012 network and a base year of 2012/13<sup>2</sup> for costs and revenues, updated to reflect indexation assumptions. It assumes an implementation date of April 2017. The 2016/17 year (also called Year 0 in the Affordability Model) acknowledges the transition from the Tyne and Wear network to the QCS network by removing the excluded services which represents 11.4% of bus operating hours and Peak Vehicle Requirement (PVR). The QCS resource requirement is discussed further in section 3.1.
- 2.2.2 Up until the QCS implementation date, i.e. during Year 0, the Do Minimum and Do Something models use the same inputs so that a ‘like for like’ comparison across the 10 years of either ‘Do Minimum’ or ‘Do Something’ can be made.
- 2.2.3 The QCS modelling shows revenues of £1.9m in excess of costs across the 10 year life of the QCS (allowing for the use of an £80.1m risk contingency in full). The risk contingency is discussed in section 3.11.

## 2.3 **The “Do Voluntary Partnership Agreement” Model**

- 2.3.1 NEBOA submitted its “best and final” VPA proposal on 22 May 2014. This proposal is discussed in detail within section 6.5 of the Public Interest Test report.
- 2.3.2 Nexus believes that Operators intend for the VPA to be implemented at the start of the financial year 2015/16. This has been reflected within the Do VPA Affordability Model. However, in order to compare the VPA against the Do Minimum scenario and for consistency when comparing the Do Minimum to Do Something, the years 2017/18 to 2026/27 are considered. This means that

---

<sup>2</sup> The base year of 2012/13 reconciles using both approaches to estimating costs and revenues

whilst the maximum length of the VPA is 10 years, its benefits are modelled over 12 years in order for all three scenarios to be compared over the same ten-year period.

- 2.3.3 Due to the requirements of VPA Proposal in respect of statutory ENCTS reimbursement, the level of reimbursement has been modelled to increase in line with RPI. Nexus notes that this deviates from the reimbursement principles of 'no better no worse' but has modelled the VPA on this basis as it reflects the Operators proposals. The impact of this is to increase the ENCTS reimbursement to Operators above the forecast modelled within the Do Minimum. Furthermore, this increased reimbursement is in excess of the level of savings achieved through the VPA prior to 2017/18, i.e. the implementation date of the QCS.
- 2.3.4 Therefore the VPA is expected to increase the assumed level of public sector funding required for bus services in Tyne and Wear in both 2015/16 and 2016/17 when compared to both the Do Minimum and Do Something scenarios. As a consequence the VPA has been modelled with a commensurate reduction in discretionary bus service expenditure over this period, in order to maintain the level of public sector support for buses at the same quantum as the Do Something and Do Minimum Affordability Models.
- 2.3.5 A VPA which follows the ENCTS principles of 'no better no worse' would still require discretionary service reductions but not until 2017/18 in line with the Do Minimum scenario.
- 2.3.6 The deliverables of the VPA are discussed in detail within section 6.5 of the Public Interest Test report along with reasoning behind the likelihood of them occurring. The main components of the VPA which differentiate it from the Do Minimum scenario are as follows:
  - (a) 2015/16 start date

- (b) Annual ENCTS reimbursement uplift at RPI
- (c) Agreed service actions providing annual savings to Nexus totalling £427k
- (d) Spend reduction target (and therefore annual savings to Nexus) of £1,572k
- (e) The introduction of no fewer than 50 vehicles in 'Kickstart' initiatives
- (f) Soft measures (Customer Charter)
- (g) Enhanced fares proposal

### 3. **AFFORDABILITY MODEL INPUTS**

#### 3.1 **Network Resource Levels**

- 3.1.1 Network resource levels within the QCS Area have been calculated using bus timetables and operator fleet information to determine the PVR and the bus operating hours per annum.
- 3.1.2 There is a PVR of 831 (as at November 2012) required to deliver the QCS network operating for approximately 3.651 million hours per annum. These resources are assumed to remain constant throughout Do Something, representing the stability in the network, whilst in the Do Minimum and the Do VPA the network is reduced in line with the decreasing amount of available discretionary public funding to reflect the anticipate withdrawal of Secured Bus Services.
- 3.1.3 Miscellaneous Works and Scholars' services are not included in the figures described in 3.1.2 above as the costs have not been calculated using derived unit rates, but instead derived from the expenditure by Nexus on such services. This approach is described in section 3.2.2. There is a PVR of 95 relating to Miscellaneous Works and Scholars' services which operate for approximately 0.134 million hours per annum. A lower average operating hours per service is representative of the nature of the Miscellaneous Works which are

predominantly Scholars' services and therefore restricted to short journeys at peak times. These services are also subject to withdrawal from the Do Minimum and VPA networks as available funding reduces, as explained in 3.1.2.

### 3.2 **Network Costs**

3.2.1 The network costs relating to commercial services are based on the derived unit costs described in Section 1.2.15 above. These unit costs are inflated using a "blended inflation" rate derived from appropriate indices to calculate the expected unit costs by the QCS start date. Blended inflation is detailed within section 3.8.

3.2.2 The network costs relating to Miscellaneous Works and scholars services are based on known costs currently incurred by Nexus in providing these services.

### 3.3 **Patronage and Demand Levels**

3.3.1 Patronage levels have been provided from Nexus' Continuous Monitoring Surveys, the methodology has been outlined in 1.2.8 above.

3.3.2 Within all Affordability Models Nexus has assumed that ENCTS patronage is static at current levels. In the Do Minimum model a reduction in services results in a reduction in fare paying passengers through a service elasticity value. This service elasticity is not applicable to non-fare paying passengers (concessionary passengers) as their behaviour is not expected to be in line with fare paying passengers and they would be less reactive to service changes. As a result Nexus has not changed the ENCTS patronage level although in practice there could be a reduction, if operators respond to declining commercial patronage by withdrawing poorly-performing services. Although such a reduction of services may affect this passenger group, Nexus has no information on which to base any assumptions. It therefore considers this assumption to be reasonable.

### 3.4 **Farebox Revenue and Fare Increases**

- 3.4.1 As previously highlighted in paragraph 1.2.17, Nexus has reconciled farebox revenue within Operator accounts to its own estimates based on Continuous Monitoring Surveys.
- 3.4.2 The level of fare increases which Nexus has assumed will occur in the Do Minimum and Do VPA are different to the level of fare increase proposed in the QCS. The QCS will limit fare increases to RPI throughout the ten-year period, which has a neutral effect on patronage.
- 3.4.3 Nexus, following Consultation feedback, has modelled fare increases in Do Minimum and Do VPA at the level of 'bus costs +2%'. As the forecast level of 'bus costs +2%' is above the level of RPI, patronage reduces due to the impact on passenger demand of fare increases each year during the Do Minimum and Do VPA.
- 3.4.4 The assumed average concessionary fare<sup>3</sup> used to inform ENCTS reimbursement has been modelled to increase in line with "bus costs +1%" (where 1% represents half of the 2% increase above bus costs used in determining fare increases in Do Minimum and Do VPA). This is considered reasonable as the increase in average concessionary fare is lower than for commercial fares due to the impact on generation factors as fares increase.

### 3.5 **Additional Costs of the QCS**

- 3.5.1 There are additional costs which will arise from the introduction of the QCS which are not included within the Do Minimum scenario. These are summarised below:
- 

<sup>3</sup> Assumed average concessionary fare is calculated as the total value of concessionary travel reimbursement paid per concessionary passenger. As no fare is paid by elderly and disabled passengers this is for modelling purposes only.

- (a) Additional Employees – Nexus estimates that it will require an additional 13 members of staff in order to carry out the additional duties required under a QCS. Following a review of current resource within Nexus, this is considered sufficient.
- (b) Smart Ticketing – a QCS would require modifications to be made to system software to take account of the changes to existing fares on bus and Metro. This cost is estimated at £840k and will be a one-off cost.
- (c) Passenger Focus – additional costs would be incurred due to the increased engagement via the proposed User Consultation Forum.
- (d) Performance Regime – Nexus would seek to implement a financially neutral performance regime which incentivises operators to carry out duties to a high quality whilst rewarding them for good performance and behaviours.
- (e) Marketing and Branding – current levels of expenditure on marketing are included within the derived unit costs. However, Nexus proposes to increase marketing expenditure in order to reduce the risk of fare revenue falling short of expectations.
- (f) Vehicle standards - the revised specification reduces the burden on operators to comply with Euro V emission standards at the start of the QCS. This in turn reduces the initial investment required by the successful operator(s) in order to meet the Euro V criteria. Nexus has used publicly available information to assess the current fleet profile within Tyne and Wear and has modelled the level of additional investment from this base position which may be required to meet emissions standards criteria on day one of the contract.
- (g) Bus Rebranding - within the revised vehicle specification the operators are required to have rebranded 50% of their fleet prior to commencing operations on day 1 of the QCS. The remaining 50% will need to be completed by the second anniversary of the Quality Contract.

### 3.6 Additional Costs of the QCS – Employees

3.6.1 Nexus has included the following additional employee costs within the QCS Affordability Model:

- (a) Nexus intends to request that bidders for Quality Contracts consider a Basic Hourly Rate (BHR) for drivers which will be set at £9.50 at 2016/17 prices. Nexus has allowed for the additional cost of the BHR through uplifting the existing applicable employees' wages to the rate using the Workforce Information which has been provided by the Operators (dated 30 September 2013). This has been assumed to grow in line with wage inflation detailed within the Affordability Model.
- (b) Nexus intends to request that bidders for Quality Contracts consider payment, as a minimum, at the national Living Wage for all non-driving employees (excluding Apprentices). Nexus has allowed for the additional cost of the Living Wage through uplifting the existing applicable employees' wages to the rate using the Workforce Information which has been provided by the Operators (dated 30 September 2013). This has been assumed to grow in line with wage inflation detailed within the Affordability Model.
- (c) Nexus intends to require that bidders for Quality Contracts do not make compulsorily redundant any member of staff who is engaged on Quality Contract services for 2 years from the QCS Commencement Date. Nexus has allowed for the anticipated cost of this through quantifying the value of payments to employees who may be surplus to delivery requirements on particular contracts where the Workforce Information has indicated that this may be the case. The effect of staff turnover has also been taken into account.
- (d) A two year provision has been made for a travel allowance to be applied to a proportion of employees who may be required to change their place of work as a result of the implementation of the QCS.

### 3.7 Other Modelling Adjustments

- (a) The QCS no longer contains an intention to uplift the network by an additional 18 vehicles, which had been the case in the original QCS Proposal. No patronage benefit had been attached to this resource in any event.

### 3.8 Inflation Assumptions

3.8.1 Contract payments under Quality Contracts will be inflated annually using relevant cost indices which relate to the categories of expenditure that Operators typically incur. This is represented by the forecast blended inflation used within the Affordability Models.

3.8.2 The blended inflation rate uses reputable forecasts of inflation from the Centre for Economic and Business Research (CEBR)<sup>4</sup> for different categories of costs identified in the Affordability Model<sup>5</sup>. The percentage ascribed to each particular category of cost within the Affordability Model(s) has been derived from the average of the last four available Confederation of Passenger Transport (CPT) indices (for the six months ending 30 June 2012, 31 December 2012, 30 June 2013 and 31 December 2013). This is illustrated in the table below:-

Cost Element	Weighting	Index
Drivers' Wages and On Costs	44%	AWE
Other Labour and Staff Costs	15%	AWE
Insurance and Claims	3%	CPI
Fuel	16%	DECC
Maintenance Materials	4%	CPI
Depreciation and Leasing	6%	CPI
Other Operating Costs	12%	CPI
<b>TOTAL</b>	<b>100%</b>	-

---

<sup>4</sup> These are 10 year forecasts provided to the Association of Train Operating Companies (ATOC) by the CEBR.

<sup>5</sup> For average earnings Nexus has used the ONS index KAB9, for fuel Nexus has used the DECC index K646 and for operator costs Nexus has used CPI

### 3.9 **Soft Measures**

3.9.1 Nexus has given credit to both the QCS and VPA proposals in terms of increasing demand for services from the use of “soft measures”. Please see the Public Interest Test Report, sections 1.6.2 (g) and (h), for an explanation of the treatment of soft measures within the affordability modelling. Within the QCS Nexus has applied a demand uplift resulting from the introduction of a Customer Charter and simplified ticketing, whilst the VPA proposal benefits from the same Customer Charter uplift, but not from a simplified ticketing uplift since simplified ticketing is not offered by the VPA.

3.9.2 Furthermore, NEBOA has stated in correspondence that the revised fares proposal (especially regarding 16-18 year olds) within the VPA will attract approximately 525,000 additional patronage per annum compared to the Do Minimum. Although Nexus does not have access to the calculation behind this statement and therefore cannot validate it, nevertheless it has been incorporated within the Do VPA model by reducing the average commercial fare by the amount required to generate such additional demand.

### 3.10 **The QCS Fares and Ticketing Proposal**

3.10.1 Nexus has developed a separate Fares and Ticketing Model which has been used to determine the effects on patronage and farebox revenue from variations to fares under a QCS.

3.10.2 A simplified fares proposal for all of the QCS Area, which is inclusive of Bus, Metro and Ferry operations, has been modelled against the current journey data collected through Continuous Monitoring Surveys. The Fares and Ticketing Model estimates that the fare proposal would result in reduced farebox revenue of £1.092m per annum in Tyne and Wear due to average fares being lower than the current market. This has been reflected in the Do Something model.

### 3.11 Risk Contingency

3.11.1 To mitigate any financial pressures that might arise, Nexus has included a risk contingency of £80.1m which has been externally validated by SDG as being a reasonable provision following a risk simulation exercise which has concluded that there is an 80% probability that the contingency will not be fully utilised.

3.11.2 The contingency represents 6.5% of total farebox revenue as per the table below:

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	TOTAL
Risk Contingency (£k)	10,650	8,386	5,747	5,911	6,073	6,239	6,411	6,587	10,152	13,909	80,065
As %age of Farebox	10.0%	7.5%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	7.5%	10.0%	6.5%

3.11.3 The proportion changes in years 1 and 2, and again in years 9 and 10 to cover transitional risks. An extensive risk assessment is performed as part of the value for money analysis as demonstrated in the Criterion (d) of the Public Interest Test

3.11.4 The four main categories of risk are:

- (a) Fare revenue: due to the lack of any information being provided by existing Operators the fare revenue is estimated as described in 1.2.10 and 1.2.11 above. This carries risk to the QCS and a contingency of £47.0m has been provided. This represents the initial fare revenue being incorrect by 4% and continuing at this level for the duration of the QCS.
- (b) Inflation: the QCS contains inflation forecasts provided for ATOC (the Association of Train Operating Companies) members by the CEBR (Centre for Economics and Business Research). The forecasts used within the model were provided in June 2014. Nexus has allocated £25.5m across the QCS to cater for variance to these forecasts which represents the risk contingency

that would be required should blended inflation be equal to the level of RPI in each financial year.

- (c) Employees: Nexus has included provision for transition risk from awarding Quality Contracts, although the effect on employees of the Scheme is likely to be less than previously estimated due to the developments in the procurement strategy. Nexus has included a contingency of £2.7m for this risk.
- (d) Cross boundary: Due to concerns that the QCS will leave some out of scope routes uneconomic, and therefore reduced or cancelled, Nexus has allocated £5.0m to cater for the risk of providing stability to services in Durham and Northumberland from the consequences of the award of quality contracts in their area. The Cross-Boundary Collaboration Protocol details the methodology by which out of scope the services are protected.

3.11.5 As stated in paragraph 3.11.1 above, an independent assessment has commented favourably in regard to the size and appropriateness of the risk contingency. However, in the event that all financial risks crystallised to the extent that the risk contingency was not sufficient, and because the QCS requires that fare increases will be limited to no more than RPI (taken as a weighted average across all fares), Nexus will be required to manage these risks on behalf of the NECA. In doing so it may request that NECA considers any reasonable adjustment to the QCS network in order to remain within the resources that the NECA makes available or to request such additional resources as may be necessary to maintain services.

#### 4. SERVICE LEVELS IN DO MINIMUM AND DO VPA MODELS

##### 4.1 Do Minimum Funding Levels

- 4.1.1 Nexus forecasts that commercial fares in the Do Minimum will continue to increase at a rate of 'bus costs +2%'. As a result, the notional concessionary fare used in the revenue forgone calculations is forecast to increase at 'bus costs +1%', as detailed in section 3.4.4 above.
- 4.1.2 The increase in the notional concessionary fare in the Do Minimum and Do VPA results (all other things being equal)<sup>6</sup> in an increase in the reimbursement levels which Nexus is statutorily required to pay to operators under the Concessionary Travel principle that the operators and Travel Concession Authority should be "no better, no worse off" as a result of the Scheme.
- 4.1.3 The Affordability Models assume that the resources available to Nexus to spend on bus services will remain at existing levels (in cash terms) for the duration of the QCS. Please see the Public Interest Test Report, sections 1.4.3 – 1.4.6 for an explanation of Nexus' assumption regarding available funding. This implies that as the level of expenditure allocated to the statutory ENCTS increases, less will be available to fund the discretionary elements of current expenditure described in Section 2.1 above. This will lead to a necessary reduction in Secured Bus Services and discretionary fare schemes which provide the network and accessibility observed today.
- 4.1.4 Any decision regarding where budget cuts would fall would require consideration and approval by the NECA before being put into effect. However in order to model the effect of insufficient funding being available to provide

---

<sup>6</sup> The other major component of the ENCTS reimbursement calculation is passenger numbers which in each financial model are forecast to remain static which is viewed as a prudent assumption given demographic changes and demand for the concession. Refer to section 3.3 above.

the current range of services, Nexus has made various assumptions. The Affordability Model therefore applies reductions in the following order:

- Child CT scheme
- Secured bus services (except Miscellaneous Workings)
- Miscellaneous Workings (including Scholars' Services)

4.1.5 The existing levels of resource are adjusted to take into account the ENCTS reimbursement payable to excluded service providers prior to the above reductions.

4.1.6 The consequence of applying the service reductions as set out in paragraph 4.1.4 are explained below:

- (a) Service levels are maintained in the Do Minimum until 2017/18 in line with the QCS model, and as detailed in section 2.2.
- (b) The child concessionary travel scheme is removed in full in 2017/18 (Year 1)
- (c) Secured Bus Services (except for Miscellaneous Workings) are completely removed by the end of 2022/23 (Year 6)
- (d) All Miscellaneous Works (including Scholars' Services) are removed by the end of 2024/25 (Year 8)
- (e) There is an increase in the ENCTS above the existing level of resource available of £0.2m in 2025/26 (year 9), and of £2.3m in 2026/27 (year 10).

4.1.7 Whilst the Do Minimum shows a reduction in both patronage and network accessibility, the profit margin earned by the operators is expected to increase. This is because, despite services reducing, the additional revenue from higher fares paid by the remaining passengers is greater than the lost revenue from the passengers that no longer travel. The profit margins rise to a maximum of

18.5% under the Do Minimum scenario (17% on average across the ten-year period), which is above the average assumed margin of 14% currently.

#### 4.2 **Do VPA Funding Levels**

4.2.1 As the VPA offers, in theory, a £2m per annum saving in Nexus' Secured Bus Service expenditure (paragraphs 2.3.6 (c) and (d) refer) by converting specific Secured Bus Services into commercial services, the VPA Model has a larger network (in terms of bus hours operated) when compared over time against the Do Minimum Scenario. However, all discretionary expenditure is still redirected into funding ENCTS reimbursement by the end of 2024/25 (year 10 of the VPA assuming a start date of 2015/16).

### 5. **OVERVIEW OF THE QCS SCHEME COSTS AND REVENUES**

#### 5.1 **Revenues and Funding**

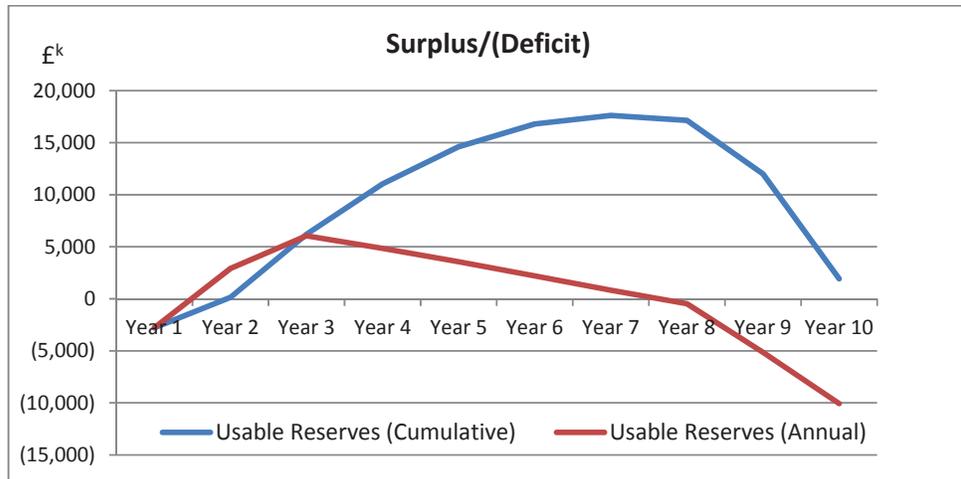
5.1.1 Revenues of the QCS are split into two separate areas.

(a) Nexus has estimated the farebox revenue that will be earned through the QCS in each year. The figure is impacted by the demand inputs discussed above and represents the main source of income.

(b) Within the QCS, although the statutory duty to carry ENCTS pass holders free of charge remains, the duty to reimburse Operators under the ENCTS would not apply (note that Nexus does however intend to track notional ENCTS reimbursement in order to be able to articulate to government the cost of the ENCTS scheme). Therefore all local public support (paid through the Tyne and Wear levy) would be used to partially fund the cost of the Quality Contracts.

#### 5.2 **Scheme Surplus / Deficit**

5.2.1 The chart below forecasts that the QCS is affordable over the 10 year period from 2017/18 to 2026/27.



5.2.2 The QCS is expected to be in deficit in 2017/18 (year 1) as a result of the high level of contingency set aside to cover transitional costs in Year 1. Following this first year deficit the QCS returns surpluses until 2024/25 (year 8), by which time increased risk contingencies lead to predicted deficits. The QCS is forecast to deliver a modest accumulated surplus of £1.9m over its life, assuming that the £80.1m risk contingency is utilised in full.

**Appendix F: BSDP Consultation Report**

BUS STRATEGY DELIVERY PROJECT

CONSULTATION REPORT

TYNE AND WEAR PASSENGER TRANSPORT EXECUTIVE (NEXUS)

OCTOBER 2014

Blank page

## TABLE OF CONTENTS

<b>1. EXECUTIVE SUMMARY</b> .....	<b>1</b>
<b>1.1 Introduction</b> .....	<b>1</b>
<b>1.2 The Consultation Process</b> .....	<b>2</b>
<b>1.3 Consultation Feedback</b> .....	<b>3</b>
<b>1.4 Consultation Analysis</b> .....	<b>3</b>
<b>1.5 Voluntary Partnership</b> .....	<b>5</b>
<b>1.6 Conclusion</b> .....	<b>5</b>
<b>2. PURPOSE OF THIS DOCUMENT</b> .....	<b>7</b>
<b>2.1 Introduction</b> .....	<b>7</b>
<b>2.2 Document Structure</b> .....	<b>7</b>
<b>3. BACKGROUND TO THE PROPOSAL</b> .....	<b>9</b>
<b>4. STATUTORY CONSULTATION</b> .....	<b>11</b>
<b>4.1 Introduction</b> .....	<b>11</b>
<b>4.2 Timescales</b> .....	<b>11</b>
<b>4.3 Supplemental Consultation Timescales</b> .....	<b>12</b>
<b>4.4 Literature and Distribution</b> .....	<b>12</b>
<b>4.5 Meetings</b> .....	<b>17</b>
<b>4.6 Requests for Clarification and Further Information</b> .....	<b>17</b>
<b>5. PUBLIC ENGAGEMENT EXERCISE</b> .....	<b>19</b>
<b>5.1 Introduction</b> .....	<b>19</b>
<b>5.2 Literature and Distribution</b> .....	<b>19</b>
<b>5.3 Meetings</b> .....	<b>21</b>
<b>5.4 Social Media</b> .....	<b>21</b>
<b>5.5 Media Coverage</b> .....	<b>23</b>
<b>5.6 Public engagement during Supplemental Consultation</b> .....	<b>23</b>
<b>6. UPDATES TO OTHER ORGANISATIONS OR GROUPS</b> .....	<b>25</b>

6.1	Introduction.....	25
6.2	QCS Board.....	25
6.3	Department for Transport .....	26
7.	<b>TREATMENT OF INFORMATION .....</b>	<b>27</b>
7.1	Confidentiality .....	27
7.2	Freedom of Information .....	28
8.	<b>CONSULTATION FEEDBACK .....</b>	<b>29</b>
9.	<b>CONSULTATION ANALYSIS .....</b>	<b>31</b>
9.1	Introduction.....	31
9.2	<b>Theme 1: Concerns that the legislation has not been complied with .....</b>	<b>33</b>
9.2.1	Introduction .....	33
9.2.2	The issues raised .....	34
9.2.3	Nexus response to the issues raised.....	35
9.2.4	Steps taken to address the issues raised .....	37
9.3	<b>Theme 2: Concerns that the QCS is an inappropriate remedy .....</b>	<b>40</b>
9.3.1	Introduction .....	40
9.3.2	The issues raised .....	41
9.3.3	Nexus response to the issues raised.....	42
9.3.4	Steps taken to address the issues raised .....	46
9.4	<b>Theme 3: Concerns about the Do Minimum Scenario .....</b>	<b>48</b>
9.4.1	Introduction .....	48
9.4.2	The issues raised .....	50
9.4.3	Nexus response to the issues raised.....	51
9.4.4	Steps taken to address the issues raised .....	52
9.5	<b>Theme 4: Concerns that the benefits of the proposed QCS have been overstated or are uncertain .....</b>	<b>53</b>
9.5.1	Introduction .....	53
9.5.2	The issues raised .....	54
9.5.3	Nexus response to the issues raised.....	57

9.5.4	Steps taken to address the issues raised .....	62
<b>9.6</b>	<b>Theme 5: Concerns that the costs of the proposed QCS have been underestimated .....</b>	<b>64</b>
9.6.1	Introduction .....	64
9.6.2	The issues raised .....	64
9.6.3	Nexus response to the issues raised .....	67
9.6.4	Steps taken to address the issues raised .....	71
<b>9.7</b>	<b>Theme 6: Cross boundary concerns .....</b>	<b>73</b>
9.7.1	Introduction .....	73
9.7.2	The issues raised .....	73
9.7.3	Nexus response to the issues raised .....	74
9.7.4	Steps taken to address the issues raised .....	75
<b>9.8</b>	<b>Theme 7: Concerns over employee impacts .....</b>	<b>77</b>
9.8.1	Introduction .....	77
9.8.2	The issues raised .....	77
9.8.3	Nexus response to the issues raised .....	83
9.8.4	Steps taken to address the issues raised .....	89
<b>9.9</b>	<b>Theme 8: Concerns over adverse effects on Operators.....</b>	<b>92</b>
9.9.1	Introduction .....	92
9.9.2	The issues raised .....	93
9.9.3	Nexus response to the issues raised .....	94
9.9.4	Steps taken to address the issues raised .....	95
<b>9.10</b>	<b>Theme 9: Concerns over the modelling approach.....</b>	<b>98</b>
9.10.1	Introduction .....	98
9.10.2	The issues raised .....	99
9.10.3	Nexus response to the issues raised .....	102
9.10.4	Steps taken to address the issues raised .....	103
<b>9.11</b>	<b>Theme 10: The impact on well being .....</b>	<b>107</b>
9.11.1	Introduction .....	107
9.11.2	The issues raised .....	108
9.11.3	Nexus response to the issues raised .....	110
9.11.4	Steps taken to address the issues raised .....	110

<b>9.12</b>	<b>Theme 11: Suggested features and inclusions in the QCS .....</b>	<b>111</b>
9.12.1	Introduction .....	111
9.12.2	The issues raised .....	111
9.12.3	Nexus response to the issues raised.....	113
9.12.4	Steps taken to address the issues raised.....	115
<b>10.</b>	<b>VOLUNTARY PARTNERSHIP AGREEMENT DISCUSSIONS .....</b>	<b>117</b>
<b>11.</b>	<b>CONCLUSION .....</b>	<b>119</b>
<b>APPENDICES.....</b>		<b>121</b>
<b>APPENDIX A - BACKGROUND TO QCS PROPOSAL .....</b>		<b>123</b>
<b>APPENDIX B - DIRECTION AND GUIDANCE TO NEXUS ON CONSULTATION .....</b>		<b>127</b>
<b>APPENDIX C LIST OF STATUTORY CONSULTEES .....</b>		<b>133</b>
<b>APPENDIX D - LETTER FROM QCS BOARD DATED 25<sup>TH</sup> SEPTEMBER 2013.....</b>		<b>135</b>

## **GLOSSARY OF TERMS**

<b>Accessibility</b>	The ability to access points via the public transport network, taking into account walk access time and service availability;
<b>Allocation Arrangements</b>	Allocation arrangements prepared to determine which employees will transfer to which Quality Contracts as set out section 8 of the Quality Contracts Schemes (Application of TUPE) Regulations 2009;
<b>Annual Development Cycle</b>	A formalised process utilised to provide a consistent, open and transparent approach and to ensure that only necessary changes are made to the QCS Network which support the objectives of the QCS as set out in Part 3 of Annex 7 of the Scheme;
<b>BSOG</b>	Bus Service Operators Grant, formerly the Fuel Duty Rebate means the grant paid to Operators of eligible Local Services and community transport organisations to help them recover some of their fuel costs;
<b>Bus Strategy</b>	The bus strategy developed by the former ITA pursuant to section 108 of the Transport Act 2000, as adopted by the Combined Authority that can be found at <a href="http://www.nexus.org.uk/busstrategy">www.nexus.org.uk/busstrategy</a> ;

<b>Bus Strategy Deliverables or Deliverables</b>	<p>The deliverables of the Bus Strategy, being:</p> <ul style="list-style-type: none"> <li>• fully integrated, multi-modal public transport network;</li> <li>• unified and consistent customer offer and guaranteed standards of service;</li> <li>• enhanced consultation on network changes;</li> <li>• all infrastructure is accessible and of a high standard;</li> <li>• adopt Accessibility standards and targets;</li> <li>• common brand and accessible, high quality buses;</li> <li>• integrated network;</li> <li>• affordability for the customer and the taxpayer;</li> <li>• simplified fares and ticketing offer; and</li> <li>• improved environmental standards;</li> </ul>
--	---

<b>Bus Strategy Objectives or Objectives</b>	<p>The objectives of the Bus Strategy, which are to:</p> <ul style="list-style-type: none"> <li>• arrest the decline in bus patronage;</li> <li>• maintain (and preferably grow) Accessibility; and</li> <li>• deliver better value for public money;</li> </ul>
--	--

<b>Combined Authority or NECA</b>	<p>The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority;</p>
-----------------------------------	--

<b>Commercial Bus or Commercial Service</b>	A bus service provided without any subsidy and with no restrictions on fares (excluding Concessionary Travel Scheme fares and the BSOG);
<b>Concessionary Travel Scheme</b>	A travel scheme provided by the Combined Authority or Nexus which sets fares and uses public money to subsidise Concessionary Travel;
<b>Concessionary Travel</b>	The carriage of passengers eligible for concessions (as defined in the Transport Acts of 1985 and 2000);
<b>Concessionary Travel Reimbursement or Statutory Reimbursement</b>	The reimbursement of Operators for transporting passengers eligible for concessions within a defined principal area at a cost below the notified fare (as defined in the Transport Acts of 1985 and 2000), in a given year, with the objective of leaving such Operators no better and no worse as a result of the existence of a Concessionary Travel Scheme;
<b>Consultation</b>	The period during which Nexus consulted with local people, including customers and key stakeholders and which included Informal Stakeholder Engagement, Public Engagement Exercise, Statutory Consultation and Supplemental Consultation;
<b>Cross Boundary Bus Collaboration Protocol</b>	NECA Cross Boundary Bus Collaboration Protocol to mitigate adverse impacts that the QCS may raise in County Durham and Northumberland;
<b>Customer Charter</b>	Sets out the service commitments and performance standards that customers can expect from QCS Services;

<b>Deregulation</b>	The transfer of operation of bus services from public bodies to private companies pursuant to the provisions of the Transport Act 1985, fully effective from October 1986;
<b>DfT</b>	Department for Transport;
<b>Do Minimum Scenario</b>	The business case modelled in which an assessment is made by Nexus regarding the local bus market if no intervention takes place and therefore current trends continue, based on its current knowledge; the course of events that it is considered will transpire if no changes are made to the current way of delivering bus services in Tyne and Wear
<b>Draft VPA</b>	The draft voluntary multi-lateral partnership proposal provided to Nexus by NEBOA on 13 December 2013;
<b>EBIT</b>	Earnings before interest and tax;
<b>ENCTS</b>	The English National Concessionary Travel Scheme introduced in 2001 and extended in April 2008, which obliges LTAs to offer free off-peak travel on eligible local buses for eligible older and disabled people within England;
<b>ETM</b>	Electronic Ticket Machine;
<b>Fare Elasticity</b>	The relationship between the level of demand for bus services and the cost;

<b>Guidance</b>	Statutory guidance issued by the Department for Transport regarding the Local Transport Act 2008 and Quality Contracts Schemes, published December 2009;
<b>Informal Stakeholder Engagement</b>	Process of entering into informal discussions with stakeholders in respect of options for the future delivery of the bus network in Tyne and Wear, undertaken by Nexus between December 2011 and February 2012;
<b>ITA or TWITA</b>	Tyne and Wear Integrated Transport Authority which oversaw the transport system across Tyne and Wear on behalf of the public, and comprised of elected Councillors and expert staff to promote and develop the transport network, which was abolished pursuant to Article 6 of the Order;
<b>ITSO</b>	ITSO Ltd a company limited by guarantee (CRN 04115311) whose registered office is Luminar House, Deltic Avenue, Rooksley, Milton Keynes, MK13 8RW. The specification created by ITSO provides inter-operability for smart ticketing schemes;

<b>Local Bus Boards</b>	Advisory working groups established by the Combined Authority in respect of each of the Tyne and Wear Councils, who are accountable to the Combined Authority and responsible for the network of services operating wholly within each district of Tyne and Wear, whose purpose is to monitor and review the performance of the bus network at a local level, advise the Combined Authority as regards local matters, and develop local approaches to improving bus service delivery including punctuality and reliability in accordance with Part 2 of Annex 7 of the Scheme;
<b>Local Service</b>	Has the same meaning as in Section 2 of the Transport Act 1985;
<b>Local Transport Authority (LTA)</b>	Has the meaning given to it in the Transport Act 2000;
<b>Lot</b>	Each of the 11 Quality Contracts to be procured in Round 1 based around groups of Commercial Services from existing depots in the North East area, and such lots will be determined at the point of QCS adoption;

<b>Low Carbon Emission Buses</b>	Defined by the Government as those buses which produce at least 30% fewer greenhouse gas emissions than the average Euro III equivalent diesel bus of the same total passenger capacity, and the greenhouse gas emissions will be expressed in grams of carbon dioxide equivalent measured over a standard test, and will cover 'well-to-wheel' performance, thereby taking into account both the production of fuel and its consumption on board;
<b>Metro</b>	A light rail rapid transit system operating in Tyne and Wear;
<b>Metro Gold Card</b>	Provides unlimited travel on the Metro, the Shields Ferry and Northern Rail services between Newcastle and Sunderland from 9.30am Monday - Friday and all day at weekends, on public holidays and throughout July and August at a concession for older and disabled people who hold a Concessionary Travel pass;
<b>NEBOA</b>	North East Bus Operators' Association;
<b>NECA or Combined Authority</b>	The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority;
<b>Nexus</b>	An executive body of the Combined Authority, whose office is at Nexus House, St James' Boulevard, Newcastle upon Tyne, NE1 4AX;

<b>Nexus Affordability Model</b>	An excel based financial model which includes a bus patronage forecasting tool whose structure and relationships are based upon the National Bus Model;
<b>Non-Statutory Consultee</b>	A consultee with whom there is no statutory requirement for Nexus to consult under section 125(3) of the Transport Act 2000;
<b>Operator</b>	An operator of buses licensed by the Traffic Commissioner;
<b>Order</b>	The Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland Combined Authority Order 2014;
<b>Original QCS Proposal</b>	The QCS proposal which was the subject of informal dialogue in July 2012;
<b>Peak Vehicle Requirement (PVR)</b>	The total number of buses which is required to operate a full service;
<b>PTE</b>	Passenger Transport Executive;
<b>Public Engagement Exercise</b>	A parallel process to the Statutory Consultation process implemented to raise awareness of the QCS Proposal to the general public;
<b>Public Interest Test</b>	The test (including the five criteria) contained within section 124 of the Transport Act 2000, and as explained in the Guidance for the development of Quality Contracts Schemes;
<b>QCS or Scheme</b>	The Tyne and Wear Quality Contracts Scheme for buses;

<b>QCS Adoption</b>	The decision point at which the Combined Authority formally makes the QCS;
<b>QCS Area</b>	The area of Tyne and Wear that will be covered by the QCS;
<b>QCS Board</b>	Has the meaning given to it in section 126A(1) of the Transport Act 2000;
<b>QCS Commencement</b>	The date from which services operating under and in accordance with Quality Contracts will commence;
<b>QCS Network</b>	The base network to be provided and developed by the Combined Authority under the QCS;
<b>QCS Proposal</b>	The quality contracts scheme proposal in respect of which Statutory Consultation was undertaken;
<b>QCS Services</b>	Local Services provided pursuant to a Quality Contract;
<b>QCS TUPE Regulations</b>	Quality Contracts Schemes (Application of TUPE) Regulations 2009;
<b>Quality Contract</b>	An agreement entered into between Nexus and an Operator pursuant to Article 7 of the Scheme;
<b>Quality Contracts Scheme</b>	A scheme under which a Local Transport Authority, or two or more Local Transport Authorities acting jointly, determine what local bus services should be provided in the QCS Area to which the scheme relates and any additional facilities or services which should be provided in the QCS Area;

<b>Round 1</b>	Quality Contracts for the provision of Local Services with an assumed PVR of between 39 and 128 vehicles each, or such other number of vehicles as Nexus determines;
<b>Round 2</b>	Quality Contracts for the provision of Local Services with an assumed PVR of between 1 and 20 vehicles each, or such other number of vehicles as Nexus determines`;
<b>RPI</b>	Retail Prices Index being the retail prices index for the whole economy of the United Kingdom and for all items as published from time to time by the Office for National Statistics, or if such index shall cease to be published or there is, in the reasonable opinion of the Combined Authority, a material change in the basis of the index or if, at any relevant time, there is a delay in the publication of the index, such other retail prices index as the Combined Authority may determine to be appropriate in the circumstances;
<b>Scheme or QCS</b>	The Tyne and Wear Quality Contracts Scheme for Buses for Tyne and Wear;
<b>Scholars Services</b>	A Local Service providing transport for pupils to and/or from schools within the QCS Area, provided that a Scholars Service may also provide transport to the general public;
<b>Secured Bus Services or Secured Services or Secured Buses</b>	Services partly or fully secured under Transport Act 1968 powers, subject to compliance with the requirements of the Transport Act 1985;

<b>Shields Ferry</b>	Commuter ferry operating a daily passenger service across the River Tyne between North Shields and South Shields, operated by Nexus;
<b>Smartcard</b>	A plastic card, that may or may not contain a photo, which has an embedded microchip to store product and customer information;
<b>Smart Ticketing</b>	The use of a Smartcard or other device that can be read, written to or edited by an ETM, as defined by the ITSO Standard, whereby an entitlement to travel (or ticket) is stored electronically;
<b>Soft Measures</b>	Variables in bus travel that affect the awareness, Accessibility and acceptability of bus services amongst individuals and societal sectors in terms of, for example, passenger information, driver quality and safety;
<b>Statutory Consultation</b>	The period of formal consultation undertaken by Nexus, as directed by the ITA and on the ITA's behalf, between 30 July 2013 and 22 November 2013 and the period of Supplemental Consultation, pursuant to section 125 of the Transport Act 2000;
<b>Statutory Consultee</b>	The persons mentioned in section 125(3) of the Transport Act 2000;
<b>Statutory Notice</b>	The notice to be given pursuant to section 125 of the Transport Act 2000;

<b>Supplemental Consultation</b>	The period of supplemental consultation, which was part of Statutory Consultation, undertaken by Nexus between 9 April 2014 and 4 June 2014, in respect of the quality contracts scheme proposal;
<b>SYSTRA</b>	External consultant, formerly known as MVA Consultancy, engaged by Nexus to provide quality assurance;
<b>TNEC</b>	Transport North East Committee, a joint committee of the constituent councils and the Combined Authority;
<b>Traffic Commissioner</b>	A person appointed by the Secretary of State for Transport pursuant to Section 4 of the Public Passenger Vehicles Act 1981 as traffic commissioner, who is responsible for the licensing and regulation of those who operate heavy goods vehicles, buses and coaches, and the registration of local bus services;
<b>Transport Act 2000</b>	The Transport Act 2000 (as amended by the Local Transport Act 2008)
<b>TUPE</b>	Transfer of Undertakings (Protection of Employment) Regulations 2006 (as amended by the Collective Redundancies and Transfer of Undertakings (Protection of Employment) (Amendment) Regulations 2014);

<b>TWITA or ITA</b>	The Tyne and Wear Integrated Transport Authority which oversaw the transport system across Tyne and Wear on behalf of the public, and comprised of elected Councillors and expert staff to promote and develop the transport network, which was abolished pursuant to Article 6 of the Order;
<b>Tyne and Wear</b>	Area comprising of Gateshead, Newcastle Upon Tyne, North Tyneside, South Tyneside and Sunderland;
<b>Tyne and Wear Council</b>	Each of the councils for the metropolitan district areas of Gateshead, Newcastle Upon Tyne, North Tyneside, South Tyneside and Sunderland;
<b>Voluntary Partnership Agreement or VPA</b>	An agreement between Operators and local authorities relating to the provision of bus services by those Operators to a specified standard, where the local authorities provide facilities or do other things for the benefit of persons using those services;
<b>VPA Proposal</b>	The draft voluntary multi-lateral partnership proposal received from NEBOA on 28 May 2014;
<b>WebTAG</b>	Web-based Transport Analysis Guidance, the DfT's transport appraisal guidance and toolkit, which consists of software tools and guidance on transport modelling and appraisal methods that are applicable for highways and public transport interventions;
<b>Workforce Information</b>	Employee information obtained from Operators following a request under Regulation 5 of the QCS TUPE Regulations;

**3Es**

Economy, efficiency and effectiveness, pursuant to section 124(1)(d) of the Transport Act 2000 .

## 1. EXECUTIVE SUMMARY

### 1.1 Introduction

- 1.1.1 On 24th November 2011, the predecessor body of the NECA for transport matters relating to Tyne and Wear – the TWITA – resolved to consider alternative approaches to the delivery of bus services within Tyne and Wear as a means to deliver the Bus Strategy for Tyne and Wear.
- 1.1.2 The Bus Strategy: Charter for Growth, adopted in March 2009 by the ITA and subject to consultation and refresh in July 2012 sets out the aspiration for bus services in Tyne and Wear. At this meeting, TWITA resolved that Nexus should be directed to investigate the possibility of developing a Quality Contracts Scheme across the region as a possible mechanism for achieving TWITA’s strategic objectives and in parallel engage with Operators to see whether a Voluntary Partnership Agreement could be developed through dialogue that would provide an effective alternative mechanism to a QCS. These two parallel workstreams were taken forward by Nexus through the Bus Strategy Delivery Project. Nexus was directed to report as appropriate to TWITA on the two proposals once developed.
- 1.1.3 In the course of developing a QCS, Nexus sought feedback from Operators and interested parties on a regular basis. Initially, Nexus conducted an Informal Stakeholder Engagement exercise which included a series of meetings with Operators and other interested groups. Based on the results of this process, Nexus completed the development of its Original QCS Proposal in July 2012. In line with Guidance, Nexus determined again to engage in informal dialogue with Operators and other stakeholders to obtain their feedback and this led Nexus to develop the QCS Proposal, dated July 2013.
- 1.1.4 At its meeting on 26th July 2013, TWITA resolved to proceed to Statutory Consultation in relation to the proposed Tyne and Wear Quality Contracts Scheme. This document outlines the Consultation process, the feedback received

from Statutory and Non-Statutory Consultees and others, and what Nexus has done as a result of that feedback.

## 1.2 The Consultation Process

- 1.2.1 Two parallel processes were undertaken: the Statutory Consultation and a Public Engagement Exercise. Both are explained in detail in Sections 1 to 5 of this report.
- 1.2.2 The Statutory Consultation process, designed to comply with section 125 of the Transport Act 2000, provided Consultees (the Statutory Consultees provided for by the Transport Act 2000 plus additional Non-Statutory Consultees directed by TWITA) with a suite of Consultation materials in written form. These materials, along with additional background and supporting information, were also made available to download on a dedicated section of the Nexus website, known as the 'Nexus Consultation website' – see [www.nexus.org.uk/busstrategy](http://www.nexus.org.uk/busstrategy).
- 1.2.3 The Public Engagement Exercise was intended to raise awareness of the QCS Proposal more generally. Using printed and electronic literature, stakeholder and local meetings, social media and media coverage, Nexus sought to engage with stakeholders and the general public to inform them about the broad characteristics of the QCS Proposal, the reasons why it was being proposed and how people could obtain more information and elect to participate in the Consultation process.
- 1.2.4 Nexus established procedures to address requests for clarification, further information and the management of confidentiality. In addition, both prior to and during the Consultation process, Nexus has from time to time considered it appropriate to appraise other bodies, including the QCS Board and the Department for Transport, of relevant matters concerning the development of the QCS.
- 1.2.5 The initial Statutory Consultation period opened on 30th July 2013 and, after an extension, was closed on 22nd November 2013. Following detailed analysis of the Consultation responses, Nexus considered that a limited number of potential

changes to the QCS should be the subject of a period of Supplemental Consultation. This opened on 9th April and closed on 4th June 2014.

### 1.3 Consultation Feedback

- 1.3.1 In the first phase of Consultation, substantial responses were received from 16 Statutory Consultees, including the large bus Operators, the seven districts of the Combined Authority, passenger groups and trade unions. In addition, comments were received from 69 organisations and individuals who were Non-Statutory Consultees.
- 1.3.2 During the Supplemental Consultation a further 13 responses were received from Statutory Consultees and 3 from organisations who were Non-Statutory Consultees.
- 1.3.3 Despite conducting specific briefing sessions with the Small Operators (those bus companies currently operating bus services in Tyne and Wear, with the exception of Stagecoach, Go North East and Arriva) to explain the implications of the Proposal, Nexus did not receive any responses from these Consultees neither the Statutory or Supplemental Consultation. Also only one non-incumbent Operator provided a response in the Public Engagement Exercise. As explained below in Section 8, Nexus is satisfied that the lack of responses from these groups is not a matter of concern.
- 1.3.4 Additionally, during the Consultation process a number of petitions in support and opposition to the QCS Proposal were presented to TWITA. Further information is contained in section 8.7 of this report.

### 1.4 Consultation Analysis

- 1.4.1 Nexus has completed a full and detailed analysis of all of the responses received, both from Statutory Consultees and Non-Statutory Consultees in the formal Consultation processes and via public engagement. The detailed analysis of responses has identified eleven themes which Nexus believes reflect the key overarching concerns of the Consultation feedback. It has also informed revisions

to the QCS that Nexus are now recommending to the NECA, and the drafting of the Public Interest Test Report being delivered to the NECA by Nexus.

1.4.2 Those eleven themes identified are as follows:

- Theme 1: Concerns that the legislation has not been complied with
- Theme 2: Concerns that QCS is an inappropriate remedy
- Theme 3: Concerns about the Do Minimum Scenario
- Theme 4: Concerns that benefits of the proposed QCS have been overstated or are uncertain
- Theme 5: Concerns that costs of the proposed QCS have been underestimated
- Theme 6: Cross boundary concerns
- Theme 7: Concerns over employee impacts
- Theme 8: Concerns over adverse effects on Operators
- Theme 9: Concerns over the modelling approach
- Theme 10: The impact on well-being
- Theme 11: Suggested features and inclusions in the QCS

1.4.3 Each theme has a number of more detailed issues which outline in greater detail the matters raised by Consultees. Section 9 of this report provides a review of the issues raised in each theme, along with Nexus's response to those issues and their impact on the QCS.

1.4.4 It should be noted that this report is a summary of the responses to Consultation received by Nexus. Readers are advised that all responses from Statutory and Non-Statutory Consultees can be found on the Nexus Consultation website

([www.nexus.org.uk/busstrategy](http://www.nexus.org.uk/busstrategy)) under the Consultation responses menu for both the Statutory and Supplemental Consultations.

- 1.4.5 As part of the process of preparing this report Counsel has been asked to review the process undertaken by Nexus and to confirm that it has complied with all relevant legal requirements. A copy of Counsel's opinion will be provided to the NECA.

## 1.5 Voluntary Partnership

- 1.5.1 As detailed above, in November 2011 the TWITA instructed Nexus to prepare a draft QCS and to explore the scope for a VPA. In response to this resolution, local Operators came together to form the NEBOA, which was founded in 2012. NEBOA's objectives include the development of one or more VPAs to cover Tyne and Wear, Northumberland and Durham.
- 1.5.2 Nexus, the NECA and TWITA have worked with NEBOA since its inception to develop a VPA that can help achieve the Objectives set out in the Bus Strategy for Tyne and Wear.
- 1.5.3 The VPA has evolved over the last 18 months: a first proposal was put forward by NEBOA in October 2012, revised versions were prepared in May 2013 and December 2013, and the latest VPA Proposal was provided in May 2014. Further information regarding the engagement with Operators relating to the development of the VPA Proposal is contained in the VPA Assessment at Section 10 of this report.
- 1.5.4 Numerous meetings have been held between officers of TWITA, the NECA and NEBOA to jointly develop and clarify the VPA Proposal.

## 1.6 Conclusion

- 1.6.1 Nexus is satisfied that all stages of the Consultation process have complied with the requirements of Section 125 of the Transport Act 2000 and all other legal

requirements necessary for the conduct of a lawful consultation. Further information is contained in Section 11 of this report.

1.6.2 Nexus considers that:

- (a) The Consultation process has been sufficiently robust to engage all the necessary parties;
- (b) Sufficient and suitable information has been provided to allow the parties to interpret and respond to the Consultation; and
- (c) Nexus has appropriately considered and responded to all relevant points made by respondents to the Consultation.

1.6.3 As requested in the Directions and Guidance, this report will be provided to the NECA when it is deciding whether to progress a QCS or VPA.

## 2. PURPOSE OF THIS DOCUMENT

### 2.1 Introduction

2.1.1 At its meeting on 26th July 2013 the Tyne and Wear Integrated Transport Authority (TWITA) resolved to proceed to Statutory Consultation in relation to the QCS Proposal. This document will:

- (a) describe the stages of the Statutory Consultation and Supplemental Consultation, who was involved, the timescales and the materials and methods used to communicate;
- (b) consider whether the Statutory Consultation and Supplemental Consultation processes satisfy the requirements specified in Section 125 of the Transport Act 2000;
- (c) consider whether the Statutory and Supplemental Consultation processes comply with the 'Direction and Guidance to Nexus on Consultation' issued by the TWITA on 26th July 2013;
- (d) summarise the feedback received from Statutory Consultees and others; and
- (e) summarise Nexus' response to that feedback.

### 2.2 Document Structure

Chapter	Title and Content description
3	<b>Background to the QCS Proposal</b> Outlines the process to date
4	<b>Statutory Consultation</b> Outlines the approach to the Statutory Consultation in line with Section 125 of the Transport Act 2000
5	<b>Public Engagement Exercise</b> Outlines the approach to the Public Engagement Exercise, as requested in

<b>Chapter</b>	<b>Title and Content description</b>
	the Direction and Guidance from the TWITA
<b>6</b>	<b>Updates to other organisations and groups</b> Summarises contact with other relevant organisations or groups who were not Statutory Consultees prior to and during the Consultation process.
<b>7</b>	<b>Treatment of information</b> Explains the treatment of confidential information
<b>8</b>	<b>Consultation Feedback</b> Outlines the sources and volume of feedback received during the Consultation period
<b>9</b>	<b>Consultation Analysis</b> Outlines the feedback received during the Consultation period, Nexus' analysis of the feedback received and actions taken as a result of that analysis.
<b>10</b>	<b>Voluntary Partnership Agreement (VPA)</b> Outlines the approach to the development of the VPA Proposal, including the communications and Consultation with Operators and other relevant parties which has underpinned that process.
<b>11</b>	<b>Conclusion</b> Considers whether the process employed by Nexus has complied with Section 125 of the Transport Act 2000 and the TWITA's Direction and Guidance to Nexus on Consultation such that parties have been engaged and feedback has been analysed and actioned appropriately.

2.3 A series of appendices is attached :

- Appendix A : Background to the QCS Proposal
- Appendix B: Direction and Guidance to Nexus on Consultation
- Appendix C : A list of Statutory Consultees
- Appendix D : Letter from QCS Board (25<sup>TH</sup> September 2013)

### 3. **BACKGROUND TO THE PROPOSAL**

- 3.1 On 24th November 2011, the predecessor body of the NECA for transport matters relating to Tyne and Wear, the TWITA, resolved to consider alternative structures for the delivery of bus services within Tyne and Wear as a means to deliver the Bus Strategy for Tyne and Wear. At this meeting, TWITA resolved that Nexus should be directed to investigate the possibility of developing a QCS across the region as a possible mechanism for achieving TWITA's objectives and in parallel engage with the Operators to see whether a VPA could be developed through dialogue that would provide an effective alternative mechanism to a QCS. Nexus was directed to report as appropriate to TWITA on the two proposals once developed.
- 3.2 In developing a QCS, Nexus sought feedback from Operators and other interested parties on a regular basis. Initially, Nexus conducted an Informal Stakeholder Engagement exercise which included a series of meetings with Operators and other interested groups. Based on the results of this process Nexus went on to complete the development of its Original QCS Proposal in July 2012. In line with the Guidance, Nexus determined again to engage in informal dialogue with Operators and other stakeholders to obtain their feedback on the Original QCS Proposal. This feedback persuaded Nexus to develop a revised Scheme which became the QCS Proposal, dated July 2013. Further detail regarding each of these stages is contained in Appendix A (Background to the QCS Proposal).
- 3.3 On 26th July 2013, the QCS Proposal was presented to the TWITA for consideration. At this meeting, TWITA resolved to proceed to formal Statutory Consultation in relation to this QCS Proposal. Nexus was directed by TWITA to undertake the Consultation on its behalf subject to directions from TWITA as to how the Consultation should be conducted. These Directions are appended in Appendix B (Direction and Guidance to Nexus on Consultation).

Blank page

## 4. STATUTORY CONSULTATION

### 4.1 Introduction

4.1.1 Section 125 of the Transport Act 2000 sets out the notice and consultation processes that must be undertaken prior to the QCS Proposal being submitted to a QCS Board for review.

4.1.2 This section outlines the approach to Statutory Consultation taken by Nexus in line with Section 125 of the Transport Act 2000 and the Direction and Guidance to Nexus on Consultation from the TWITA (Appendix B - Direction and Guidance to Nexus on Consultation).

### 4.2 Timescales

4.2.1 The initial Statutory Consultation period opened on Tuesday 30th July 2013 and was scheduled to close on Tuesday 5th November 2013. As the process overlapped with the main annual holiday period the Consultation period was set at 14 weeks to comply with Cabinet Office guidance on consultation principles<sup>1</sup> and so ensure adequate time for all Consultees to respond.

4.2.2 During this Statutory Consultation period, Nexus received a number of requests from Operators to extend the Consultation beyond 5th November 2013. After careful consideration of these requests, and in light of the Operators' commitment to provide an enhanced VPA by 22nd November 2013, Nexus agreed to allow an extension until that date. This resulted in a total Consultation period of 17 weeks and 3 days. That extension allowed the Operators' responses to the Consultation to take into account the VPA and compare the perceived benefits (and disbenefits)

---

<sup>1</sup> Consultation Principles, Cabinet Office, 17 July 2012

of the QCS Proposal against the perceived benefits (and disbenefits) of the Draft VPA.

#### 4.3 Supplemental Consultation Timescales

4.3.1 Following detailed analysis of the Statutory Consultation responses, in line with the Guidance and with the specific TWITA Direction (at paragraph 1.11.4 in the Direction), Nexus was of the view that a limited number of potential changes that it was minded to make to the QCS Proposal should be subject to a period of Supplemental Consultation before any recommendations were made to the NECA regarding modifications to the QCS Proposal.

4.3.2 Nexus considered that those potential changes were largely self-contained (in that they might potentially help address certain of the concerns raised by some of the Consultees, whilst not materially impacting the benefits to be derived from the QCS Proposal) and Nexus therefore considered that it could properly consult on them whilst completing its overall review of the Consultation feedback on the QCS Proposal.

4.3.3 Nexus therefore determined that it wished to invite the views of Statutory Consultees on those potential changes to the QCS Proposal. A period of Supplemental Consultation therefore opened on 9th April and closed on 4th June 2014. Nexus received no requests for extensions to these timescales. Details were placed on the Nexus Consultation website ([www.nexus.org.uk/busstrategy](http://www.nexus.org.uk/busstrategy)) so that interested members of the public were made aware of the potential changes and could participate in the Supplemental Consultation if they wished.

#### 4.4 Literature and Distribution

4.4.1 Section 125(1)(C) of the Transport Act 2000 requires a notice to be displayed in at least one newspaper circulating in the area to which the Scheme relates to advertise the Consultation and raise public awareness.

The Statutory Notice was published in four local newspapers (the Sunderland Echo, Journal, Northern Echo and the Shields Gazette) on 30th July 2013 and a copy of the Statutory Notice was sent to all Statutory Consultees. The Notice described the Proposed Scheme, stated where a copy of the Scheme could be inspected and outlined the reasons the Scheme was being proposed.

4.4.2 For the first phase of Statutory Consultation, in addition to the Notice, Statutory Consultees received a suite of consultation materials to ensure compliance with Section 125 (1) of the Act.

4.4.3 The 'Consultation Document' was the primary source of information. It comprised of six sections:

- (a) **An introductory letter** outlining the requirements of Section 125 of the Transport Act 2000 and explaining how these requirements had been addressed. The letter detailed the timing of the Consultation, how to respond to the process and provided contact details should clarification or further information be required by a Consultee.
- (b) **The QCS Proposal**, which provided a detailed description of the proposed Scheme, including an outline of the bus services included and excluded from it, and the reasons as to why it was believed the five public interest criteria (outlined in section 124(1) of the Act) were met.
- (c) **The appendices to the QCS Proposal.**
- (d) **The Affordability Declaration**, completed by the Treasurer to the TWITA. This declaration confirmed that the funding required to implement the Scheme could be provided by resources available to the Authority.

- (e) **The Consultation Direction and Guidance**, the document detailing the TWITA's instruction to Nexus regarding the approach to be taken to the Consultation process and the date (subject to any extension) by which responses were to be received.
- (f) **The TWITA Resolution**, passed by the TWITA to proceed to Statutory Consultation on the QCS Proposal.

4.4.4 The Consultation Document was available for download in full on the Nexus Consultation website.

4.4.5 Additional information was also made available for download on the Nexus website to support the Consultation Document. This included:

- (a) The Statutory Notice (as described earlier in this document).
- (b) Supporting or source documents referenced in the QCS Proposal which were not available from external sources.
- (c) The models referenced in the QCS Proposal. Three models were provided – Affordability which informs the financial case, Value for Money which informs criterion (d) of the Public Interest Test and Fares and Ticketing which informs the fares and ticketing proposal. Each was accompanied by a simplified modelling guide. The models were provided in PDF format for download, although a number of Statutory Consultees subsequently requested and were provided with them in Excel format to allow further interrogation and analysis.
- (d) The Draft Scheme. This was a draft of the formal legal document that would be approved by the TWITA to make a QCS for Tyne and Wear. The document would be required should the TWITA progress to the 'making' of the QCS, the point at which the TWITA formally determines the proposed QCS is to go ahead.

- (e) Legal advice and instructions. Nexus, on behalf of the TWITA, sought a legal opinion from Counsel, James Pereira of Francis Taylor Buildings, confirming that the QCS Proposal contained those matters required for Consultation in accordance with the Transport Act 2000 and to ensure the QCS Proposal contained a lawful analysis of the Public Interest Test criteria and a lawful assessment of proportionality.
- (f) A suite of QCS brochures. Four brochures were prepared outlining the general principles and some specific aspects of the Scheme. Please refer to sections 5.2.2 to 5.2.4 for further details.
- (g) TWITA reports. A link to the reports and appendices presented to the TWITA on 26<sup>th</sup> July 2013 was provided.

4.4.6 Nexus considers that the QCS Proposal document, appendices and the associated documentation considered by the TWITA met the requirements of the Consultation Document as defined by section 125(1)(a) of the Transport Act 2000.

4.4.7 In the Supplemental Consultation process, Statutory Consultees were invited to consider certain potential changes to the QCS Proposal arising out of the Statutory Consultation process. The areas to be considered for potential change were:

- (a) Fares and ticketing;
- (b) Contract Standards;
- (c) Procurement;
- (d) Bus Company Employees; and
- (e) Governance.

- 4.4.8 All Statutory Consultees were sent a letter and a copy of the document entitled “Supplemental Consultation (April 2014) with respect to the Proposal for a Quality Contracts Scheme in Tyne and Wear”, which dealt with the areas for consideration set out above, together with its appendices.
- 4.4.9 At the start of both the Statutory and Supplemental Consultation processes, Nexus sent the Consultation materials in written form, delivered by courier, to the following persons and organisations who come within the scope of Sections 125(3)(c) or (g) of the Transport Act 2000, who were formally invited to participate in the Consultation:
- (a) Operators of Local Services;
  - (b) Bus user representatives;
  - (c) Relevant Local Authorities including the five Councils of Tyne and Wear, Durham, Northumberland and Hartlepool;
  - (d) The Chiefs of Police for Northumbria Police and Durham Constabulary;
  - (e) Trade Unions; and
  - (f) Network Ticketing Limited (nominated by TWITA as a Statutory Consultee pursuant to section 125(3)(g)).
- 4.4.10 A full list of Statutory Consultees can be found in Appendix C (list of Statutory Consultees).
- 4.4.11 26,631 visits were made to the Nexus Consultation website by the close of Statutory Consultation on 22nd November 2013 and a further 4220 during the Supplemental Consultation. This includes the visits of both Statutory and non-Statutory Consultees.

## 4.5 Meetings

- 4.5.1 In addition to correspondence, a number of formal and informal meetings and discussions were held with stakeholders throughout the Consultation period so as to clarify feedback received to the Consultation. A schedule of such activities was placed on the website insofar as the material did not prejudice the commercial confidentiality of those providing the information – this schedule can be accessed by clicking [this link](#).
- 4.5.2 Briefing sessions were also arranged to provide small independent bus Operators with an overview of the Bus Strategy Delivery Project and the potential implications for them of the impact of the options available.

## 4.6 Requests for Clarification and Further Information

- 4.6.1 In the Introductory letter of the Consultation Document, postal and e-mail contact details were provided for any requests for information or clarification.
- 4.6.2 An internal log was established to monitor the receipt of such requests and ensure responses were provided in a timely manner. Some 69 requests for information or clarification were received during the first phase of Consultation, with a further 9 during the Supplemental Consultation phase.
- 4.6.3 To ensure that all Consultees and interested parties had access to all further information released in respect of the QCS Proposal, a section was established on the Nexus Consultation website to display requests for additional information, and the responses and any additional information were provided as a result. The requests and responses were categorised first by the requesting organisation, and then by date.
- 4.6.4 It was necessary for Nexus to rectify four inaccuracies in the suite of documents released in the first phase of Consultation and a section was

established to flag such changes to Consultees entitled 'Consultation Document Alerts'. A further two inaccuracies were flagged during Supplemental Consultation. These were identified at an early stage and rectified. Nexus therefore considers that there was no impediment to the ability of Consultees to respond in a properly informed and complete manner to the Consultation.

## 5. **PUBLIC ENGAGEMENT EXERCISE**

### 5.1 **Introduction**

5.1.1 The Direction and Guidance was clear that Nexus must engage both with Statutory Consultees and with the general public, therefore in addition to the Statutory Consultation process a parallel Public Engagement Exercise was implemented.

5.1.2 Nexus considered that the Public Engagement Exercise in parallel with formal Statutory Consultation was critically important in raising awareness of the Proposal, and complementing the Consultation process. The Public Engagement Exercise therefore considered:

- (a) The current perceived threats to the delivery of bus services in Tyne and Wear and the need for action to address those concerns;
- (b) The broad characteristics of the QCS Proposal and the reasons why it was being proposed; and
- (c) The process leading to the making of a QCS.

5.1.3 It also provided information as to how interested parties could obtain more information or participate in the Consultation process.

### 5.2 **Literature and Distribution**

5.2.1 The primary source of information was the Nexus Consultation website, with the majority of stakeholders receiving information electronically. Secondary sources of information included the production of specific printed documents, stakeholder mailings and briefings and the availability of hard copies of the QCS Proposal at key locations across Tyne and Wear. The campaign was promoted through media advertising and given priority space on the Nexus Consultation website. Stakeholders comprised of approximately 800 contacts, including large regional employers, business

parks, education and health providers, local community and interest groups, charities, Councillors and MPs.

- 5.2.2 A suite of documents was produced. The first was a brief, high-level, pamphlet intended to be accessible to the general public and to encourage them to take an interest in the Consultation process. The second was a longer summary document, largely based on the executive summary of the QCS Proposal.
- 5.2.3 The third document set out a more substantial explanation of the QCS Proposal for those members of the public who did not wish to study the full QCS Proposal in detail, but who wished to know more than the high-level explanation given in the pamphlet explained in section 5.2.2
- 5.2.4 Two further brochures were developed to inform passengers of the implications to cross boundary services and bus company employees about what the QCS Proposal could mean for them.
- 5.2.5 Reference copies of the QCS Proposal were placed in main public libraries, and Civic Centres (or equivalent main premises of each Tyne and Wear Council, Durham and Northumberland), at Nexus House in Newcastle and were also available at events.
- 5.2.6 Stakeholders were emailed or mailed a copy of the summary document and directed to the Nexus Consultation website for more information.
- 5.2.7 The summary document, high level pamphlet and cross boundary and employee brochures were available to take away from events and other locations, and were available to download from the Nexus Consultation website.
- 5.2.8 Copies of the high level pamphlet, summary document and brochures and leaflets were supplied to Northumberland County Council, Durham County Council and Unite the Union to distribute accordingly. The full QCS

Proposal and supporting documents were available to all to view and download on the Nexus website free of charge.

5.2.9 Additional hard copies and alternative formats of all literature were available on request.

### 5.3 Meetings

5.3.1 A stakeholder mailing, containing the summary brochure and details of 15 briefings that were held across Tyne and Wear (which stakeholders could attend for information and to discuss the proposals), was sent to identified stakeholders on 9th August 2013. A total of 61 people attended the stakeholder events.

5.3.2 Similar information, and proposed Councillor briefing dates, was also supplied in hard copy to Councillors in the Tyne and Wear districts.

5.3.3 Briefings were received by four of the five Tyne and Wear Councils plus Durham County Council and Hetton Town Council (which specifically requested a briefing). South Tyneside and Northumberland Councils declined the offer from Nexus. The matter was further discussed at other local meetings where Nexus was invited to give updates on the project. Those meetings were attended by over 1,000 people in total.

### 5.4 Social Media

5.4.1 A social media strategy, designed to ensure stakeholder involvement from those who favoured direct digital communications was implemented by Nexus in order to engage with this audience.

5.4.2 The key elements of the strategy included:

- (a) The provision of a clickable route to the Nexus Consultation website;
- and

(b) The monitoring of online debate regarding the Bus Strategy Delivery Project in order to address misconceptions and direct people to the Nexus Consultation website where further information was available.

5.4.3 Social media communication was introduced for those who favour direct digital communication or normally obtain information through Twitter, YouTube and online news sources. Social media communication was managed through a specialist agency which also sent invitations and reminders to community representatives. The agency engaged in a proactive social media campaign with an emphasis on digital channels (including direct email and community interest forums) that targeted key audiences. This included passenger groups, local politicians and trade and regional media commentators.

5.4.4 Facebook and Twitter accounts were set up under the '*Time For Change?*' brand applied to Consultation documents (see below) to allow intervention in debate and signposting to Consultation information.



5.4.5 Careful monitoring across all channels allowed Nexus to respond rapidly to claims and discussions, by directing respondents to relevant documents available online or highlighting factual statements derived from those documents.

5.4.6 Of the 26,631 visits made to the Nexus Consultation website, 1,206 were channelled via social media.

## 5.5 Media Coverage

5.5.1 Throughout the Consultation period there was local newspaper coverage, some national media coverage, and coverage, comment and analysis in transport trade magazines.

## 5.6 Public engagement during Supplemental Consultation

5.6.1 During the Supplemental Consultation most of the proposals for change that were being consulted upon related to matters of technical detail, were primarily of relevance to Operators and the Statutory Consultees and were considered to have little direct relevance to the public or other non-statutory stakeholders. Therefore a low-key Public Engagement Exercise was considered appropriate.

5.6.2 An initial press release was issued and the main issues were covered at regular meetings attended by Nexus Customer Relations Officers, such as Councils' local area meetings and meetings of voluntary and community groups, particularly those relating to older and disabled people. Details as to where to access further information or make comment were provided at such meetings.

5.6.3 The primary source of information was the Nexus Consultation website and to support this, hard copies of both the original and the Supplemental Consultation documents were made available for reference at the main Council office and library in each district. The information was emailed to transport departments in each Tyne and Wear Council, and Durham, Northumberland and Hartlepool Councils.

Blank page

## 6. UPDATES TO OTHER ORGANISATIONS OR GROUPS

### 6.1 Introduction

6.1.1 Both prior to and during the Consultation, Nexus considered it appropriate to appraise other organisations or groups of the status of the process.

### 6.2 QCS Board

6.2.1 As required by the Transport Act, Nexus provided a copy of the Statutory Notice plus other supporting information to the Senior Traffic Commissioner. In response, and as defined in section 126A (1), a QCS Board was constituted.

6.2.2 Nexus has ensured the QCS Board has been fully informed of progress, advising it directly of the approach to Consultation, any time extensions and providing links to the Consultation responses on the Nexus Consultation website. The QCS Board was also requested to give procedural advice as to whether Nexus' proposed consultation activities were sufficient to meet the statutory requirements as detailed in Section 125 of the Transport Act 2000. Having considered the Consultation proposals the Board advised Nexus that it was of the opinion that the minimum statutory requirements had been met. The QCS Board noted however that this advice was given without prejudice to any arguments or issues that might be raised during any formal review process that might follow as to the adequacy of the Consultation process. Please refer to Appendix D (Letter from QCS Board).

6.2.3 In addition, the QCS Board was copied into a Request for Information by a Statutory Consultee. Accordingly, Nexus copied the QCS Board into its response and both the request and the response were posted on-line for the benefit of other Consultees.

### 6.3 Department for Transport

6.3.1 In light of correspondence during, and responses to, Consultation on the QCS Proposal, Nexus also contacted the Department for Transport to seek clarification on the Secretary of State's intent regarding the application of the Guidance in relation to criterion (d) of the Public Interest Test. A response was received, which was published on the Nexus Consultation website and can be accessed by clicking [this link](#).

## 7. TREATMENT OF INFORMATION

### 7.1 Confidentiality

- 7.1.1 The Consultation Document clearly stated that all responses and correspondence relating to the Consultation would be treated by Nexus and the TWITA as being in the public domain. They would be published on the website and made available to any QCS Board constituted to consider the Scheme following Consultation.
- 7.1.2 The Consultation Document however recognised that some relevant information would be commercially sensitive or subject to data protection legislation and would need to be kept confidential. Nexus therefore advised those Consultees to whom this was applicable to contact it, in order to reach agreement as to the basis on which such data might be disclosed or the extent to which such data should be redacted.
- 7.1.3 In practice, a number of the responses were provided in both an unredacted and redacted format, with the redacted versions being published on the Nexus Consultation website. Appropriate measures were put in place for the handling of confidential documents including encryption and password protection where necessary.
- 7.1.4 Following the close of the Consultation process Nexus approached two bus Operators to request access to underlying data referred to in their Consultation responses, and supporting reports prepared by their economic advisors. Access to this information would to allow Nexus to both clarify and analyse their responses fully. These Operators were concerned that the data in question was of a particularly confidential nature. Confidentiality and Non-Disclosure Agreements were duly executed for relevant personnel at Nexus and its external economic advisors in order for them to be allowed access to the material. Items covered by these Agreements have been handled and stored by Nexus and its external consultants as directed by those Agreements.

## 7.2 Freedom of Information

7.2.1 Nexus received one Freedom of Information request during the Statutory Consultation and one also during the Supplemental Consultation period. Both of these requests were displayed on the Nexus Consultation website along with Nexus' responses to them.

## 8. **CONSULTATION FEEDBACK**

- 8.1 This section summarises the sources and volume of feedback received during the Consultation period.
- 8.2 As a result of the Statutory Consultation, responses were received from 16 Statutory Consultees. In addition, comments were received from 69 organisations and individuals who were not Statutory Consultees.
- 8.3 As a result of the Supplemental Consultation, a further 13 responses were received from Statutory Consultees and 3 from organisations who were not Statutory Consultees, one being a resubmission of their initial response.
- 8.4 All responses were logged with a unique reference number and posted on the Nexus website.
- 8.5 Despite conducting the meetings outlined in Section 4.5 so as to ensure direct engagement with a key group of stakeholders, Nexus did not receive any substantive responses from the small Operators currently represented in Tyne and Wear. Nexus is confident based on its past experience of dealing with the small Operators that if any of them had specific concerns they would have made these known to Nexus.
- 8.6 There was also only one response from a non-incumbent Operator in the Public Engagement Exercise. Whilst Nexus hoped to engage a wider range of views on the QCS Proposal from major Operators outside of Tyne and Wear, Nexus is satisfied that a lack of response from this group at this stage is not indicative of a lack of interest in tendering for QCS contracts when the time comes.
- 8.7 During the Consultation process a number of petitions regarding the QCS Proposal were presented. On 15<sup>th</sup> November 2013 Stagecoach presented to TWITA a 6,500 signature petition against the QCS Proposal. PTUG (the Tyne and Wear Public Transport Users' Group) organised an on-going petition in support of the QCS Proposal, which at its final count contained around 960 signatures.

8.8 GNE provided 424 forms, produced by GNE, that its staff had completed, and requested that they be treated as individual responses to the Consultation. The forms asked employees a series of questions regarding the QCS Proposal in the form of a survey, and provided an opportunity for a comment to be made. The questions were of GNE's own devising and did not reflect the Consultation materials provided by Nexus – indeed Nexus considers that the forms were not balanced and that several questions were intended to 'lead' respondents to a particular answer. Although Nexus has taken these forms into account (as requested by GNE), Nexus has attached limited weight to their contents because they represent responses to GNE from its own staff, rather than responses to the Consultation. Where individual comments were made they were considered in the Consultation process.

8.9 Analysis of the responses received is contained in Section 9 of this document.

## 9. CONSULTATION ANALYSIS

### 9.1 Introduction

9.1.1 Nexus has completed a full and detailed analysis of all of the Consultation responses received, both from Statutory and Non-Statutory Consultees. The detailed analysis of responses has resulted in the identification of eleven themes that Nexus believes fairly represent the areas of Consultation feedback.

9.1.2 The following sections of this report will provide, by individual theme:

- an introduction to each theme;
- a summary of the issues raised;
- Nexus's response to those issues; and
- the steps taken to address those issues in the QCS presented to the NECA for consideration.

9.1.3 The eleven Themes are:

- Theme 1: Concerns that the legislation has not been complied with
- Theme 2: Concerns that QCS is an inappropriate remedy
- Theme 3: Concerns about the Do Minimum Scenario
- Theme 4: Concerns that benefits of the proposed QCS have been overstated or are uncertain
- Theme 5: Concerns that costs of the proposed QCS have been underestimated
- Theme 6: Cross boundary concerns
- Theme 7: Concerns over employee impacts

- Theme 8: Concerns over adverse effects on Operators
- Theme 9: Concerns over modelling approach
- Theme 10: The impact on well being
- Theme 11: Suggested features and inclusions in the QCS

9.1.4 It should be noted that this report is a summary of the responses to Consultation received by Nexus, and Nexus' response to the issues raised. Readers are advised:

- (a) that all responses from Statutory and Non-Statutory Consultees can be found on the Nexus Consultation website ([www.nexus.org.uk/busstrategy](http://www.nexus.org.uk/busstrategy)) under the Consultation responses menu for both the Statutory and Supplemental Consultations; and
- (b) further information and detail regarding Nexus' response to the issues raised can be found in the QCS Public Interest Test Report, the Quality Contracts Scheme and the Affordability Analysis.

9.1.5 As part of the process of preparing this report Counsel have been asked to review the process undertaken by Nexus and to confirm that it has complied with all relevant legal requirements. A copy of Counsel's opinion will be provided to the NECA.

## 9.2 Theme 1: Concerns that the legislation has not been complied with

### 9.2.1 Introduction

- (a) The principal legislation governing the introduction of the QCS is set out in the Transport Act 2000. Part of this Act allows local transport authorities to introduce Quality Contracts Schemes in order to meet their local transport policies and objectives, but requires that where they do so a series of statutory criteria – collectively known as the Public Interest Test criteria – are met.
- (b) Section 124 of the Transport Act 2000 requires that local transport authorities undertake an analysis of this “Public Interest Test”. Section 124(1) sets out five Public Interest Test criteria that must be satisfied before a QCS can be made. These criteria require that:
  - (i) the proposed scheme will result in an increase in the use of bus services in the area to which the proposed scheme relates (criterion (a));
  - (ii) the proposed scheme will bring benefits to persons using Local Services in the area to which the proposed scheme relates, by improving the quality of those services (criterion (b));
  - (iii) the proposed scheme will contribute to the implementation of the local transport policies of the LTA (criterion (c));
  - (iv) the proposed scheme will contribute to the implementation of those policies in a way that is economic, efficient and effective (criterion (d)); and
  - (v) any adverse effects of the proposed scheme on Operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates (criterion (e)).

- (c) The proportionality test under criterion (e) is closely aligned with human rights considerations in relation to Article 1 of the First Protocol (A1P1) of the European Convention on Human Rights (ECHR). A1P1 protects the peaceful enjoyment of possessions, which can include matters such as the goodwill of a business. In simple terms, A1P1 would require the interference with the peaceful enjoyment by Operators of their possessions to be proportionate to the Objectives of the QCS.
- (d) The Transport Act 2000 also prescribes the notice and consultation processes that must be undertaken before the QCS is submitted to a QCS Board for review and comment.
- (e) During Consultation some stakeholders suggested that the QCS Proposal did not comply with either the Transport Act 2000 or A1P1.

#### 9.2.2 The issues raised

- (a) The issues raised under this theme were:
  - (i) Compliance with the Transport Act 2000 (as amended), including concerns that the Public Interest Test was not satisfied;
  - (ii) Breach of the Human Rights Act 1998 and Article 1 of the First Protocol ("A1P1") of the European Convention on Human Rights ("ECHR");
  - (iii) It was unlawful for Nexus or the TWITA to make a scheme covering bus services that operate in Durham and Northumberland;
  - (iv) Issues with the introduction of the Combined Authority; and
  - (v) The consultation process was not legally compliant.

- (b) Concerns that the QCS Proposal did not comply with legislation were principally raised by the larger incumbent Operators: Arriva, Go North East and Stagecoach. Within their feedback, comments received included assertions that:
- (i) Nexus had failed to consult on the revised draft of the QCS Proposal (as revised following initial informal consultation) before the TWITA determined that Consultation should be undertaken in respect of it;
  - (ii) The Consultation process did not comply with the requirements of procedural fairness governing lawful public consultation;
  - (iii) the Public Interest Test was not satisfied, alongside various concerns including inappropriate modelling assumptions, overestimation of the benefits and under estimation of costs; and
  - (iv) the TWITA did not have the power to make a QCS that includes cross boundary services which will operate outside the QCS Area.

### 9.2.3 Nexus response to the issues raised

- (a) Nexus has carefully considered the comments made during Consultation. Nexus understands the importance of complying in full with the statutory process for establishing a Quality Contracts Scheme, and has engaged legal advisors to guide this process.
- (b) The point at which the legality of a QCS can properly be judged is at the point when the NECA actually determines (if it decides to do so) to make it. A QCS can only be made following the conclusion of a statutory procedure that includes a review by the QCS Board. Nexus therefore considers that the assertion that the QCS Proposal as set

out in the Consultation Document was unlawful pre-judges the outcome of the development process and any final decisions made by the NECA.

- (c) Nexus acknowledges that if the NECA is not satisfied that the Public Interest Test is satisfied, then it may not lawfully make the QCS. Having carefully considered all responses, Nexus has accepted that a degree of change was required in the analysis of the Public Interest Test it set out in the Consultation Document, and indeed the purpose of consulting upon it in the first place was to understand where changes were needed. These changes are detailed in subsequent sections of this report.
- (d) Nexus considers that the formal Consultation it conducted was compliant with the provisions of the Transport Act 2000 and the associated Guidance in all material respects. Elsewhere in this report Nexus sets out the detailed and multiple steps Nexus took in consulting with key stakeholders, impacted parties, and the general public and how both formal and informal Consultation was carried out. Nexus consulted informally on a first draft proposal and took account of the responses it received, but there was neither a statutory requirement nor a practical need for it to engage in further informal consultation before proceeding to formal Consultation. Consultees were given full and detailed information to base their responses upon during Consultation, and had a fair opportunity to respond and therefore no procedural or substantive unfairness could have arisen from the decision not to undertake a further stage of informal consultation.
- (e) The Consultation process was comprehensive and all Statutory Consultees were provided with a further opportunity to make submissions on the issues which were the subject of Supplemental Consultation. In addition, Nexus notes that, should the NECA decide

to take the QCS forward, the QCS Board stage will involve a further detailed review of the Public Interest Test and of the Consultation process.

- (f) The QCS will only have legal effect in the area to which it relates, which is the QCS Area. Beyond the QCS Area, bus services will not be provided under the powers utilised through the introduction of the Quality Contracts Scheme, but by using existing powers of providing tendered bus services.
- (g) As a result of the introduction of the NECA on 15th April 2014, the TWITA and its area ceased to exist. Nexus was satisfied that the TWITA had the power to make a QCS including cross-boundary services, and it is clear that the NECA has the power to make a QCS covering the former TWITA area (which is now part of the NECA area) and to let contracts which include the operation of services within Durham and Northumberland. Nexus has recommended to the NECA that a Cross Boundary Bus Collaboration Protocol should be put in place to support the operation of the QCS where its introduction may impact on services in neighbouring areas. However the Cross Boundary Bus Collaboration Protocol does not form part of the QCS.

#### 9.2.4 Steps taken to address the issues raised

- (a) In response to this Consultation feedback, Nexus made changes to its approach to assessing the Public Interest Test:
  - (i) Criterion (a): assumptions that influence bus demand forecasts have been amended;
  - (ii) Criterion (b): the structure of the assessment of this criterion was revised to highlight the service quality benefits of the QCS based on its main components, rather than the Bus Strategy

Objectives and Deliverables. In considering these service quality benefits, Nexus has included amendments made to the specifications of the Scheme;

- (iii) Criterion (c): amended to consider the transport policies of the whole NECA area;
  - (iv) Criterion (d): the approach taken by Nexus to undertaking an assessment of the 3Es and Value for Money has been amended to reflect the Guidance more accurately, to better reflect the effect of costs and revenues transferring between Operators and Nexus in the QCS scenario, and to incorporate Operators' views on the key risks that apply to the QCS and VPA outcomes; and
  - (v) Criterion (e): Nexus has now completed a full assessment of the proportionality of the QCS, which was not possible to do in the Consultation Document because the assessment relies in part on information about adverse effects received from incumbent Operators. The assessment has been completed by Nexus using Consultation feedback, its modelling of the QCS (the updated Nexus Affordability Model) and its assessment of the improvements in well-being arising to people living or working in the area.
- (b) In light of the changes made to the Public Interest Test, Nexus has carefully considered the points raised by Consultees regarding compliance with all relevant legislation. As set out in the Public Interest Test Report, Nexus is satisfied that the QCS as now proposed complies with this legislation. It has also sought external legal opinion regarding both the process it has undertaken to develop the QCS and the conclusions it has drawn regarding legal compliance, which is fully supportive of Nexus' conclusions.

- (c) This Consultation Report shows that Nexus has to date also been fully in compliance with the statutory procedure for the development of the QCS.

### 9.3 Theme 2: Concerns that the QCS is an inappropriate remedy

#### 9.3.1 Introduction

- (a) The context for the consideration of the QCS is the Bus Strategy for Tyne and Wear, which was adopted by the TWITA in 2012 and subsequently became a matter for the NECA. The Bus Strategy considers the issues facing the local bus market within Tyne and Wear such as the long-term decline in numbers of fare-paying bus passengers, the importance of the local Accessibility provided by the bus network, and the need to ensure that public funding for the bus network is controlled and spent effectively. To address these issues, the Bus Strategy sets out three key policy Objectives designed to deliver improved bus services, namely to:
- (i) Arrest the decline in bus patronage;
  - (ii) Maintain (and preferably grow) accessibility; and
  - (iii) Deliver Value for Money.
- (b) The QCS Proposal contained a Do Minimum Scenario in which Nexus set out a forecast of what is likely to happen if no intervention is made, which was used as a comparator against which to measure the benefits of the QCS and VPA. The Do Minimum Scenario projected a continuation of the long-term trend of declining bus patronage, and severe cuts to those bus services and non-statutory discounted fares that are publicly-funded. For details please see Section 1.4 of the Public Interest Test Report.
- (c) Appendix A (Delivery Options) of the Bus Strategy notes that legislative amendments made by the Local Transport Act 2008 provide local transport authorities with a range of delivery options to meet the challenges facing the industry whilst addressing local policy objectives. These can be summarised as:

- (i) Do Nothing, which for the purposes of this report is the Do Minimum Scenario;
  - (ii) Voluntary Partnership Agreement;
  - (iii) Quality Partnership Scheme;
  - (iv) Quality Contracts Scheme.
- (d) During the Consultation, some stakeholders suggested that a QCS in Tyne and Wear was not an appropriate remedy for the problems stated.

### 9.3.2 The issues raised

- (a) The issues raised under this theme were:
  - (i) Nexus should keep an open mind about alternative approaches that could meet the Objectives;
  - (ii) The Competition Commission indicated that alternative remedies to a QCS could address customer detriment;
  - (iii) Other areas with lower levels of customer satisfaction have chosen not to introduce a QCS;
  - (iv) A VPA would be a more appropriate remedy;
  - (v) Nexus has been motivated by improper purpose;
  - (vi) If the improvements that Nexus proposes genuinely drove demand, the commercial market would already be supplying them;
  - (vii) The Bus Strategy for Tyne and Wear is a circular document that has been deliberately written to 'set up' a QCS;

- (viii) A QCS will be slow and costly to implement, and may not be available for several years. Alternative delivery methods can be implemented faster;
  - (ix) The network would be less responsive to customer demands under a QCS;
  - (x) It is not within the remit of the bus Operators to ensure affordability for the tax payer;
  - (xi) The QCS places an unacceptable burden on the taxpayer and transfers risk to the public sector.
- (b) Concerns that a QCS would not be an appropriate remedy for the issues facing the local bus market were principally brought forward by the three large incumbent Operators. Within their feedback, the Operators set out the perceived benefits of the Draft VPA as an alternative to the QCS, including that it could be delivered much more quickly, would be more likely to address the challenges facing the industry, meet local policy Objectives, pass the Public Interest Test and offer less risk to public finances.
- (c) A small number of alternative remedies were also suggested, for example, allowing publicly funded bus services to be phased out – with some respondents questioning the actual scale of impact that would result.

### 9.3.3 Nexus response to the issues raised

- (a) Nexus has carefully considered the issues raised in respect of this theme. It has kept an open mind on the alternative methods of delivering the Bus Strategy throughout, including extensive dialogue with NEBOA regarding the development of the VPA offer.

- (b) Nexus rejects the suggestion that the Bus Strategy was deliberately written to 'set up' the QCS. The Bus Strategy was developed in order to assess whether the local bus market was achieving local policies, and what, if anything was needed to improve upon the current situation. It was itself the subject of a public consultation. It contains an appendix which considers potential delivery options, describing VPAs and Quality Partnership Schemes alongside Quality Contracts Schemes. The Bus Strategy Objectives and Deliverables are sufficiently broad that they can be delivered through a variety of means, including a VPA, and this has been demonstrated by the approach taken by NEBOA in developing the VPA Proposal, in which a 'VPA Bus Strategy' is included that draws heavily from the Bus Strategy Deliverables.
- (c) Several Operators commented on Nexus' and the ITA's motivation for considering a QCS. In addition to claims of political dogma (for the response to which see above), the issue was highlighted of Nexus seeking to use profits made from bus services to cover a perceived shortfall in Metro revenues. Nexus rejects this claim on the grounds that no funding from the Tyne and Wear levy is currently utilised to support the operation of the Metro (please see section 1.4.3 of the Public Interest Test Report). Nexus does however use funding from the Tyne and Wear levy (£4.7 million in 2014/15) to support the provision of the Metro Gold Card. Nexus considers that, without Metro Gold Card, those passengers that previously used it would simply switch to bus travel and thus increase the cost of Concessionary Travel Reimbursement to an equivalent sum (Please see 1.4.6 (v) of the Public Interest Test Report).
- (d) It was also claimed by some Consultees that Nexus is seeking to use profits made from bus services to cover a reduction in local authority funding. The Do Minimum Scenario takes account of the need to reduce expenditure on discretionary Secured Bus Services and

reduced fare schemes that results from reductions made to the Tyne and Wear levy. In developing both the QCS Proposal and the VPA Proposal, Nexus has been seeking to avoid this Do Minimum Scenario because it would fail to meet – and indeed would run counter to - all of the three main Objectives of the Bus Strategy for Tyne and Wear.

- (e) Regarding the points made about the Competition Commission (CC), Nexus had already considered this in the Consultation Document section 3.6.5 (pages 64-65). In summary, the QCS Proposal is designed so as to achieve the Objectives set out in the Bus Strategy, and not to remedy the 'Adverse Effect on Competition' that the CC had identified. The CC in reaching its conclusions, and in ruling out QCSs, was considering potential remedies to the 'Adverse Effect on Competition'. It did however acknowledge that LTAs may have legitimate reasons for introducing a QCS, and it did not wish to rule out the future application of a QCS into the local market.
- (f) In respect of the point made that if the drivers of demand identified in the QCS Proposal were real, that Operators would already be putting them into practice, Nexus makes the following comments: firstly, whilst some of the proposals in the QCS Proposal are intended to drive demand, they are not necessarily intended to increase or maintain profitability, which is likely to be an important consideration for Operators; secondly, Operators regularly amend and develop their strategies in order to respond to changing circumstances, which is in opposition to the assertion that everything that could be done to grow demand is already being done; and thirdly, the VPA Proposal contains a number of aspects that are intended to drive demand such as 'Bus2Bus' fares and 50 additional buses in the network, demonstrating that Operators accept that alternative strategies may grow demand.

- (g) Nexus accepts that the QCS may take more time to deliver than a VPA, whilst noting that in Nexus's view the VPA Proposal requires further development before it could be entered into as a legal document. The additional time requirement in the QCS arises from the legal process set down in the Transport Act 2000 (including consideration of the QCS by the QCS Board), and from the procurement process that would follow a decision by the NECA to make the Scheme. However Nexus considers that speed of delivery should be balanced against certainty of achieving Objectives and the scale of benefits offered, when making a decision on how best to achieve the Bus Strategy Objectives. This is discussed at length in Section 6 of the Public Interest Test Report.
- (h) Nexus has carefully considered the transfer of risk for revenues and costs from the private sector Operators to the public sector. This has been the subject of extensive analysis and modelling, as set out Sections 1.5.8, 1.6 and 5 of the Public Interest Test Report. As a result of this analysis Nexus has established that the QCS is affordable across a wide range of risk scenarios, and that the contingency that Nexus has set aside to cater for unexpected events will be sufficient for all but the most extreme circumstances. Nexus therefore considers that the transfer of risk associated with the QCS is a proportionate response in order to deliver the Bus Strategy Objectives and the service quality benefits that the QCS delivers.
- (i) Nexus acknowledges the existence of a number of potentially less intrusive alternative delivery options which would offer lower levels of risk but which would achieve significantly lower levels of beneficial impact, or which would require significant additional resource. Such options would be unlikely to meet the stated Objectives of the Bus Strategy and have therefore not been considered as viable alternatives or been subject to any detailed appraisal by Nexus.

- (j) Finally, Nexus does not accept that the network would be less responsive to customer demands under a QCS and notes that there is a difference between being responsive to customer needs, and being responsive to financial performance. The Annual Development Cycle has been designed to take account of trends in demand, costs and revenues, as well as a range of other factors including Accessibility and the views of customers and stakeholders. Proposals to change the network would be made in order to provide the best network and fares within the resources available, and they would then be subject to consultation. Nexus does not consider that the current system, where changes to services and fares are almost always made based on commercial criteria that are invisible to passengers and the wider public, can be said to be superior.

#### 9.3.4 Steps taken to address the issues raised

- (a) In response to the Consultation feedback the following changes have been made or steps taken:
  - (i) Nexus has committed additional time and resource to work with NEBOA to develop a VPA, which was delivered in May 2014. In doing so, officers from Nexus have been able to obtain additional clarification and seek a greater understanding of the merits of the VPA Proposal. This process has enabled a full appraisal of the VPA Proposal, as an alternative delivery option, to be completed. A summary of this analysis has now been incorporated within the refreshed Public Interest Test.
  - (ii) Nexus has considered whether the VPA Proposal constitutes a less intrusive measure that could be adopted without unacceptably compromising the Objectives sought by the QCS for the purposes of the proportionality assessment required by

section 124(1)(e). Its assessment of criterion (e) of the Public Interest Test reflects this approach.

## 9.4 Theme 3: Concerns about the Do Minimum Scenario

### 9.4.1 Introduction

- (a) Buses are essential to the economic and social wellbeing of the NECA area. According to the DfT's National Travel Survey, the North East continues to have the lowest levels of car ownership of any English region (except London) and the highest number of bus trips per head of population (also except London). In 2012/13 there were 172.6 million recorded passenger trips taken by bus in the NECA area (Tyne and Wear: 139.6 million; Durham: 23.8 million; Northumberland: 9.2 million).
- (b) The North East's relatively high use of local buses masks a trend of people switching away from using the bus towards cars. Between 2001 and 2011, the number of people using the bus to travel to work in Tyne and Wear fell by 13% according to the 2011 Census, and over the same time period the number of adult fare-paying journeys on buses fell by 16%. Despite the relatively high utilisation of buses in the North East at 77 trips per head of population in 2011/12, this is down from 84 trips per head in 2004/5, while over the same period car utilisation grew from 371 to 381 trips per head.
- (c) Bus patronage in Tyne and Wear is in long term decline. After sustained growth during the 1970s and 80s, from the point of Deregulation in 1986 the trend became one of decline that lasted until the introduction of free local bus travel for older and disabled people in 2006, followed by free national bus travel under the English National Concessionary Travel Scheme (ENCTS) in 2008.
- (d) In recent years the government's policy to reduce the national deficit has led to severe financial pressures placed upon local councils in the UK, and in particular in the NECA area. This has inevitably led to reductions in the availability of local funding to support public

transport services. As a result, cuts to Secured Bus Services and discretionary concessions have been applied across the country, including in Durham and Northumberland.

- (e) In Tyne and Wear the strategy has been to maintain services over the medium term. In order to achieve this with reduced funding, Nexus has been expending its reserves since 2011/12, as well as carrying out additional efficiency measures to reduce general expenditure. However the reserves available to Nexus that can be expended on maintaining services are finite and will be fully exhausted by the end of the financial year 2016/17. From that point onwards the only alternatives are for income to grow, or for local public expenditure to be reduced by approximately £5 million (in the case of local support for bus services), to £51.2 million.
- (f) In the Do Minimum Scenario, Nexus sets out a forecast of what is likely to happen if no intervention is made, to be used as a comparator against which the benefits of the QCS Proposal can be measured. The Do Minimum Scenario projects a continuation of increases in fares above inflation leading to the long-term trend of declining bus patronage, and severe cuts to those bus services and non-statutory discounted fares that are publicly-funded.
- (g) During Consultation on the QCS Proposal, some stakeholders expressed concerns that the Do Minimum Scenario modelled by Nexus over-stated the current problems within the bus market in Tyne and Wear and was not a fair reflection of what is likely to happen in the event that there is no market intervention. However, the issues facing the local bus market within Tyne and Wear were set out within the Bus Strategy and the long-term decline in fare-paying passengers and increasing shortfall in public funding to meet rising costs were both described in detail and supported by analysis.

#### 9.4.2 The issues raised

- (a) The issues raised under this theme were :
- (i) The 'Do Minimum' case is overly pessimistic;
  - (ii) The Proposal does not provide evidence or explanation to link changes in passenger numbers to behaviours by bus Operators;
  - (iii) Bus customer satisfaction is already high in Tyne and Wear, according to Passenger Focus surveys;
  - (iv) Bus Operators have invested heavily in recent times and will continue to do so;
  - (v) Services under the control of Nexus have been subject to instability or decline;
  - (vi) Some of the long term decline in bus usage is put down to passengers transferring to the Metro since the early 1980s;
  - (vii) Recent bus patronage has been increasing for some bus companies;
  - (viii) Historic fare increases are justified by their strong relationship to increases in fuel and other costs;
  - (ix) The QCS Proposal does not appropriately reflect the many positive elements of service already delivered by Tyne and Wear Operators;
  - (x) Simplified, multi-modal ticketing is already provided through Network One; and
  - (xi) Nexus already obtains Value for Money from its payments to Operators.

- (b) Concerns about the Do Minimum Scenario were principally raised by the larger incumbent Operators.

#### 9.4.3 Nexus response to the issues raised

- (a) Nexus has carefully considered all Consultation feedback regarding the Do Minimum Scenario. The analysis that informed the Do Minimum Scenario, contained within the QCS Proposal, was based upon the data then available to Nexus. Nexus has incorporated aspects of the Consultation feedback in its revised assessment and modelling of the Do Minimum Scenario.
- (b) However, Nexus considers that its analysis of past trends and influences on the bus market remain valid and are unchanged in light of Consultation feedback. Furthermore, Nexus considers it appropriate that these past influences are appropriate measures of how the future bus market will develop in future years without intervention.
- (c) Operator feedback referred to current levels of bus user satisfaction, increasing patronage in certain cases, recent levels of investment, the existence of a multi-operator ticketing scheme in Tyne and Wear and other features of the bus market, which they asserted were evidence of a well-functioning market. Nexus acknowledges these points but does not consider that they change the assumptions used in developing the forecast in the Do Minimum Scenario. This has been highlighted by the latest patronage figures for 2013/14 published by DfT, which demonstrate that in the context of the current investments being delivered by Operators and Nexus, Commercial Bus operations in Tyne and Wear have seen patronage has reduced by 5 million compared to the previous year across Tyne and Wear. Therefore the factors highlighted above do not appear to have arrested the decline in bus patronage.

#### 9.4.4 Steps taken to address the issues raised

- (a) Nexus has revisited the underlying data and assumptions in the Nexus Affordability Model, upon which the Do Minimum Scenario is based:
  - (i) The assumption that Nexus had included within the Do Minimum Scenario was that in the absence of a QCS, fares would increase by RPI+3%. In light of Consultation feedback, Nexus has revised this assumption to Bus Industry Costs +2%. This addresses a range of concerns raised by Operators and their economic advisors. It also leads to a revised level of forecast patronage, and lower forecast profit margins for Operators than in the QCS Proposal.
  - (ii) In the QCS Proposal, Nexus assumed that the level of public support for bus services in the Do Minimum Scenario would be frozen in cash terms until such time as there was insufficient funding available to cover statutory Concessionary Travel Reimbursement for ENCTS, after which time it would rise accordingly. Consultation feedback confirmed this view.
- (b) In light of the revisions made to the Nexus Affordability Model, Nexus has updated its assessment of the appropriate criteria within the Public Interest Test.

9.5 Theme 4: Concerns that the benefits of the proposed QCS have been overstated or are uncertain

9.5.1 Introduction

- (a) Section 124(1) of the Transport Act 2000 sets out the five Public Interest Test criteria that must be satisfied before a Quality Contracts Scheme can be made. The second of these criteria, criterion (b), requires that:

*“the proposed scheme will bring benefits to persons using local services in the area to which the proposed scheme relates, by improving the quality of those services”*

- (b) The Guidance provides that the quality of services (and by extension, the benefits) includes the standard of vehicles used to provide services (considering Accessibility and emission levels), the frequencies or timing of services, punctuality, reliability, driver training, the introduction of Smart Ticketing and the arrangements for the integration of ticketing with other transport modes or services. A reduction in fares alone may not constitute an improvement in the quality of service.

- (c) Further, the fifth of the public interest criteria, criterion (e), references benefits as it requires that:

*“any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates”*

- (d) The Guidance advises that the scale and likelihood of benefits arising to people, businesses or organisations living or working within the area of the scheme should be identified to assist the evaluation of well-being. Relevant benefits could include benefits to existing bus

passengers, to those who switch from other modes as a result of improvements to bus services, to users of other modes who benefit (for example, motorists benefit from reduced congestion as a result of modal shift to buses) and to local residents and others who benefit from environmental improvements. It follows that benefits for the purpose of criterion (e) are broader than those considered under criterion (b), as under criterion (e) benefits experienced by the entire community of people who either live or work in the QCS Area are relevant.

- (e) A number of Consultees suggested that in identifying and quantifying the benefits (where it was possible to do so), Nexus had overstated their value or claimed their delivery to be more certain than is realistic.
- (f) These concerns were principally raised by the larger incumbent Operators, but were also expressed by some user groups, Councils and members of the public in relation to specific matters.

#### 9.5.2 The issues raised

- (a) The issues raised under this theme were :
  - (i) Nexus has over-estimated the potential impact of 'Soft Measures' benefits of simplified ticketing;
  - (ii) Simplified ticketing is not a customer priority;
  - (iii) Many customers would face fare increases;
  - (iv) Simplified ticketing would remove locally-tailored fares and livery that are valued by customers;
  - (v) There is no basis for the claim that Nexus' Customer Charter proposals would grow patronage compared to today's situation, particularly because customer charters already exist;

- (vi) There is nothing in the Proposal which will necessarily guarantee reduced carbon emissions, and running additional bus services when there is insufficient demand will impact adversely on the environment;
- (vii) Nexus has failed to take account of relevant highway controls or how a QCS would fit in with them;
- (viii) No evidence that “democratic control” is desired by the public;
- (ix) Contractual incentives and processes will be weaker than existing market forces in providing strong performance;
- (x) Financial benefits of QCS have been overstated;
- (xi) Any money saved by the scheme could be used by the local authority or Nexus to fund other local services or modes;
- (xii) Delivery risks have not been properly considered when evaluating benefits;
- (xiii) Proposed fare levels may be inappropriate or unsustainable when compared to the current fare scales of operators;
- (xiv) Network stability must not be compromised by multiple change dates;
- (xv) It is not legitimate to consider retaining existing service provision and standards as a benefit;
- (xvi) Governance processes are unwieldy. A more locally focused structure may prove more effective;
- (xvii) Relaxing the maximum vehicle age and standards will reduce quality benefits as the bus fleet will be older and compare unfavourably against the VPA and Do Minimum; and

- (xviii) There is a concern that some bus companies may suspend or cancel services if the QCS progresses, causing significant inconvenience for passengers.
- (b) A substantial area of feedback from Operators claimed the benefits attributed to the QCS fares and ticketing offer were overstated due to several factors.
- (c) Firstly, it was asserted that simplified ticketing was not a customer priority as passengers valued the locally tailored fares which would no longer be available under a QCS.
- (d) Secondly, it was claimed that many customers would face fare increases. As an example, a number of respondents highlighted concerns regarding the percentage of adult passengers forecast to experience a significant increase in fares (over 20%) in Gateshead.
- (e) Finally, the Operators claimed that Nexus had over-estimated the potential impact of 'Soft Measures' benefits both for simplified ticketing and the Customer Charter. The resulting forecast increase in patronage was said to be based on inappropriate and statistically insignificant evidence, and in the case of fares, did not reflect the actual experience of Operators. Proposed fare levels were also said to be inappropriate or unsustainable when compared to the current fare scales of Operators.
- (f) All of the Operators suggested that any patronage uplift claimed as a result of the introduction of a QCS Customer Charter was inappropriate given they already offer individual customer charters to a similar standard.
- (g) There was a concern from Operators that, unlike the Do Minimum or VPA Scenarios, the introduction of a QCS would mean that passenger satisfaction would no longer be their priority. Further, the

specification of standards through a contractual mechanism would remove Operators' incentive to continually drive improvements in their fleet and service offerings.

- (h) There was a concern from a number of respondents that, as transport has borne a larger and disproportionate share of budget cuts at a national level in recent years, any money saved by the Scheme could be used to fund non-transport services. Additionally, assurances were sought that savings would not be diverted to transport modes other than bus.
- (i) In response to concerns regarding required vehicle standards outlined in the Statutory Consultation, the Supplemental Consultation proposed a relaxation of vehicle age and emission standards for the initial period of the QCS. It was argued by an Operator that whilst existing vehicles could be used to a greater extent, this relaxation would reduce benefits as the bus fleet would be older and compare unfavourably against the VPA scenario and Do Minimum Scenario.

### 9.5.3 Nexus response to the issues raised

- (a) Nexus has carefully considered the matters raised in Consultation feedback, in respect of the benefits that the QCS could deliver.
- (b) Nexus is satisfied that its assumption of increased demand as a result of simplified ticketing and an improved Customer Charter is robust and appropriate. As well as reviewing in detail the evidence relied upon previously, as set out in the AECOM report on Soft Measures that has now been included within WebTAG, Nexus has undertaken new and bespoke local passenger research on these matters, in order to confirm that these Soft Measures are indeed aspects of the provision of bus services that passengers place a value on – this additional research was drawn to the attention of Consultees during

the Supplemental Consultation. This research bears out Nexus' original assumption, based on the AECOM/DfT study, that simplified ticketing will grow adult patronage in Tyne and Wear; the concluding sentence of the Nexus simplified ticketing research says:

*“Nexus’ quantitative and qualitative research, together with previous research and further Nexus analysis, indicates that introducing a simplified ticketing structure has the potential to increase bus patronage in the adult market”.*

- (c) Nexus notes analysis of this research by Oxera in a Supplemental Consultation response which questions its robustness; however given that Nexus has now conducted extensive market research into this issue over several different surveys, and has considered in great detail the AECOM research, Nexus is confident in its assumptions of a modest increase in patronage arising from the form of simplified ticketing that would be introduced through the QCS.
- (d) As a result of this review, Nexus is content that its approach to assessing the impact of the Soft Measures delivered by the QCS is appropriate and supported by the evidence available.
- (e) In respect of the specific concerns relating to fares, Nexus accepts that cheaper tickets targeted at specific market segments may have the effect of stimulating additional demand, particularly if the ‘standard’ tariff is not appropriate for that market segment. However, no evidence has been put forward to demonstrate that the additional demand which arises in these circumstances is due to customers placing a value on the breadth of ticketing options available to them per se. Instead, it seems more likely, based on Black Book elasticities, that in these cases the additional demand is generated due to the lower pricing than the ‘standard’ tariff being available to certain customers. While Nexus acknowledges that this

type of targeted ticket structure is removed in the QCS, this reduction in choice will not reduce value to customers because the QCS Proposal aims to grow patronage by introducing a ticketing structure that is simpler and easier to promote, which Nexus believes will benefit the majority of passengers. Other Consultees have supported Nexus' assertion that passenger benefits will be derived from providing an understandable and affordable ticketing structure.

- (f) The simplified fare offer, underpinned by a zonal structure which ensures that many customers pay the same as (or less than) they do currently, is a key feature of the QCS Proposal. Whilst, overall, nearly 80% of customers will pay the same or less in the QCS Proposal, Nexus accepted that an undesirably high number of travellers from specific wards in Gateshead would experience a high increase in single trip fares under the proposed QCS Proposal.
- (g) It is acknowledged that the larger Operators in Tyne and Wear have their own customer charters, which take different forms. Additionally, Nexus notes that a common charter is proposed in the VPA Proposal although it is unclear whether this would replace Operators' own charters, or whether they would operate in tandem. The QCS Proposal introduces a single Customer Charter, with one set of contact information for customers, and a single customer promise covering all journeys. This will eliminate customer confusion, and promote a unified and connected network. Having one contact for all matters and all services in a QCS provides differentiation to the current and VPA Proposal offers and therefore provides additional benefit. In any event, Nexus has applied the benefits of a simplified Customer Charter to its modelling for both the VPA Proposal and the QCS Proposal.

- (h) Nexus has reviewed its position with regard to environmental benefits of the QCS Proposal, and concluded that the mandating of an accelerated introduction of buses that achieve Euro V emissions standards or better, coupled with the reduction in car traffic that will arise from the modal shift delivered by the QCS Proposal, will indeed lead to environmental benefits. Nexus accepts that the proposed relaxations in requirements outlined within the Supplemental Consultation would also reduce the level of environmental benefits that would be delivered as part of the QCS, and criterion (b) has been updated to reflect this. Further, it should be noted the vehicle (and other) specifications are intended as minimum standards. Bidders offering an enhanced vehicle specification, and other quality enhancements which will ensure a continued improvement in standards over the life of the QCS, will be rewarded in the tender evaluation.
- (i) Nexus considers that the assertions made by Consultees regarding the desirability of a greater say for bus users in the development of the Bus Network are misguided. Buses provide a public service, and the public are a key stakeholder in the process of deciding where services should operate.
- (j) The QCS transfers ultimate responsibility for achieving standards of operation from Operators to Nexus. However, Nexus's approach to QCS procurement, as set out in the QCS Proposal and confirmed in the QCS, will ensure that appropriate incentives to deliver a high standard of service will be applied to the Operators that win Quality Contracts, and that failure to meet those high standards will lead to contractual remedies in order that high standards are restored and maintained.
- (k) It is expected that Operators will continue to deliver the standard of service that has generated high passenger satisfaction ratings, but

this standard will be guaranteed through the performance regime of Quality Contracts. The measures that are most important to customers, in particular punctuality and reliability, will determine the financial performance of the contract, thus retaining Operators' motivation to perform to a high standard. Customer satisfaction will also be measured and, should this be subject to deterioration, contract remedies may be triggered. Therefore, passenger satisfaction will remain a priority for all parties.

- (l) Nexus has carefully considered the financial viability of the QCS in terms of the standards to be maintained, the fare levels to be charged, the maintenance of a stable network and other costs that arise from implementing a Quality Contracts Scheme. Nexus is content that the delivery of the benefits associated with the QCS remains financial viable.
- (m) Nexus has reviewed the Consultation feedback that suggests maintaining current service levels cannot be classified as a benefit of the QCS. Nexus considers that the QCS must demonstrate that it brings "benefits to passengers by improving service quality". It is considered entirely appropriate to consider those benefits against a scenario with the Scheme absent.
- (n) Nexus considers that its Governance structure is not unwieldy, it successfully balances high level decisions about annual changes to the network and fares, with the desire to engage with local interests and bus users.
- (o) Nexus has considered the potential for Operators to suspend or cancel services should the QCS progress, in advance of QCS Commencement. Nexus accepts that this is a course of action that Operators may take albeit a course that would run counter to their commercial goals.

- (p) Any surpluses generated by the QCS are intended to be put back into improving bus services. This is set out in the QCS in section 12, which sets out the approach to net proceeds derived from the QCS.

#### 9.5.4 Steps taken to address the issues raised

- (a) In response to the Consultation feedback the following changes have been made or steps taken:
  - (i) Nexus has modelled the effect of adjusting the boundary between zones 1 and 2 in Gateshead, so that Gateshead Interchange is on the boundary and therefore in both zones 1 and 2. This had the effect of greatly increasing the number of one-zone trips within Gateshead, such that the proportion of passengers paying over 20% more than they do at present reduces significantly. This was set out as an option in Supplemental Consultation, and Gateshead Council welcomed the proposed change although Operators suggested that Nexus had underestimated the financial impact of the proposed change. Nexus has reviewed its modelling and considers that the proposed change remains affordable. In light of this, the changes to the zonal boundary in Gateshead will be carried forward into the QCS.
  - (ii) (i) In light of the responses received in Supplemental Consultation, the changes in vehicle standards regarding emission standards, livery and refurbishment will be carried forward into the QCS. The requirement to have a fully compliant Euro V fleet at QCS Commencement has been partly relaxed for the first two years of the QCS. The maximum average fleet age has also been relaxed for the first two years of the QCS, to aid Operators in assembling a compliant fleet, and the optional last three years of the QCS when investment

horizons are limited. The maximum average fleet age during the main period of the QCS represents an improvement on current fleet provision.

- (iii) In light of limited comment or support in Consultation feedback for the proposal to introduce an additional 18 vehicles into the QCS Network, Nexus has removed this proposal. This change has been reflected in the Nexus Affordability Model.
- (iv) In the Supplemental Consultation, Nexus proposed the establishment of a Tyne and Wear User Consultative Forum, in order to provide a means of stakeholders and passengers to engage directly with Nexus on how the Network can be improved. This proposal was widely welcomed, and will now be progressed in the QCS. The User Consultative Forum will be established with an independent Chair appointed to guide its work, and will consider all public transport modes in Tyne and Wear, including the bus.
- (v) Should an Operator cancel or suspend bus services in advance of a QCS commencing, Nexus can use its existing powers to intervene and ensure those bus services are retained and passengers can continue to use the bus until such time as the QCS is established. Retaining these bus services, which are commercially viable services, can be achieved at minimal cost to the public purse.

## 9.6 Theme 5: Concerns that the costs of the proposed QCS have been underestimated

### 9.6.1 Introduction

- (a) As set out in section 5 of the Public Interest Test Report, section 124(1)(d) of the Transport Act 2000 requires that "the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective".
- (b) In preparing and updating the QCS Proposal, Nexus carried out affordability modelling both in respect of the affordability of the QCS Proposal and in assessing the value for money offered by the QCS Proposal.
- (c) During Consultation on the QCS Proposal feedback was received surrounding the cost assumptions detailed within the QCS scenario within the Nexus Affordability Model, including:
  - (i) Omitted Costs – where the feedback received identified costs that Consultees felt Nexus should have had regard to in its modelling; and
  - (ii) Underestimated Costs – where the feedback received identified costs that Consultees felt Nexus had included within its modelling but not to the extent that the Consultees felt was appropriate, for example the risk contingency, the cost of bus operating hours etc.

### 9.6.2 The issues raised

- (a) The issues raised were:
  - (i) Nexus has understated the wage rate and wider staffing costs – a more realistic wage rate significantly increases costs;

- (ii) The Proposal fails to take into account external factors such as fuel price rises or reductions in BSOG;
- (iii) Fare increases in the Proposal are linked to RPI, whereas tender prices will be based on bus operating costs, which often have inflation higher than RPI;
- (iv) Operators will incur bidding costs, and tendering and evaluation will be costly;
- (v) Retendering costs at the end of the QCS have not been taken into account, and re-tendering will be harder because the pool of potential Operators will have been depleted;
- (vi) The rebranding of the entire fleet of Tyne and Wear buses is likely to increase costs;
- (vii) Nexus has not taken account of the on-going costs of staffing, monitoring, compliance and administration;
- (viii) A QCS would be subject to political pressure and would therefore be inefficient;
- (ix) Operators will lose the incentive to grow passengers;
- (x) Lack of flexibility, particularly the complex and expensive procedure required to vary contracts, will lead to increased operating costs as problems will be allowed to persist for longer;
- (xi) The procurement approach is flawed, costly and will not generate competition or Value for Money;
- (xii) The QCS Proposal does not reflect the impacts of additional costs of a higher vehicle specification and vehicle financing costs;

- (xiii) The QCS Proposal does not reflect the availability of and additional costs of new depots;
  - (xiv) The QCS Proposal does not consider a number of other costs which will be generated by a QCS;
  - (xv) Contingency funding levels and allocation is inappropriate;
  - (xvi) Analysis of operating and accountancy measures is flawed, and this impacts on the overall assessment of affordability;
  - (xvii) A relaxation in vehicle standards for the early years of a QCS, whilst reducing quality standards, would also not improve affordability as bidders must plan at the outset for any requirements which would be required at a later stage.
- (b) Concerns that the costs of the QCS had been underestimated or omitted entirely were principally raised by the larger incumbent Operators.
- (c) The three larger Operators jointly retained an economics consultancy, Oxera, to assess the validity of Nexus' core assumptions used within the Nexus Affordability Model. The output of this assessment is termed the 'Oxera Clean Team Report'. This report concluded that Nexus had underestimated the total operating costs of a QCS and therefore overestimated the potential operating profit margin.
- (d) Oxera was also retained by two of the larger incumbent Operators on an individual basis to analyse the QCS Proposal on behalf of those Operators. This work also identified costs that were said to be either underestimated or omitted; some of these costs are considered in more detail in Theme 8, Adverse Effects on Operators.

### 9.6.3 Nexus response to the issues raised

- (a) Nexus has carefully considered the feedback to Consultation and reviewed its approach to assessing the costs of the QCS. As a result, Nexus accepts that some adjustments are necessary as detailed in the following section.
- (b) However, Nexus does not accept the following issues:
  - (i) **The Oxera Clean Team Report:** Nexus has considered Oxera's analysis of the validity of the assumptions modelled within the QCS and has engaged with Oxera regarding its analysis. Consequently, Nexus is now clear that the statistical dataset on which Oxera's figures were based, relate to a Bus Network that is substantially different in scope to the one actually covered by the QCS Proposal. There were inconsistencies between the three larger Operator's input into Oxera's calculations and this resulted in the Oxera Clean Team Report being inconsistent in a number of areas with Nexus' approach. Oxera's analysis included some bus services which operate wholly outside Tyne and Wear. Furthermore, Oxera did not consider smaller Operators in their analysis. Nexus has highlighted its concerns in correspondence with Oxera, however Oxera did not revise its Consultation response. Therefore Nexus is unable to attach material weight to this analysis.
  - (ii) **Concerns regarding the value of the contingency:** Nexus has applied various risk assumptions within its modelling, and the QCS Proposal included a risk contingency of £80 million over the 10 year duration of the QCS. The total risk contingency allowed over the life of the Scheme has been subjected to a risk simulation exercise which has concluded that there is an 80% probability that the contingency will not be fully utilised.

Thus Nexus considers that the risk contingency has been set at a reasonable level.

- (iii) **Incremental operating costs:** Nexus has considered Consultee's claims of omitted or underestimated costs in respect of contract incentivisation (to replace the loss of direct incentivisation through farebox performance) and variation, internal management costs and future tendering exercises beyond the term of this QCS. Nexus has not included any additional provision in the Nexus Affordability Model as a result of this feedback, for the following reasons:
- (A) Following a re-evaluation of resource requirements within the QCS, Nexus maintains that sufficient resource was already included within the Nexus Affordability Model to allow for the successful management and implementation of the QCS.
  - (B) The QCS relies on the expectation that Operators will compete for contracts and invest in delivery of those contracts over a seven to ten year period. In addition, a Performance Regime will be included within all contracts.
  - (C) Any costs resulting from future tendering exercises, which will fall outside of the term of this QCS, have not been considered relevant to this assessment.
- (iv) **Vehicle leasing:** A suggestion was made in Consultation feedback that bus operations within a regulated market would lead to materially increased costs because Operators would lease vehicles rather than owning them outright. There were two reasons given for these higher costs: firstly, that leasing mitigates the residual-value risk and upfront finance costs associated with ownership by transferring these risks to the

leasing company at the expense of a higher annual charge per bus; and secondly, that costs incurred on certain types of leasing arrangements have a direct bearing on EBIT margins whereas interest payable on more traditional methods of financing assets e.g. bank loans are not included within the EBIT calculation. It is therefore contended by Operators that there will be a higher EBIT margin being required by Operators than that assumed by Nexus in the Nexus Affordability Model. Nexus has not included any additional provision in the Nexus Affordability Model as a result of this feedback, for the following reasons:

- (A) In response to other matters raised in Consultation, Nexus has revised both its approach to procurement and its vehicle specification (see Theme 8: Adverse Effects on Operators). As a result of this, Operators will be able to include many of their existing vehicles in bids for Quality Contracts if they so wish;
- (B) Whilst Nexus is aware that in London it can be the case that Operators lease vehicles rather than purchasing them, it does not follow necessarily that the same would be applicable in Tyne and Wear. London buses have particular features that make them different from buses used throughout the rest of the country (the most significant of which is both an entry and an exit door), and so are more difficult to redeploy outside London when the contract expires. This would not be the case in Tyne and Wear as the minimum QCS specification would be met by any existing Euro V (or greater emission standard) vehicle, of which many are currently deployed across the country including in Tyne and Wear. Therefore there is no requirement for Operators to

acquire an entire fleet of new buses in order to produce a compliant bid, although of course they would be free to do so. At the end of the seven-year contract (which may be extended up to ten years), the vehicles would be entirely suitable to be redeployed elsewhere in the country, or on further contracts within Tyne and Wear.

(C) Notwithstanding the above statements, Nexus is not in a position to second-guess the vehicle procurement strategies of bidders for Quality Contracts, nor of the accounting practices that they may employ. Procurement for Quality Contracts will be a competitive process, and the successful bidders will be those that put forward the most financially advantageous bids, whilst meeting the quality requirements.

(D) Nexus does however consider it of relevance to note that: a) Stagecoach Busways Ltd appears to currently lease its entire fleet from a company within its own group, and since it adopted this practice in 2012 its EBIT margins do not appear to have changed significantly from previous trends; b) Go North East currently appears to own the vast majority of its fleet; the interest charges shown in its company accounts are very small in comparison to depreciation costs and so would not materially affect its margin if included in the calculation; and c) Arriva Northumbria currently leases its fleet, and its resultant EBIT margin has already been taken into account in Nexus' calculations.

#### 9.6.4 Steps taken to address the issues raised

- (a) The following changes have been made as a result of feedback received :
- (i) **Procurement Strategy:** Nexus has revised its QCS Procurement Strategy. Further detail is provided under Theme 8, Adverse Effects on Operators. As a result of the revised procurement strategy, Nexus expects some of the additional costs identified by Operators to be mitigated.
  - (ii) **Underestimated/Omitted Costs of a QCS:** Nexus has now included the following costs within the Nexus Affordability Model :
    - (A) Where new buses are required by bidders in order to meet the Quality Contract specification, they may be more expensive to purchase than new vehicles have been in the past. This is because the industry standard has been increased to Euro VI, with engine features that are more costly to produce and buy. Nexus has allowed for the additional incremental costs of new Euro VI vehicles that may be required during the QCS.
    - (B) Nexus has included a provision for the cost associated with the accelerated requirement to repaint vehicles in line with the QCS contract requirements.
    - (C) In respect of employee costs, Nexus has provided for additional costs in relation to Basic Hourly Rate (for bus drivers only), a living wage (for all other in scope employees), No Compulsory Redundancy Protection (for two years) and an allowance for staff travel costs. Further information can be found in Theme 7.

- (iii) In light of limited comment or support in Consultation feedback for the proposal to introduce an additional 18 vehicles into the QCS Network, Nexus has removed the cost of these vehicles from the Nexus Affordability Model.
- (iv) Nexus considers that all costs arising from the QCS have now been included within the Nexus Affordability Model and accurately inform the assessment of the Public Interest Test.

## 9.7 Theme 6: Cross boundary concerns

### 9.7.1 Introduction

- (a) Section 4.5.2(a) of the QCS Proposal notes that:

*“The QCS covers all local bus services that operate within the QCS Area, except where they belong to a class of services that has been specifically excluded, or services which have been granted a Clearance Certificate. This will deliver benefits to people in Tyne and Wear by ensuring that local bus services [are]:*

- (i) Operated to a consistent standard;*
- (ii) Covered by a common fare structure; and*
- (iii) Managed through a standard approach to governance.”*

- (b) Section 4.5.2(e) of the QCS Proposal goes on to state that:

*“A number of existing cross-boundary services which provide important passenger movements within the QCS Area will be tendered as part of the QCS Network. The portion of the service that is not within the QCS Area will not be covered by the QCS and thus will operate in a deregulated environment and be exposed to competition. The services will nevertheless be contracted to ensure that the benefits ... are preserved for the entire route...”*

- (c) In Consultation feedback, a number of stakeholders expressed concern about various cross-boundary matters. Feedback was principally received from the larger incumbent Operators, with other feedback also received from neighbouring Local Authority areas.

### 9.7.2 The issues raised

- (a) The issues raised under this theme were:

- (i) Local transport policies of neighbouring authorities have not been considered;
- (ii) Inclusion of cross-boundary services has a major impact on certain Operators;
- (iii) Reduced fares on cross-boundary services will increase demand, potentially requiring deployment of additional resources;
- (iv) Cross-boundary depots may close, leading to the withdrawal of other services that are not related to the QCS;
- (v) The basis for Nexus's decisions regarding which services are included or excluded is unclear;
- (vi) Concern from adjacent authorities that the ticketing structure proposed may cause significant disruption to people in their area;
- (vii) Adjacent authorities wish to play a meaningful role in the governance of QCS services affecting them;
- (viii) Implementation of a QCS would result in Nexus controlling sections of Network outside of Tyne and Wear; and
- (ix) The Cross Boundary Collaboration Agreement is insufficient remedy.

### 9.7.3 Nexus response to the issues raised

- (a) Nexus accepts that the direct consideration of transport policies for neighbouring counties was not explicitly detailed in the QCS Proposal because at the time of the QCS Proposal being developed there was no requirement to do so. However, the creation of the NECA, a single transport authority for the Tyne and Wear, Northumberland

and Durham areas, now means that an assessment must be undertaken of all of the NECA's transport policies.

- (b) The Local Services included within the QCS Proposal are those which Nexus consider were required to meet its objective of extending the proposed benefits of the QCS to all persons living and working within the QCS Area. Where it was possible to exclude a particular cross-boundary Local Service without adversely compromising the benefit to persons living and working within the QCS Area then Nexus has done so. Only those cross-boundary Local Services which were considered absolutely necessary to assist in the achievement of the objective have been included. Nexus therefore consider that the inclusion of a number of cross-boundary services necessary, feasible and proportionate.
- (c) Nexus accepts that the introduction of the QCS, and the inclusion of cross-boundary bus services within that QCS, may have impacts on existing Operators of bus services either excluded from the QCS, or operated exclusively outside the QCS Area. Nexus also accepts that its proposals for simplified ticketing on QCS Services may give rise to further impacts on these non-QCS services.

#### 9.7.4 Steps taken to address the issues raised

- (a) In response to Consultation feedback the following changes have been made or steps taken:
  - (i) Additional engagement with neighbouring Local Authorities has facilitated further development of the NECA Cross Boundary Bus Collaboration Protocol. This provides reassurance to neighbouring areas that existing levels of service provision will be maintained should the QCS lead directly to a reduction in service.

- (ii) The adverse effects raised by Operators in their response to Consultation relating to cross-boundary services have been considered and assessed within the updated Public Interest Test (criterion (e)).

## 9.8 Theme 7: Concerns over employee impacts

### 9.8.1 Introduction

- (a) Section 4.10.4 of the QCS Proposal states that:

*“Protecting jobs and employment standards are considered to be of utmost importance to the success of this Proposal. The effective delivery of the quality improvements demanded by this Proposal will in large part depend upon a stable, professional and experienced workforce.”*

- (b) There are two distinct areas of concern which have been raised in feedback in relation to employees. Firstly, the effects of the transfer of employees between Operators, which may occur at QCS Commencement and, secondly, the employment standards of those employees working under contract throughout the term of the Quality Contracts.
- (c) The Transport Act 2000 (and associated Regulations) and the 2006 TUPE Regulations provide protection (including pension protection) for transferring employees. Nexus also proposed to build additional employee protections into the Quality Contracts, which are intended to protect the employees in transfer and protect employment standards thereafter throughout the contract term.

### 9.8.2 The issues raised

- (a) The issues raised under this theme were :
- (i) It will be complex to determine which employees are ‘principally affected’ for the provisions of TUPE to apply;

- (ii) The complexity of the Allocation Arrangements and the risk of employees not transferring will result in redundancies and with incumbent Operators having to fund such redundancies;
- (iii) Risk of detriment to employees transferring under TUPE;
- (iv) Unions seek to "harmonise up" and otherwise generally improve terms and conditions of staff transferring from different employers and extend such benefits to those joining in the future;
- (v) Unions seek a requirement for a RPI-related pay increase;
- (vi) Unions seek membership of the Local Government Pension Scheme (LGPS) for all bus employees;
- (vii) Unions seek a minimum duration of 10 years for each Quality Contract to offer staff certainty of employment;
- (viii) Unions seek an agreement preventing any compulsory redundancies;
- (ix) Concerns that employees will be forced to transfer to new depots under the new QCS Proposal;
- (x) Clarification sought over application of TUPE and other benefits to depot, clerical and subcontracted staff;
- (xi) Concerns that competitive bidding process or annual contract increase mechanisms may see Operators bidding low to win but then failing in their obligations to, or being constrained in the offers they can make to, staff at a later date ;
- (xii) Incumbent Operators who bid unsuccessfully may find that the defined benefit pension schemes become underfunded;

- (xiii) Defined benefit pension benefits will be eroded on transfer to a new employer. Employees will not have broadly similar benefits following transfer;
- (xiv) Defined benefit pension costs will be priced into bids for Quality Contracts, and may present costing challenges or potential disadvantages for some operators;
- (xv) TUPE will not apply to services operating cross-boundary which creates a real risk of redundancy;
- (xvi) The QCS must mandate operators to recognise relevant unions and ensure the appropriate machinery is developed;
- (xvii) Unions seek the introduction of a Value the Bus Worker policy;
- (xviii) The lack of commercial and contractual relationship between an operator who is forced to exit the market and an incoming operator may have unforeseen consequences;
- (xix) The complexities of existing terms and conditions are significant;
- (xx) The imposition of a basic hourly rate is ineffective and would distort remuneration packages;
- (xxi) Whilst offering certain benefits, a defined contribution multi-employer pension scheme procured by Nexus for use by all contracting operators will be costly;
- (xxii) Unions request a range of minimum employment standards for bus employees;
- (xxiii) Unions seek to ensure the procurement process includes appropriate consideration of employment issues;

- (xxiv) The requirement on operators not to affect any compulsory redundancies for 2 years forces operators to accommodate any surplus employees which is costly, unreasonable and inefficient. The NCR will also affect staff morale and would not result in a level playing field for bidders.
- (b) Consultation feedback relating to employees was mainly received from Trades Unions and larger incumbent Operators. The Trade Union that represents the vast majority of bus workers (Unite the Union) supported the employee protections proposed, but requested a higher level of protection and a general raising of employment standards for bus workers. Feedback was also received from Unison, which was fully supportive of the QCS Proposal. Operators on the other hand were highly critical of the QCS Proposal; criticisms centred on the transfer of employees and the potential problems and financial loss that could arise for Operators and employees.
- (c) Unite and the TUC raised a number of concerns in relation to the protection of employees being transferred and any threat to their conditions working under contract. Unite listed specific requests that it wished to see in the Proposal and within the contracts. These requests related to harmonisation of terms and conditions, guarantees of no detriment to employees, minimum employment standards and incentive schemes for bus workers. They also requested RPI related pay increases and longer contract terms to offer certainty to employees.
- (d) Operators were critical of the Allocation Arrangements, saying they were unclear and would not work in practice. They were also concerned that it would be difficult to determine which employees were 'principally connected'. Clarification was sought as to the application of TUPE to depot, clerical and subcontracted staff.

- (e) Operators criticised the 'surplus pool' proposed in the QCS Proposal as well as the contract structure proposed in relation to employees. They gave examples of how the TUPE transfer would not work effectively and would lead to numerous (and sometimes contradictory) problems including overstaffing, understaffing, redundancies, harmonisation of terms and conditions, staff working on different terms and conditions, high costs to Operators, a decline in industrial relations and low staff morale.
- (f) Operators also gave a number of reasons why they considered that there would not be 'level playing field' for bidders due to the TUPE transfer of employees and stated that the lack of a contractual relationship between an exiting Operator and an incoming Operator could have negative effects on service delivery.
- (g) Operators criticised the No Compulsory Redundancy protection and the Basic Hourly Rate for drivers proposed in Supplemental Consultation, stating both were costly, unnecessary and would damage staff morale. Unions supported both but requested that the No Compulsory Redundancy Protection be in place for the full length of the contracts.
- (h) The risk of redundancies being caused by the QCS, both within the QCS Area and in neighbouring areas was a major concern for a range of Consultees including Unions, Operators and Councils, who wanted to ensure that jobs were protected and that there were no redundancies in their areas.
- (i) Some employee related feedback was also obtained through the supporting Public Engagement Exercise. This feedback mainly took the form of verbal questions from members of the public at consultation events and a small number of written responses. The

main concern raised was that TUPE would not provide adequate protection for transferring employees.

- (j) Feedback from employees was also obtained via a Go North East survey of its employees. Whilst the leading questions in the survey have affected the weight it can be given, comments from individual employees indicated concerns over redundancies and staff being forced to travel further to work.
- (k) In relation to pensions, Operators stated that an existing Operator's ability to fund past service benefits of its defined benefit pension scheme would be compromised by the QCS. Furthermore, if an existing Operator failed to win any Quality Contracts, it might be forced to make an immediate payment of its pension deficit resulting in a large payment to the pension fund. Operators also stated in feedback that defined benefit funds may seek higher contributions from Operators on the basis that the guarantee of business is only for a 7 year term.
- (l) Unions and Operators also raised the concern that employees could lose value in their defined benefit pensions when transferring to a new employer. In particular, the Local Government Pension Scheme (LGPS) was an area of concern for Operators both in relation to the contributions made by Operators and the effect on employees.
- (m) Unions also requested assurances that pensions would be protected and requested that all employees be offered membership of the Local Government Pension Scheme or a multi-employer pension scheme in order to avoid employees having to change pension scheme every time a contract is re-let.

### 9.8.3 Nexus response to the issues raised

- (a) Nexus considers that the legislation gives employees a high level of protection in terms of the TUPE transfer and in respect of pension provision. Nexus' additional proposed protections reduce the risk that employment standards will drop during the contract term and give employees a level of certainty as regards minimum standards and job security in the QCS.
- (b) Nexus has put in place a number of protections for employees in addition to the protection provided by TUPE, the QCS TUPE Regulations and the QCS Pension Regulations. Nexus also intends to use the procurement process to ensure that Operators do not put in unrealistic tender bids and later cut pay and conditions. Nexus intends to seek from Operators a commitment to pay a Basic Hourly Rate for drivers and the Living Wage for all QCS staff which will reduce the risk that employment standards will drop.
- (c) Nexus has considered Operators' criticisms of the Basic Hourly Rate, however, Nexus considers that the proposed Basic Hourly Rate is a necessary, proportionate and appropriate method to achieve the aims stated in the Guidance. It would only affect remuneration packages in so far as it would raise the level of the lowest paid drivers and Nexus calculates this at less than 10% of all drivers. The BHR will only result in a wage increase in a limited number of cases, and is also intended as a protection for employees against any Operator who may seek to reduce wages. Operators will not be forced to increase all other wages as a result of the BHR as employees and Unions recognise its value in protecting the lowest paid drivers and protecting others from wages being cut.
- (d) Nexus does not intend to mandate Operators of Quality Contracts to harmonise all terms and conditions for employees, as it considers

that employers must retain flexibility over the management of their workforce – despite contracts being operated to a specification defined by the public sector, the delivery of services remains a matter for the private sector. All large Operators currently manage their staff successfully despite them all having staff on different terms and conditions within depots. It is not therefore accepted that staff working on different terms and conditions under the QCS would cause any disharmony or low morale, as it would not materially alter the current position. Nexus considers that one of the most important factors in terms of staff morale and motivation is for employers to have good levels of engagement with employees and Trades Unions. Bidders for Quality Contracts will be asked to describe in their delivery plan, which will accompany their tender, how they intend to engage with employees and Trades Unions. In addition, Unions will play a part in QCS governance processes thus giving employees and their representatives a greater say in how bus services are run in their area.

- (e) In any TUPE transfer it can be difficult to determine which employees transfer and which employees remain with their employer. However, in a QCS TUPE transfer there is much more clarity than in a standard TUPE transfer due to the QCS TUPE Regulations. These ensure that TUPE applies to the transfer, give the Local Transport Authority the right to obtain Workforce Information and further oblige the Local Transport Authority to describe Allocation Arrangements. In order to develop Allocation Arrangements Nexus has carried out detailed work analysing the employee information and has consulted with Operators and Trade Unions. This has ensured that the Allocation Arrangements are now much clearer and identify real organised groupings. The Allocation Arrangements state that employees who spend more than 50% of their time on 'affected local services' which will cease to be provided

on the coming into force of a Quality Contract, in the 6 month period up to QCS Commencement, will transfer to a new Operator. The procurement structure (depot based) and the network (replicated from the current network) also simplify the process for determining which employees are 'principally connected' to each contract.

- (f) Nexus accepts that depending on which Operators are successful in the bidding process, the scale of the employee transfer could vary. The QCS Proposal could lead to a small number of employees transferring to a new employer, a large-scale TUPE transfer throughout the QCS Area, or something in between. In any case Nexus is aware that adequate preparation, planning and communication throughout the process should ensure that it proceeds successfully. The Allocation Arrangements are part of the planning process and will be regularly updated in the lead up to QCS Commencement. Nexus proposes to make a further request for updated Workforce Information and intends to provide a dedicated facilitator to work with Operators, employees and Unions throughout the transfer process.
  
- (g) Nexus has considered whether Operators may make redundancies due to a QCS as suggested in Operator feedback. This is considered in more detail in the Public Interest Test criterion (e). In summary, employees who are Relevant Employees (as defined in the regulations) should not be made compulsorily redundant, for a defined period, due to the No Compulsory Redundancy Protection included in the Scheme by Nexus which will be a contractual requirement on successful bidders. Other employees who are outside the scope of the QCS due to the fact they work on excluded services, services in neighbouring areas or work in Head Office/regional/national roles could be made redundant (as they could in the current market), but only if their employers' requirements for their roles has ceased or diminished, or where

there is a "place of work" redundancy situation. Whether an Operator continues to have a requirement for these employees will depend on whether and to what extent an Operator has been successful in the bidding process.

- (h) Nexus has considered Operators' criticism of the No Compulsory Redundancy protection proposed in Supplemental Consultation. Nexus does not consider that NCR is unreasonable and considers that on the small number of contracts where there may be surplus staff, Operators will employ measures to utilise those staff in the most efficient manner. Further, Operators will not be prohibited from implementing voluntary redundancy schemes.
- (i) Nexus has examined the staff turnover for Operators. This is high compared with other industries, which suggests that a number of staff will leave by choice or retire during the 2 year No Compulsory Redundancy period, cutting down the number of surplus staff without any costs to the Operator. Nexus also considers that an Operator with surplus staff would make operational and organisational plans to make good use of all staff and also consider bidding for small contracts to use its staff effectively. This will ensure that staff morale is not affected by some staff being underutilised.
- (j) The No Compulsory Redundancy requirement does not create an uneven playing field for bidders as any successful bidder would inherit the same staff under TUPE and any successful bidder would be bound by the same requirement, therefore every bidder would be in the same position.
- (k) Nexus can clarify the position in terms of the application of TUPE to various groups of staff. All depot staff (whether they be drivers, clerical or engineers) who are Relevant Employees will transfer

under TUPE and are included in the Allocation Arrangements. Subcontracted staff will not transfer under QCS TUPE Regulations and will continue to be employed by their current employer. If an Operator contracts with third parties for the provision of services and those services are no longer required, then it would be a decision for that Operator as to whether to terminate those contracts. Any Operator of a Quality Contract may consider a range of service providers.

- (l) Nexus response to Union requests for RPI-related pay rises is that annual pay increases are a matter to be agreed between employers and employees/Trade Unions. However, Nexus can confirm that annual contract payments to Operators will increase each year in line with a blended inflation rate that reflects the different elements of bus industry costs. The blended inflation rate includes the Annual Weekly Earnings (AWE) inflation rate, which relates directly to increases in staff costs (further explained in 3.8 of the Affordability Analysis). Nexus has considered substituting RPI for the AWE rate and has assessed the costs of doing so, however Nexus considers that it would not be economic to use RPI and in case believes that AWE is the most appropriate measure of future growth in wages, which unions and employers can reflect in their wage negotiations.
- (m) Nexus has considered Union requests for longer contract terms to ensure stability for employees. Quality Contract legislation does not allow contracts for longer than 10 years. Nexus intends that contracts will be for 7+1+1+1 so there will be certainty for staff for at least 7 years and potentially 10 years.
- (n) Nexus accepts that some transferring employees may be required to move depot and has therefore put in place a travel allowance for such employees, which is explained in more detail below.

- (o) Nexus has considered Operator concerns that the lack of commercial and contractual relationship between incoming and outgoing Operators may cause problems in terms of the TUPE transfer. Nexus is of the view that most Operators will have experience of TUPE transfers. The unusual part in a QCS is that the outgoing Operator does not have to comply with contractual exit provisions. However, Nexus does not consider that Operators will take a wholly uncooperative approach in respect of transfer of employees as they will retain a duty of care to their staff. Furthermore, even if Operators have been unsuccessful on one contract they may have been successful on another contract and therefore will have an on-going relationship with Nexus and an incentive to assist with a smooth transition.
- (p) In terms of pensions, Nexus has analysed the Workforce Information provided and has obtained further details where possible in relation to particular pension schemes. Nexus considers that the concerns relating to employees losing value in their defined benefit pension schemes have been over-stated. By QCS Commencement most large Operators will have closed their defined benefit schemes to future accrual and there will be very few employees who are still active members of a defined benefit scheme. Most of those will be members of the LGPS and their pension rights should be unaffected as any new Operator of a contract will be able to apply to the LGPS for admitted body status.
- (q) In any event, employees are protected by the QCS Pension Regulations and any new Operator is obliged to provide 'broadly comparable pension rights.' The majority of employees will be members of defined contribution schemes by 2017 which are relatively easy for an employer to replicate.

- (r) Operators' concerns regarding immediate repayment of pension deficits and payment of higher contributions have been examined as possible adverse effects on Operators, in Section 6 of the Public Interest Test report. While Nexus considers that it is likely that there will be some effect on the ability of Operators to fund their defined benefit pension schemes, Nexus considers that the scale of the effect will not be at the level expressed by Operators and is of course dependent on whether or not they are successful in the bidding process. The likelihood of Operators having to make immediate payments of their total deficit is not considered to be high.

#### 9.8.4 Steps taken to address the issues raised

- (a) In response to Statutory Consultation feedback a number of employee related changes were proposed in Supplemental Feedback. The following have been taken forward and included in the QCS:
  - (i) **No Compulsory Redundancy Protection for a period of 2 years:** this will be a requirement on Operators of Quality Contracts and will ensure that Relevant Employees are protected from redundancy for a period of time after the transfer process.
  - (ii) **Basic Hourly Rate for bus drivers:** Nexus will seek a commitment from bidders for Quality Contracts to pay a minimum wage to bus drivers. Nexus will also seek a commitment from bidders to pay the Living Wage for all QCS employees. If these commitments are offered they will be contractualised for the term of the contracts.
  - (iii) **Multi-employer pension scheme:** provided there is enough interest from successful Operators to make the scheme viable, Nexus intends to procure a multi-employer defined

contribution pension scheme for all Operators to use to provide pensions for employees working on Quality Contracts.

- (iv) **Value the Bus Worker Procurement approach:** Within the procurement process Nexus intends to seek from bidders a commitment to develop, reward and motivate their employees.
  
- (b) Nexus has revised its overall procurement approach following Consultation feedback. The revised approach benefits employees and Operators in terms of the Allocation Arrangements and TUPE transfer of staff due to the fact that the large contracts are aligned with the current depot structure. This means that employees on similar terms and conditions in a depot will transfer together. It also simplifies the Allocation Arrangements (see Annex 5 of Scheme).
  
- (c) Nexus has further developed concepts mentioned in the QCS Proposal which were criticised in feedback as being unclear or lacking in detail:
  - (i) Nexus has revised the Allocation Arrangements following Consultation and receipt of the Workforce Information. The arrangements now provide more clarity for employees and Operators giving examples of organised groupings of employees at various levels and showing which Contract the groups could transfer to. The Allocation Arrangements will be subject to regular updating as stated in Annex 5 to the Scheme.
  
  - (ii) The concept of a travel allowance has been further developed and taken into account within Nexus financial modelling. Operators will be required to pay a travel allowance to employees whose primary workplace changes as a result of a TUPE transfer to a new Operator. This has been considered as an annual payment to an employee who has to travel further

(set mileage to be fixed) to his/her primary workplace as an employee engaged on Quality Contracts work than he/she travelled previously. It is envisaged that the payment would be made for the first 2 years of the QCS.

## 9.9 Theme 8: Concerns over adverse effects on Operators

### 9.9.1 Introduction

- (a) Criterion (e) under Section 124(1) of the Transport Act 2000 requires that the NECA must be satisfied that:

*“any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraphs (a) to (d)”*

- (b) The Guidance, to which regard must be had under section 134A of the Transport Act 2000, explains at paragraph 63 that criterion (e):

*“is designed to ensure that the LTA has properly considered any adverse impacts on operators, taking them fully into account by weighing them up against the relevant benefits when determining whether to proceed with a QCS.”*

- (c) The QCS represents a material intervention in the bus industry in Tyne and Wear, which if introduced will have significant impacts on incumbent Operators within the area. Such impacts are expected by Nexus to be predominantly but not exclusively adverse for the larger incumbent Operators.
- (d) As noted at paragraph 64 of the Guidance, the most direct impact of introducing a QCS is that Operators can no longer continue to run their existing services when the QCS comes into operation, but must instead operate services in accordance with and at the profit margin available to them under any Quality Contract(s) they are awarded. Nexus accepts that in a worst case scenario an existing Operator may fail to win any Quality Contracts and so would no longer be able to

operate the majority of Local Services within the area of the QCS (subject only to certain limited exceptions).

- (e) During Consultation on the QCS Proposal, the three large incumbent Operators expressed a range of concerns alleging significant and wide-ranging adverse effects on Operators that would arise from implementing the QCS.

#### 9.9.2 The issues raised

- (a) The issues raised under this theme were :
  - (i) The methodology for considering adverse effects on Operators is not clear, is incomplete or is unreasonable;
  - (ii) Nexus has not properly considered the effects on individual Operators;
  - (iii) Nexus fails to recognise that the QCS would deprive Operators of material and valuable commercial freedom;
  - (iv) Nexus does not consider the impact on shareholders and UK quoted bus industry as a whole, including any loss of shareholder value and goodwill;
  - (v) Nexus underestimates the impact on unsuccessful Operators (either partially or fully), or on Operators who choose not to bid;
  - (vi) Nexus should take account of key adverse effects including: loss of profits, bidding costs, stranded asset impacts such as decommissioning depots and vehicles, vehicle specification impacts and redundancy costs;
  - (vii) TUPE and pensions implications are significant for outgoing and incoming Operators, and not sufficiently analysed;

- (viii) It cannot be guaranteed that any Quality Contracts would be won by incumbent Operators;
  - (ix) Adverse effect on Operators is not proportionate to any improvement in well-being of persons in the QCS Area;
  - (x) Nexus fails to recognise the adverse effect on Operators of excluded services;
  - (xi) The likelihood of adverse effects occurring is increased due to the proposed procurement approach;
  - (xii) The inclusion of services outside the scheme area generates adverse effects for Operators in those areas; and
  - (xiii) Adverse effects will result from the uncertainty in the period leading up to the commencement of the QCS.
- (b) Concerns in respect of the adverse effects of the QCS were principally raised by the larger incumbent Operators, Arriva, Go North East and Stagecoach. None of the small Operators responded to the Consultation.
- (c) Regarding the approach to procurement, Operators stated their belief that the original three contract proposal resulted in contracts that were too large. This generated a level of unacceptable risk, the likely effect of which would be complete exclusion of Operators from Tyne and Wear for one or more of the larger Operators, with knock on consequences for cross boundary services and services relying on the same supporting resources. Operators cited many resulting impacts including stranded assets and additional costs.

### 9.9.3 Nexus response to the issues raised

- (a) Nexus accepts that in the QCS Proposal the assessment of adverse impacts was based on the information which was then available to

Nexus, and hence it was in that sense incomplete. This was inevitable, because as stated in paragraph 69 of the Guidance, one of the purposes of the Consultation was to elicit the views of Operators on the potential adverse effects that they believe they may suffer should the QCS be implemented. The Consultation has successfully elicited such information.

- (b) Nexus' assessment of proportionality was therefore provisional at that stage, as Nexus clearly had not at that point been able to inform its judgment with the Consultation responses. The need to revisit the assessment of the impacts of the QCS Proposal after Statutory Consultation is a feature of the process of developing a QCS.

#### 9.9.4 Steps taken to address the issues raised

- (a) Nexus has used the information provided by Operators during Consultation, alongside the information that it has developed itself through the Nexus Affordability Model and its knowledge of the bus market, to determine a full analysis of adverse impacts, improvements to well-being and the proportionality of those two balancing factors. This analysis is presented in Section 6 of the Public Interest Test Report, which also provides an analysis of the VPA Proposal offered by NEBOA in May 2014, and gives a commentary on the scale and likelihood of well-being benefits associated with that Agreement.
- (b) Nexus has carefully analysed each potential adverse effect that it or feedback from Consultees has identified including: loss of profits, bidding costs, stranded asset impacts such as decommissioning depots and vehicles, vehicle specification impacts and redundancy costs. In each case Nexus has carefully considered and sought to identify whether it accepts that a particular effect is an adverse effect of the QCS, whether it is an effect on larger or small Operators

and to ascribe a likelihood and value or range of values to that effect and a weight for the purposes of assessing proportionality - see Section 6.3 of the Public Interest Test Report.

- (c) To comply with criterion (e) and to inform its assessment of the proportionality of the QCS, Nexus has carefully considered the adverse effects of the QCS, taking into account the possibility of no contracts being awarded to existing Operators, as well as the impacts in the event that existing Operators win one or more contracts under the QCS but also lose part of their existing network.
- (d) Nexus acknowledges that the impacts of the QCS will be wide ranging, and will affect Operators' operations and profitability to differing degrees. Although it has not been possible to precisely quantify all of the impacts, Nexus accepts that they may be substantial, though the scale and nature of adverse effects will vary as between the large and small Operators and between Operators in each of those groups. Nexus considers that following Statutory Consultation and Supplemental Consultation it has given due consideration and appropriate weight to all of the heads of foreseeable adverse effect identified by the Operators in their Consultation responses and Nexus analysis of those adverse effects has been set out at an aggregate level (which considers all Operators as a whole) and, to the extent that it has been possible to do so, on an individualised Operator basis. Where an individualised assessment is not possible, Nexus has explained this in the Public Interest Test report to the NECA.
- (e) Nexus reviewed all the feedback from the larger Operators relating to their concern that Nexus would unnecessarily exacerbate the adverse effects of the QCS as a result of its proposed procurement approach. Following Supplemental Consultation on proposed revisions to the procurement structure designed to mitigate the

Operators' concerns, Nexus has recommended those revisions to the NECA and has assessed proportionality on that basis. The procurement structure developed by Nexus involves a revised structure for the Round 1 contracts, which are now assembled into 11 Lots representing groups of services currently operating from existing depots in the North East area. The Lots will be clustered in 3 tranches, each containing 3 or 4 Lots which will be tendered simultaneously with a phased deadline for completion of bids, allowing bidders to take the result of the previous tranche into account when finalising their bid for subsequent tranches.

- (f) The reduction in complexity for both bidders and Nexus of drafting and evaluating distinct delivery plans for each individual Lot simultaneously means only a single round of tightly controlled and time restricted negotiation is required, necessitating only a modest increase in timescales and resource. Although the award of the Quality Contracts will be phased, all Quality Contracts will commence simultaneously.
- (g) The approach to procurement for Round 2 Contracts remains unchanged.

## 9.10 Theme 9: Concerns over the modelling approach

### 9.10.1 Introduction

- (a) The Transport Act 2000 places a requirement on local transport authorities to ensure that a QCS provides value for money through criterion (d) of the Public Interest Test:

*“... the proposed scheme will contribute to the implementation of those policies in a way that is economic, efficient and effective.”*

- (b) Nexus is required to assess each of these ‘3Es’, along with the overarching measure of ‘value for money’ in order to evaluate whether criterion (d) can be met. This requires an assessment of the patronage, farebox and wider social and economic impacts of the QCS to be undertaken.
- (c) In addition, Nexus must also ensure that the QCS represents an affordable means to deliver the Objectives of the NECA. The QCS will generate fare and other revenues for Nexus, but the provision of the QCS bus services will incur new costs arising from the contracting of bus services with Operators, the provision of management of those contracts and the provision of services that support the operation of the QCS (such as marketing, journey information and smartcard systems). It is necessary for Nexus to assess those revenues and costs in detail in order to assure the NECA that the QCS Proposal can deliver its anticipated benefits in an affordable and sustainable way, and is able to cope with unexpected events that may change the revenues and costs of the QCS for a short or longer period of time.
- (d) In order to satisfy these two demands, Nexus has developed the Nexus Affordability Model. This model assesses the impact that various aspects of the QCS Proposal are likely to have on future bus patronage and farebox revenues. These are then compared to the

demand for bus services and fare revenues in a scenario without the QCS (the Do Minimum Scenario) in order to assess how the QCS Proposal can deliver improvements.

- (e) The model also looks in detail at what the costs of operating bus services will be, ranging from the cost of providing buses and drivers through to the administration of network planning, ticketing proposals and information on services.
- (f) The overall costs and benefits of the Scheme are then used to determine both the overall affordability of the QCS Proposal and, through a process of further analysis based on government guidance (WebTAG), what the wider costs and monetary value of passenger benefits are forecast to be. This work has been the subject of risk assessments to ensure the affordability and benefits are secure across a range of scenarios. To allow for such risks, a monetary contingency has been established as part of the affordability modelling, alongside the establishment of emergency procedures to allow Nexus to react to unanticipated events.

#### 9.10.2 The issues raised

- (a) The issues raised under this theme were:
  - (i) The QCS should be compared to a VPA Proposal rather than 'Do Nothing';
  - (ii) Nexus modelling implies a reduction to Operator profit margins;
  - (iii) Nexus has used Fare Elasticity incorrectly, affecting the estimated impact of the ticketing offer on demand and revenue;

- (iv) Demand uplifts from Customer Charter and simplified ticketing are not based on sound evidence and are overstated;
  - (v) The Nexus 'Do Minimum' projections appear to imply implausibly high levels of Operator profitability in the long term;
  - (vi) The impact of the QCS on services outside Tyne and Wear has not been correctly modelled;
  - (vii) Incorrect assumptions have been used regarding fare increases;
  - (viii) The modelling of criterion (d) of the Public Interest Test is incorrect and not consistent with guidance;
  - (ix) Forecasting and historical trend analysis is incorrect;
  - (x) There are general concerns regarding modelling approaches and assumptions employed;
  - (xi) There are general concerns regarding the data used in modelling;
  - (xii) A suitable framework or set of assumptions which support consultation proposals has not been provided and impacts on the opportunity to provide constructive feedback; and
  - (xiii) Issues raised by councils in Tyne and Wear regarding the assumptions made over the future availability of funding.
- (b) The feedback regarding affordability assessments and the modelling of 3Es, was mainly received from the three main incumbent bus Operators in Tyne and Wear, although further responses were received from other Statutory Consultees and members of the public. The three main Operators each employed economic advisors

to assess the affordability and 3Es analysis completed by Nexus (and its own economic advisors) and comment upon its appropriateness.

- (c) Much of the feedback received was necessarily of a detailed and complex nature and in some respects relied on commercially confidential data. Consultees asserted that:
  - (i) The way in which affordability and value for money was modelled by Nexus was subject to errors in key assumptions, such as demand elasticities and the impacts of Soft Measures on bus demand. It was argued that demand uplifts from the QCS Customer Charter and simplified ticketing were overstated and not based on sound evidence;
  - (ii) The value for money appraisal that underpins the analysis of the 3Es for the Public Interest Test did not correctly apply a number of aspects of the Guidance. For example, the indicator that Nexus selected to measure economy, and the composition of the efficiency ratio, was challenged;
  - (iii) The basis on which Nexus estimated the future growth in bus fares in the Do Minimum, and the impact that had on Operators' future profit levels, was questioned;
  - (iv) The assumption about how much profit successful bidders for Quality Contracts would actually make was questioned, suggesting it was unrealistic when compared to current performance in the London market;
  - (v) A suitable framework or set of assumptions has not been provided to support consultation proposals. This was particularly cited in the Supplemental Consultation as Consultees requested more information about the impact of

proposed revisions to the QCS Proposal on the affordability of the Scheme;

- (vi) The modelling of the proposed simplified fares was questioned, including the proposed change to the zone boundaries in Gateshead. For the latter initiative, some Consultees believed Nexus has overestimated the patronage and revenue impact; and
- (vii) Overall, and taking a different view across a range of assumptions made by Nexus, the Operators' economic advisors estimated that the QCS Proposal would only be affordable if fares rose ahead of the forecast increases in the Do Minimum Scenario, which would undermine the value for money case for the QCS.

#### 9.10.3 Nexus response to the issues raised

- (a) Nexus has carefully considered all Consultation responses and engaged with economic advisors with the three large Operators in Tyne and Wear to discuss the matters raised in their responses. These discussions and further examination of Nexus' modelling approach and assumptions resulted in a number of changes.
- (b) Nexus also accepts that its specific treatment of each of the 3Es would benefit from adjustment in order to reflect the precise wording of the Guidance and to reflect the overall view that the 3Es are closely aligned with the concept of value for money.
- (c) Nexus has carefully considered the matter of its treatment of Soft Measures (Customer Charter and simplified ticketing) and concluded that they are robust, for the reasons set out below.
  - (i) The single Customer Charter offered by Nexus is a significant improvement on the current charters and conditions of

carriage offered by commercial Operators. The single and common zonal ticketing system across all bus services, delivered through a comprehensive and flexible smartcard platform, provides a highly simplified ticketing proposition to all passengers. Indeed for many passengers, the Nexus proposal provides flat fare travel.

- (ii) Nexus has reviewed the validity of its assumption that demand will increase because of the introduction of Soft Measures such as simplified ticketing and a Customer Charter, following comments received from Operators during Statutory Consultation and Informal Stakeholder Engagement. Having taken into account of all comments made, as well as conducting additional detailed market research among target customers, Nexus remains confident that the demand assumptions arising from Soft Measures that it has applied in the Nexus Affordability Model are both robust and prudent.

#### 9.10.4 Steps taken to address the issues raised

- (a) Following Consultation feedback from Local Authorities, Nexus has made the modelling assumption in all scenarios (Do Minimum, VPA, QCS) that existing funding for bus services will be maintained in cash terms at 2013/14 levels for the 10 year period of the QCS rather than the previous assumption that resources in the QCS Proposal would grow with inflation after 5 years. This removes any disparity between the various scenarios and ensures that, in terms of available Public Sector Support, the financial models are comparable. The only exception occurs when the level of statutory Concessionary Travel Reimbursement for ENCTS increases above the available public sector resource.

- (b) The approach taken by Nexus to undertaking an assessment of the 3Es and value for money has been amended to more accurately reflect the Guidance, to eliminate the effect of costs and revenues transferring between Operators and Nexus in the QCS scenario, and to incorporate Operator's views on the key risks that apply to the QCS and VPA outcomes. These amendments are:
- (i) For Economy, the net change in costs of the QCS over the Do Minimum Scenario has been used as the indicator, rather than net present value;
  - (ii) For Efficiency, the dampening effect of the transfer of farebox revenue from Operators to Nexus has been reflected more accurately in the calculation of the Efficiency Ratio, with the result that the Ratio for the QCS has increased significantly;
  - (iii) For Effectiveness, the importance of the risk modelling in reflecting the certainty of the QCS delivering benefits over a wide range of risk scenarios has been further emphasised; and
  - (iv) Overall Value for Money, which the Guidance clearly states as an appropriate measure of the 3Es, has been assessed using the Net Present Value of the Scheme, taking account of costs and benefits.
- (c) Nexus considers that these alterations to its approach to 3Es address the concerns of Consultees and better reflect certain detailed aspects of the Guidance in respect of NAO definitions (whereas a greater focus on WebTAG was previously adopted, also in line with Guidance). The consequence of these changes is that the robustness of the Value for Money assessment is strengthened.
- (d) Nexus has thoroughly reviewed, and where necessary updated and amended, its Nexus Affordability Model and value for money

assessment in the light of these responses. A number of changes have been made to the models:

- (i) The Nexus Affordability Model has been updated to ensure its structure and layout fully meets best practice. All assumptions have been carefully examined to ensure they are supported by evidence wherever possible, and changes proposed by Operators have been incorporated where Nexus considers it appropriate;
- (ii) Changes to the QCS Proposal specification for vehicles and services have been included within the modelling where necessary. The incremental additional cost in the QCS of supplying vehicles that achieve Euro VI emission standards has been included;
- (iii) The assumptions about how fares will increase in the future have been modified such that they retain a strong relationship with recent trends but also better comply with Operators' feedback, which suggested fare increases should relate to future increases in bus operational costs, rather than retail prices. The previous assumption for annual increases in fares has been amended from RPI+3% to Bus-Costs+2%. This change addresses the feedback from Consultees regarding the Nexus Affordability Model suggesting excessively high Operator profits, in excess of current profit levels, in the Do Minimum Scenario;
- (iv) The assumption on how bus demand will change in response to changes in fares (price elasticities) have been amended in line with Operator feedback, from -0.48 to -0.46;
- (v) The impact of additional buses in the QCS and VPA scenarios, when compared to the Do Minimum Scenario, have been re-

examined and fully accounted for in terms of the impact on patronage, costs, revenues and benefits; and

- (vi) The impact of the revised zone boundary as outlined in Theme 4 has been modelled and incorporated.
- (e) Assertions made in error in Consultation feedback – for instance the assertion that the provision of its Scholars Services is a statutory duty on Nexus – have been examined but not incorporated.

## 9.11 Theme 10: The impact on well being

### 9.11.1 Introduction

- (a) The Consultation exercise for the Quality Contracts Scheme in Tyne and Wear received a considerable volume of positive feedback, identifying aspects of the QCS Proposal that Consultees considered would improve the well-being of people living and working in the QCS Area.
- (b) The quantity of positive feedback was outweighed by the quantity of negative feedback, received in particular from the three large incumbent Operators. This balance of response was to be expected given that as Statutory Consultees identified in accordance with section 125(3) of the Act, and given that these Operators will experience adverse effects as a result of the QCS Proposal and could therefore be expected to focus on that aspect of the QCS. This negative feedback, which addresses matters associated with well-being of people living and working in the QCS Area, is discussed under the relevant theme within this report.
- (c) However Nexus must equally consider the benefits and enhancements identified in feedback from other respondents. Where appropriate, it has sought to preserve valued characteristics of the QCS Proposal.
- (d) The section identifies the sources of these positive comments and outlines the key features which attracted support. Nexus accepts that the other themes are concerned with issues which could also have effects on well-being, and that the views of those opposing the QCS are that those effects would be negative. However, this Consultation Report addresses those themes separately.

### 9.11.2 The issues raised

- (a) The issues raised under this theme were:
- (i) An emphasis on contracted, customer-focused performance standards is welcomed;
  - (ii) The QCS includes an improved fares and ticketing offer including integration with Metro, SMART and fare capping;
  - (iii) Bus deregulation has been a negative experience for passengers and staff;
  - (iv) The QCS includes enhanced governance arrangements and customer involvement;
  - (v) The QCS is supported by a robust business case;
  - (vi) The QCS is the best solution when compared to alternatives;
  - (vii) The Scheme could be geographically extended if successful;
  - (viii) The QCS supports true integration, and offers resulting benefits;
  - (ix) QCS offers the potential for modal shift and wider passenger benefits;
  - (x) The QCS may provide benefits for employees; and
  - (xi) Revised procurement proposals offer a fairer and more competitive tendering system.
- (b) Support for the QCS Proposal was principally expressed by Passenger Groups, the local Councils and trade unions and also from members of the public, local organisations and community groups. There was a belief that the QCS Proposal offered the best solution to existing

problems when compared to alternative options as respondents believed that some benefits can only be realised by a QCS.

- (c) The QCS Proposal fare offer attracted particular support. The simpler and integrated structure, improved affordability for the majority and the Smart Ticketing features of the system were welcomed. The improved fare proposals for young people and students were also well received.
- (d) The five Tyne and Wear Councils all noted the importance of a stable and affordable Bus Network that attracts growing ridership, to the successful achievement of their own policies in terms of economic development, social inclusion, sustainable land use planning and environmental improvements. All Councils in Tyne and Wear noted that the proposals in the QCS Proposal were likely to contribute to the achievement of these policies.
- (e) It was stated that the enhanced governance proposals will ensure the public have a greater connection with the decision making process than under any other arrangement. The proposed introduction of an Annual Development Cycle and Local Bus Boards were welcomed. The Supplemental Consultation also proposed the creation of a User Consultative Forum in Tyne and Wear. The initiative was generally supported as it was considered to give passengers a genuine voice, albeit that further clarity on the Forum's role and governance was sought by some Consultees.
- (f) Wider passenger benefits were attributed to the QCS Proposal by some respondents. An accessible network which was not driven entirely by demand but additionally sought to connect residents to local facilities and an overall improvement in vehicle quality offered the potential for modal shift. In addition to access, respondents highlighted the importance of maintaining the stability of the local

network and recognised that the QCS Proposal was an effective means of securing and improving network stability and Accessibility.

- (g) Specific matters raised in the Supplemental Consultation including the revised employment standards and an alternative option for the procurement of Quality Contracts were also supported.

#### 9.11.3 Nexus response to the issues raised

- (a) Nexus has noted support for key features of the QCS Proposal or the variations as referenced in the Supplemental Consultation process. This has influenced elements of the QCS and is documented in the 'Changes made' sections across all Consultation themes.

#### 9.11.4 Steps taken to address the issues raised

- (a) In response to the Consultation feedback the following changes have been made:
  - (i) Nexus will establish a Tyne and Wear User Consultative Forum, with an independent chair, to allow direct dialogue between Nexus and passenger representatives, businesses, other stakeholders and the general public.
  - (ii) Other changes were adopted in light of positive feedback to the Supplemental Consultation relating to employees, procurement, fares and vehicle standards.

## 9.12 Theme 11: Suggested features and inclusions in the QCS

### 9.12.1 Introduction

- (a) Many responses offered alternative suggestions or improvements relating to particular elements of the QCS Proposal. Each suggestion was considered by Nexus in relation to their contribution to achieving the Public Interest Test through their contribution to affordability, deliverability and customer benefit.
- (b) The sources of and key suggestions are outlined below.

### 9.12.2 The issues raised

- (a) The issues raised under this theme were:
  - (i) Variations to or inclusions in the QCS Consultation processes;
  - (ii) Variations to or inclusions in information provision in the QCS;
  - (iii) Variations to or inclusions in reporting and target setting in the QCS;
  - (iv) Variations to or inclusions in the QCS fares and ticketing offer;
  - (v) Variations to or inclusions in frequency, Accessibility and QCS network matters;
  - (vi) Variations to or inclusions in the procurement and transition process to a QCS;
  - (vii) Possible improvements to integration in the QCS;
  - (viii) Variations to or inclusions in QCS vehicle standards and capacity; and
  - (ix) Variations to or inclusions in the customer services offer.

- (b) Alternative suggestions were principally offered by Passenger Groups and the local Councils but also from a non-incumbent Operator, members of the public, business parks, local organisations and community groups.
- (c) There was a concern that the governance process outlined in the QCS Proposal did not provide suitable direct customer engagement. It was considered vital that the interests of passengers were more effectively represented to ensure equal access for all and a system which is responsive to passenger needs. The Supplemental Consultation featured a proposal for a User Consultative Forum, which was intended to address this matter. Whilst broadly accepted, several passenger groups stressed the Forum must be independent and have access to appropriate performance management data to play a meaningful role.
- (d) A number of suggestions were offered to further improve the fares and ticketing offer. These included the extension of child fares, the introduction of graduated fares to the age of 25 and the introduction of group, carnet and part weekly tickets to provide improved flexibility. Touch in and touch out Smartcard readers were proposed to speed up boarding and bespoke ticketing arrangements for corporate customers and business parks were encouraged.
- (e) Whilst the retention of existing local bus services and access to vital services was supported, there were a number of requests relating to specific bus routes in terms of improving frequencies or, in some instances, including the services in the QCS.
- (f) Proposals to ensure the procurement process offered a level playing field between incumbent and non-incumbent Operators (regarding asset control, depot provision, fleet standards and the procurement process itself) were received.

- (g) It was also recommended by a number of respondents that all new vehicles must be fitted with audio visual announcements, in line with the RNIB Bus Charter, and Nexus should review its position on the specification of Low Carbon Emission Buses vehicles and wi-fi provision. Any further relaxation in vehicle standards to that proposed in the Supplemental Consultation would not be supported.

#### 9.12.3 Nexus response to the issues raised

- (a) Nexus accepts that a Tyne and Wear Consultative User Forum would make a positive contribution to governance of the QCS. The Forum would benefit from having autonomy and access to relevant information to effectively influence Local Services.
- (b) Nexus would welcome the opportunity to introduce extensions to child tickets and further improvements to fares for young people (noting that students in full-time education are already offered discounted tickets in the QCS). However after detailed fare modelling Nexus has concluded that to introduce such changes at this time would lead to an unacceptable revenue loss and affect the affordability of the QCS.
- (c) The Smartcard offered under the QCS Proposal will provide an opportunity to travel across Tyne and Wear on a Pay As You Go basis, with a cap on fares applied once the cost of a daily travel ticket for the modes used and the zones travelled in is reached. The Pay As You Go aspect of the Smartcard provides the ability to store up the value of tickets for irregular journeys, in a manner similar to a book of carnets or upgradable or extendable tickets. Therefore Nexus does not intend to introduce carnet type tickets at this point, although it will keep this matter under review.
- (d) Nexus intends to maintain a range of discounted tickets sold through members of a Corporate Discount Scheme, as is already the case for

Metro tickets. This will maintain the benefits of such schemes for those currently buying bus and multi-modal tickets through corporate schemes, and will indeed extend those benefits by reducing the need to select a particular bus operator for bus-only tickets.

- (e) The Smartcard proposal is intended to make smart travel a convenient and affordable preference for most public transport users, reducing the amount of cash handled on buses and speeding up bus boarding. However Nexus considers that there are reasons to not require touch-out for Smartcard journeys:
  - (i) many services will be wholly within a single zone and a flat fare for all travel on those services will apply;
  - (ii) asking passengers to touch out would slow down alighting times, which could have a negative effect on service journey times and reliability; and
  - (iii) the provision of a separate touch-out on posts would involve additional cost and is not well suited to vehicles with a single entry and exit door as envisaged by the Bus specification.
- (f) Nexus has changed the procurement structure and process in light of Consultation feedback (see Section 9.6). The revisions seek to ensure incumbent Operators are not materially disadvantaged, but that they and new Operators are able to bid for contracts on a level playing field. Nexus recognises the potential advantage that incumbent Operators have in owning depots and vehicles in the Tyne and Wear area. While it was suggested that Nexus should provide depots to remove this advantage, the acquisition of existing depot sites by Nexus is not considered affordable or desirable. However, alternative approaches to the provision of depots or suitable land sites, which would be available to all bidders, are being investigated

in partnership with the local authorities. Neither is it considered appropriate for Nexus to acquire vehicles for use by Operators of Quality Contracts. All Operators may have to invest in fleet replacement to meet the age and emission levels requirements within the specification. As Operators use a variety of methods to acquire buses, from outright purchase to rental or leasing, over the whole life of the contract Operators supplying new vehicles should not be disadvantaged against incumbents with vehicles already in place.

- (g) For reasons of affordability, Nexus is currently unable to consider further additions to the specification of QCS Services, beyond those set out in the Bus specification set out in Annex 4 of the QCS. During the procurement of Quality Contracts, the provision of on-board Audio-Visual Announcements will be encouraged but not mandated in the contract specification, with the inclusion of such facilities in bidders' Delivery Plans attracting an enhanced quality score. The specification will conform to all necessary disability legislation. However this matter will be kept under review, and further improvements may be made should additional funding become available, subject to approval from the NECA.

#### 9.12.4 Steps taken to address the issues raised

- (a) In response to the Consultation feedback the following changes have been made:
  - (i) Nexus will include a Tyne and Wear User Consultative Forum in the governance of the QCS. This Forum will be chaired by an independent person and will cover all public transport modes in Tyne and Wear, including bus.
  - (ii) Nexus will revise its approach to procurement of Quality Contracts, assembling the bulk of bus services into 11 Lots

based around existing operational bases, rather than the 3 much larger Lots included in the QCS Proposal.

- (iii) The vehicle standards will be relaxed during the two years that follow QCS Commencement, in order to assist the transition to a higher specification fleet for both incumbent and new Operators that are successful in winning Quality Contracts.

## 10. VOLUNTARY PARTNERSHIP AGREEMENT DISCUSSIONS

- 10.1 The Local Transport Act 2008 created the statutory concept of a Voluntary Partnership Agreement (VPA). A VPA is a particular type of quality bus partnership, in which local transport authorities undertake to provide particular facilities (or to do anything else for the purpose of bringing benefits to persons using Local Services) and one or more Operators of Local Services undertake to provide services to a particular standard as to be permitted to use those facilities. A VMA, or Voluntary Multi-Operator Agreement, is a VPA that involves two or more bus Operators and one or more local authority.
- 10.2 This section outlines the approach Nexus has taken to the development of a Voluntary Partnership Agreement in response to the TWITA's instruction for it to explore the scope for a VPA as a potential alternative to a QCS.
- 10.3 In response to TWITA's resolution, NEBOA was founded in 2012. NEBOA's objectives include the development of one or more VPAs to cover Tyne and Wear, Northumberland and Durham. Membership of NEBOA is open to any local bus Operator, and Go North East, Stagecoach and Arriva are all active members. At its inception NEBOA listed the other small Operators in Tyne and Wear as members but Nexus is unclear as to the extent such Operators remain members and they are not listed as prospective parties to the VPA Proposal.
- 10.4 Since the inception of NEBOA, Nexus, the Combined Authority and TWITA have worked with Operators to develop a VPA that could help achieve the Objectives set out in the Bus Strategy for Tyne and Wear.
- 10.5 There has been no wider consultation on the VPA and such a process would not be appropriate. Unlike the QCS the VPA is essentially a contractual document. There is no equivalent to the statutory process that must be gone through before a QCS can be made. Nexus therefore considers that the basis of the VPA is a proposal from the relevant Operators which must reflect what collectively they are prepared to offer. Then, to the extent that there is scope to do so, Nexus can seek to negotiate the terms with the Operators and respond to any requests from

Operators for investment by Nexus or the local highways authorities in works required to facilitate the introduction and operation of the VPA.

- 10.6 The VPA Proposal has evolved over the last 18 months; a first proposal was put forward by NEBOA in October 2012 revised versions followed in May 2013, December 2013, and the latest proposal was provided in May 2014. Although NEBOA have suggested that there has been insufficient engagement by Nexus, in fact numerous meetings have been held between Combined Authority Officers and NEBOA to jointly develop and clarify the VPA Proposal.
- 10.7 The VPA Proposal has been analysed in detail in the Public Interest Test Report and has been compared to the QCS, so as to allow the NECA to make a direct comparison and then make a well-informed choice on how to proceed.

## 11. CONCLUSION

11.1 This section considers whether the process and rigour employed by Nexus has complied with Section 125 of the Transport Act 2000 and the ITA's Direction and Guidance to Nexus on Consultation such that:

- The process has been sufficiently robust to engage all the necessary parties;
- Sufficient and suitable information has been provided to allow the parties to interpret and respond to the Consultation; and
- Nexus has appropriately considered and responded to all relevant points made by respondents to the Consultation.

11.2 In the first instance, Nexus is satisfied that all stages of the Consultation comply with the requirements of the 2000 Transport Act and all other legal requirements necessary for the conduct of a lawful consultation. In response to a query from Nexus, on 29<sup>th</sup> August 2013, the QCS Board confirmed that in considering the information available to them at that time, 'the Board is of the opinion that [Nexus' Consultation proposals] meet the minimum statutory requirements'.

11.3 Nexus is satisfied that it has consulted with all the persons and bodies required to be consulted as listed in Section 125(3) of the Transport Act 2000 and those additional persons and bodies identified for the purposes of Sections 125(3)(d) and 123(3)g.

11.4 All relevant documentation, including the Consultation Document, Direction and Guidance and instructions to and legal opinion of Counsel, were made available to Statutory Consultees, Non-Statutory Consultees and the public. In some instances, information was provided in hard copy or via printed literature but all information was available via the Nexus Consultation website which was accessible to all Statutory Consultees, Non-Statutory Consultees and the public free of charge.

- 11.5 Nexus has sought in all instances to give due and prompt consideration to all reasonable requests for clarification and further information from those participating in the Consultation, and published the request and Nexus's response on the Nexus Consultation website.
- 11.6 Nexus convened meetings with Statutory Consultees and other relevant public/ interest groups to seek feedback and discuss issues relevant to the Original QCS Proposal and the QCS Proposal. Records of all feedback have been made and published.
- 11.7 On receipt of Consultation responses, Nexus is satisfied:
- The responses have been reviewed, analysed and placed on the QCS website;
  - Any necessary revisions to the QCS documentation have been made to reflect the outcome of the Consultation responses; and
  - Appropriate decisions regarding the need to re-consult and extend Consultation periods have been made.
- 11.8 As requested in the Directions and Guidance, this report will be included in a suite of documentation to be considered by the NECA when deciding the whether to progress a QCS or VPA. As part of that documentation, the NECA will be directed to confidential unredacted copies of responses to the Consultation. Redacted copies of those responses have already been published on the Nexus Consultation website.
- 11.9 Finally, Quality Assurance of BSDP has been provided by SYSTRA Consultancy. In the course of the assurance process they have reviewed and considered Nexus' preparation for consultation, the Consultation process followed and the actions undertaken as a result of feedback received, and found all aspects to be satisfactory.

**APPENDICES**

Blank page

## **APPENDIX A - BACKGROUND TO QCS PROPOSAL**

### **Background to the QCS Proposal**

- a. On 24 November 2011 the TWITA resolved to consider alternative operational structures for the delivery of bus services within Tyne and Wear as a means both to preserve existing services within the current funding constraints and to deliver the Tyne and Wear Bus Strategy. The TWITA resolved on 24 November 2011 that Nexus should be directed to investigate the possibility of developing a QCS across the region as a possible mechanism for achieving the ITA's objectives and in parallel engage with bus Operators to see whether a VPA could be developed through dialogue that would provide an effective alternative mechanism to a QCS and report as appropriate to the TWITA on the two proposals once developed.
- b. A first stage of Informal Stakeholder Engagement was completed by Nexus over a three-month period between December 2011 and February 2012 considering options for the future delivery of the bus network in Tyne and Wear.
- c. The Informal Stakeholder Engagement consisted of meetings with Councillors in all five districts plus up to three meetings in each district for invited stakeholders, as well as a series of meetings for Operators. There were also a number of meetings for specific interest groups including Northumberland and Durham Councils, regional MPs and Trades Union representatives. In addition, information about the proposals and an opportunity to respond was available on the Nexus Consultation website and through printed literature.
- d. In total, 234 people attended Councillor and stakeholder meetings and 111 written responses were submitted. Except for the Operators, the responses showed a substantial majority positive reaction to the proposals, with a potential Quality Contracts Scheme receiving substantially more support than the alternative delivery option of Voluntary Partnership Agreements.
- e. An informal Stakeholder Engagement Results 2012 report was produced and distributed.

- f. The initial draft QCS proposal was developed, based on a theoretical bus route network which it was considered might, if implemented, deliver enhanced social and economic benefits across the region as well as delivering enhanced patronage levels. Nexus recognised however that this proposed route network did not reflect the current network in actual operation across the region.
- g. Following informal consultation between Nexus and the large Operators in particular; during which Nexus provided Operators with details of its financial modelling, Nexus was persuaded that this proposed approach was not sustainable and therefore could not be recommended to the ITA. Nexus therefore decided to abandon the first proposal and to develop a revised QCS Proposal based exclusively on the current route structure in day to day operation across Tyne and Wear. Requests for detailed information were made prior to the drafting of material, and during the Informal Stakeholder Engagement itself. Nexus gave clear assurances that it would maintain the confidentiality of any commercially sensitive material disclosed to it.
- h. Nexus also made requests for information from the Operators in order to assist it with its assessment of the QCS, in particular in relation to the impacts of the Proposal on the Operators themselves. Although some information was provided, the Operators were generally not forthcoming with the detailed information to back up their position on the alleged likely impacts of the QCS which Nexus had requested.
- i. In developing the revised Proposal dated July 2013, Nexus took full account of the feedback it had received in respect of the previous version of the QCS. Subsequent versions of the proposal refer to that feedback where relevant to explain the way in which the QCS Proposal has evolved.
- j. Nexus carefully considered the comments from Operators and others in undertaking the statutory proportionality test and related analyses.
- k. Based on that analysis Nexus recommended to the TWITA that the QCS Proposal was sufficiently robust for the TWITA to proceed to formal consultation if it determined to do so.

- l. On 26<sup>th</sup> July 2013, the QCS Proposal was presented to the TWITA for consideration. At this meeting, the TWITA resolved to proceed to Statutory Consultation on the QCS Proposal and Nexus was directed to undertake the consultation on its behalf subject to directions from the TWITA as to how the consultation should be conducted.
- m. A period of Formal Statutory Consultation then ensued from 30<sup>th</sup> July 2013.
- n. It should be noted that on 29<sup>th</sup> May 2014 the Transport functions of the former Tyne and Wear Integrated Transport Authority (TWITA) transferred to the North East Combined Authority (the NECA), (i.e. the discharge of all functions of the former TWITA that are provided for within the Transport Acts 1968, 1983, 1985 and 2000, the Local Government Act 1972, the Transport and Works Act 1992 and the Local Transport Act 2008).

Blank page

## **APPENDIX B - DIRECTION AND GUIDANCE TO NEXUS ON CONSULTATION**

### **1. GENERAL**

Pursuant to a resolution of the ITA dated 26 July 2013 Nexus is directed and hereby authorised to conduct a formal consultation into the QCS Proposal referred to therein pursuant to section 125 of the Transport Act 2000 ("Act").

Subject to an overriding requirement to use its discretion to ensure that at all stages the consultation will comply with the requirements of the Act and all other legal requirements necessary for the conduct of a lawful consultation, Nexus is directed to:

- 1.1 use the QCS Proposal as provided to the ITA on 17 July 2013 in conjunction with such ancillary documents as may be required as the basis of the consultation document for the purposes of section 125(1)(A) of the Act;
- 1.2 send this Direction and Guidance document to all statutory consultees and to publish it on the QCS Website (established in accordance with paragraph 1.6 below) so that the basis on which Nexus has been directed by the ITA to consult is made known to all relevant parties and the procedure to be followed by Nexus is clear:
- 1.3 make available, in addition to the consultation document, to all consultees and the public by download from the internet copies of the following:
  - 1.3.1 the instructions to and legal opinion of counsel provided to the ITA for its meeting on 26 July 2013; and
  - 1.3.2 any other relevant documents not included in the QCS Proposal;

Provision of one hard copy of the consultation document to each statutory consultee shall be free of charge. As provided below, Nexus shall provide internet access to documents for all persons free of charge. Nexus will be entitled to charge a reasonable copying charge for the provision of hard copies to any non-statutory consultee who requests such a copy of any document and to statutory consultees who request additional hard copies of any document.

- 1.4 give notice pursuant to sections 125(1) and (2) of the Act in appropriate newspapers circulating in the Tyne & Wear region, such notices to be published on or before 30 July 2013;
- 1.5 liaise with the QCS Board (once formed) as required in respect of the consultation process
- 1.6 establish and maintain a QCS Website which will be accessible to all statutory consultees and the general public free of charge and should include as a minimum:
  - 1.6.1 all information provided to the statutory consultees;
  - 1.6.2 copies of all documents to be made available to the general public for information purposes relating to the QCS Proposal;
  - 1.6.3 once they have been reviewed and assessed by Nexus copies of all formal/substantive responses to the consultation process;
  - 1.6.4 the ITA's resolution and all formal documents of the ITA relating to the conduct of the consultation and the development of the QCS;
  - 1.6.5 the draft QCS Scheme and related documents once produced by Nexus;
  - 1.6.6 any revisions to the QCS Proposal and/or other reports and/or other documents prepared by Nexus and provided to statutory consultees during the consultation process;
  - 1.6.7 any other non-confidential documents that Nexus considers are relevant to the QCS Proposal and may properly be placed in the public domain;

- 1.7 commence the formal consultation process on 30 July 2013 or as soon as reasonably practicable after that date and to allow such process to run for a minimum of 14 weeks;
- 1.8 as provided in Appendix B to the QCS Proposal (Stakeholder Consultation List) consult all the persons and bodies required to be consulted as expressly listed in section 125(3) of the Act and those additional persons and bodies included in the said Appendix for the purposes of sections 125(3)(d) and 125(3)(g) of the Act;
- 1.9 give due and prompt consideration to all reasonable requests for clarification and/or further information from persons participating in the consultation and publish the request and Nexus's substantive response on the consultation website;
- 1.10 request consultees to provide substantive responses to the consultation by no later than 5 November 2013. Nexus should then:
  - 1.10.1 review and analyse all the responses and place them on the QCS website;
  - 1.10.2 make any revisions to the QCS Proposal or draft QCS Scheme Order necessary to reflect the outcome of the consultation responses;
  - 1.10.3 consider whether it needs to refer any matters to the ITA or otherwise seek guidance from the ITA;
  - 1.10.4 consider whether it needs to re-consult with any of the statutory consultees in relation to any changes made to the QCS Proposal or draft QCS Scheme Order;

1.11 keep under review the time period permitted for consultation and to give due consideration to extending that period in relation to:

1.11.1 any reasonable request from a statutory consultee or other interested party that the period should be so extended;

1.11.2 permitting other consultees to consider and respond to any responses made by Nexus to questions/requests for additional information during the consultation period;

1.11.3 allowing analysis and consideration of any additional data/information disclosed to Nexus by consultees during the consultation process; and

1.11.4 any amendments to the QCS Proposal or draft QCS Scheme Order made by Nexus following consultation.

In respect of sub-paragraph 1.11.4 above Nexus may, in its sole discretion, decide to close the initial period of consultation following the conclusion of the prescribed 14 week period and then undertake a second phase of Supplemental Consultation;

1.12 proceed on the basis that the consultation and all consultation responses shall be in the public domain save that:

1.12.1 Nexus may, upon the reasonable request of any consultee made at the time of or in advance of any disclosure/communication, redact any commercially sensitive data or other information provided to it as part of the consultation provided that:

1.12.1.1 the un-redacted material may if requested be produced to the QCS Board and such redaction will not materially disadvantage other consultees; and/or

1.12.1.2 to the extent that Nexus places reliance on the information or refers to it in any report or submissions to the QCS Board the nature of the reference and Nexus's reliance on such information can be properly and clearly understood despite the redaction; and

1.12.2 Nexus may, also, redact the names of any private individuals referred to in any consultee responses for data protection reasons and redact any other sensitive information that is not required to be disclosed publically for the consultation process to be effective;

1.13 proceed on the basis that any correspondence or document sent to Nexus that is marked private and confidential or legally privileged or the equivalent is not intended to be a response for the purposes of consultation and should not be processed by Nexus as such.

1.14 seek, during the formal consultation period, to convene meetings to seek feedback and discuss issues relevant to the QCS Proposal or draft QCS Scheme:

1.14.1 with the statutory consultees individually and/or in such groups as Nexus considers relevant; and

1.14.2 with any other relevant public/interest groups who wish to obtain further information about the QCS Proposal or draft QCS Scheme and/or to provide feedback to Nexus.

Nexus shall keep a record of all questions/feedback obtained from such meetings and shall publish that material on the QCS website and provide it to the QCS Board at the appropriate time;

1.15 prepare, following the conclusion of formal consultation, a report to the ITA reporting on all matters arising from the formal consultation process that Nexus considers relevant, including

- 1.15.1 an analysis of all relevant issues arising from the consultation responses and any data received during the consultation process;
  - 1.15.2 any independent expert analysis required to analyse/comment on any consultation responses;
  - 1.15.3 Nexus's responses to any key criticisms of the QCS Proposal or draft QCS Scheme and/or any suggested amendments or variations to the QCS Proposal or draft QCS Scheme;
  - 1.15.4 Nexus's proposals for any amendments to the QCS Proposal and/or the draft QCS Scheme following consultation;
  - 1.15.5 Nexus's assessment of any revised Draft Voluntary Partnership Agreement provided to Nexus for consideration;
  - 1.15.6 having taken into account the consultation responses, Nexus's assessment of the compliance of the QCS with the section 124 Transport Act Test and, in particular, the proportionality of the QCS either in its current form and/or if any proposed amendments are adopted by the ITA; and
  - 1.15.7 Nexus's recommendations to the ITA as to whether and if so how to proceed with the QCS and any proposed changes to this document and /or any draft resolutions that Nexus requests the ITA to consider.
- 1.16 submit the report to the ITA for submission to a meeting of the full ITA and shall provide all assistance necessary to the ITA's officers to prepare for such a meeting.

## **APPENDIX C LIST OF STATUTORY CONSULTEES**

(Based on Information available at 17.07.13)

<b>Name of body/ person</b>	<b>Address</b>
<b>Bus/Taxi Operators</b>	
A-Line Coaches	Unit 1, Green Lane Industrial Estate, Pelaw, Gateshead NE10 0UW
Adapt (North East)	Burn Lane, Hexham, Northumberland, NE46 3PU
Anthony Kane Taxi Services	24 Alwinton Gardens, Lobley Hill, Gateshead NE10 0AP
Arriva Durham County/Northumbria	Admiral Way, Doxford International Business Park, Sunderland SR3 3XP
Astley Private Hire	6 Western Avenue, Seaton Delaval, NE25 0EA
Bells of Stamfordham	Burnside Garage, Grange Road, Stamfordham, NE18 0PF
Blue Line Taxis	31-35 Sycamore Street, Wallsend, NE28 6TH
Budget Buses	34 Vernon Close, South Shields NE33 5DF
Caris Coaches	Sunnyside High Lane, Heworth, Gateshead, Tyne and Wear, NE10 0ED
Community Transport Newcastle	The Grand, 6 Heaton Terrace, Byker, Newcastle upon Tyne NE6 1HR
Compass Community Transport	11-12 Sandmere Rd, Leechmere, Sunderland SR2 9TP
Compass Royston Travel	Bowesfield Lane Industrial Estate, Stockton upon Tees, TS18 3EG
Coopers Tourmaster Travel Ltd	Riverside Garage, Kitty Brewster Bridge, Bedlington, Northumberland NE22 7BS
Dean Taxis Ltd	415 Durham Road, Low Fell, Gateshead NE9 5AN
Dreadnough Coaches	198 Allerburn Lea, Alnwick, NE66 2QR
Durham City Coaches	Brandon Lane, Brandon, DH7 8PG
East Coast Taxis	21-23 Station Road, Whitley Bay, Tyne & Wear, NE26 2QY
ELCAP	Easington Lane Community Access Point - Brickgarth, Easington Lane, Sunderland, Tyne & Wear, DH5 0LE
Eurocar Private Hire	13 Wheattall Drive, Sunderland SR6 7HD
Five Star Taxi Services	81 High Street, Gosforth, Newcastle upon Tyne, NE3 4AA
Gardiner Brothers Ltd	Coulson Street, Spennymoor, County Durham, DL16 7RS
Gateshead Central Taxis	53 High Street, Felling NE10 9LU
Gem Travel	31 North Leigh, Tanfield Lea, Stanley, Co Durham DH9 9PA
Glen Valley Travel	Glen Valley Tours, Station Road, Wooler, NE71 6SP
Go North East/Go Northern	117 Queen Street, Bensham, Gateshead NE8 2UA
Henry Cooper Coaches	Lane End Garage, Annitsford, Northumberland NE23 7BD
Howard Snaith	Coach House, Otterburn, Newcastle, NE19 1HB
Hunter Brothers	The Garage, Tantobie, DH9 9TG
Ian's Travel Services	10 Dunstanburgh Court, Gateshead NE10 8DW
James Cooper & Son Ltd	Burnside Garage, Annitsford, Cramlington, Northumberland NE23 7BD
J and M Travel	132 Charnwood Avenue, Longbenton, Newcastle upon Tyne NE12 8SL
Jim Hughes Coaches Ltd	The Chase, Foxes Covert, Front Street, Dipton, Co Durham DH9 9JH
Kimberley Coaches	43 Cameron Road, Prudhoe, NE42 5AJ
Kingsley Coaches Ltd	Unit 20, Penshaw Way, Portobello Industrial Estate, Birtley DH3 2SA
Megabus	Buchanan Bus Station, Killermont Street, Glasgow, G2 3NW
Nightingale Coaches	Units 21/22, Greencroft Ind Estate, Stanley, Co Durham DH9 7XP
National Express Group Ltd	National Express House, Birmingham Coach Station, Mill Lane, Digbeth, Birmingham B5 6DD
Newcastle Park and Fly Ltd	Prestwick Industrial Estate, Ponteland, NE20 9DA
North East Equality & Diversity (NEED) Ltd	Alnwick Fire Station, South Road, Alnwick, Northumberland NE66 2PA
Northumbria Mini Coaches	59 North Seaton Road, Ashington, Northumberland NE63 0AG
Northumbria University	Estates Department, Ellison Building, Ellison Terrace, NE1 8ST
Perryman's Buses Ltd	Ramparts Business Park, North Road, Berwick upon Tweed, TD15 1TX
Peter Hogg	Bank End South Industrial Estate, Jedburgh, TD8 6ED
Premier Bus & Coach Ltd	Coniston Road, Kitty Brewster Industrial Estate, NE24 4RN
Priory Bus Coach Ltd	59 Church Way, North Shields, Tyne & Wear NE29 0AD
Pygall's Coaches	Unit 8a, Sea View Industrial Estate, Peterlee, County Durham, SR8

	4TQ
ReadyPay Ltd (t/a Phoenix Coaches)	Northumberland Taxi & Coach Centre, Phoenix House, South Albion Retail Park, Blyth, Northumberland NE24 5BW
Rothbury Motors Ltd	Lionheart Enterprise Park, Alnwick, NE66 2HT
Rowell Coaches	3B Dukesway, Prudhoe, NE42 6PQ
Scarlet Band	Welfare Garage, Ferryhill, DL17 9LA
Stagecoach Cumbria	Second Floor, Broadacre House, 16-20 Lowther Street, Carlisle, CA3 8DA
Stagecoach North East (Busways & Cleveland Transit)	North Bridge Street, Wearsheaf, Sunderland SR5 1AQ
Stanley Travel (North East) Ltd	The Bus Station, Stanley, Co Durham DH9 0NQ
Station Taxis (Sunderland) Ltd	11 Riverside Road, Southwick, Sunderland SR5 3JG
TGM – Classic	Classic House, Morrison Road, Annfield Plain, Co Durham DH9 7RX
Travelsure	67 Main Street, Seahouses, NE68 7TN
Tyne Valley Coaches	Tyne Valley Coaches Ltd, Acomb Garage, Hexham, Northumberland, NE46 4QT
Wearside Motor Services	Unit 1 Virginia Buildings, Prospect Road, Crook, Co Durham DL15 8JN
Wearside Bus Company	Brisbane House, West Park Road, Cleadon, SR6 7RR
Wright Bros (Coaches) Ltd	Central Garage, Nenthead, Alston, Cumbria CA9 3NP
<b>User Representatives</b>	
Bus Users UK	Terminal House, Shepperton TW17 8AS
Passenger Focus	Fleetbank House, 2-6 Salisbury Square, London, EC4Y 8JX
PTUG (Tyne & Wear Public Transport Users Group)	Contact via e-mail
<b>Local Authorities</b>	
Cumbria County Council	The Courts, Carlisle, Cumbria, CA3 8NA
Durham County Council	County Hall, Durham, Co Durham DH1 5UL
Gateshead Council	Civic Centre, Regent Street, Gateshead, NE8 1HH
Hartlepool Borough Council	Civic Centre, Victoria Road, Hartlepool TS24 8AY
Newcastle City Council	Civic Centre, Barras Bridge, Newcastle upon Tyne, NE99 1RD
North Tyneside Council	Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY
Northumberland County Council	County Hall, Morpeth, Northumberland NE61 2EF
South Tyneside Council	Town Hall & Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL
Sunderland City Council	Civic Centre, Burdon Road, Sunderland, SR2 7DN
<b>Police</b>	
Durham Constabulary	Durham Constabulary Police Headquarters, Aykley Heads, Durham, Co Durham DH1 5TT
Northumbria Police	Northumbria Police Force Headquarters, North Road, Ponteland, Northumberland NE20 0BL
<b>Trade Unions</b>	
GMB	Regional Secretary, 1 Mosley Street, Newcastle, NE1 1YE
Trades Union Congress	5 <sup>th</sup> floor, Commercial Union House, 39 Pilgrim Street, Newcastle upon Tyne NE1 6QE
Unison	Unison Northern, 140-150 Pilgrim Street, Newcastle, NE1 6TH
Unite	55 Call Lane, Leeds, West Yorkshire LS1 7BW
<b>Others</b>	
Network Ticketing Limited	Stagecoach Depot, Shields Road, Walkergate, Newcastle upon Tyne, NE6 2BZ

**APPENDIX D - LETTER FROM QCS BOARD DATED 25<sup>TH</sup> SEPTEMBER 2013**

Office of the  
**Traffic Commissioner**



John Furzeland  
Central Licensing Office  
Hillcrest House  
386 Harehills Lane  
Leeds  
LS9 6NF

Mr B Garner  
NEXUS  
Nexus House  
St James' Boulevard  
Newcastle upon Tyne  
NE14AX

DIRECT LINE: 07977 553529

E-MAIL: john.furzeland@otc.gsi.gov.uk

Website:  
[www.gov.uk/government/organisations/traffic-commissioners](http://www.gov.uk/government/organisations/traffic-commissioners)

Your Ref: BGG/AR/hb

Our Ref: QCS / jF

25 September 2013

Dear Mr Garner

### **PROPOSED TYNE AND WEAR QUALITY CONTRACT SCHEME FOR BUSES**

Thank you for your letter of 29 August 2013 in which you requested procedural advice on the statutory consultation that Nexus is currently holding regarding the proposed Quality Contract Scheme in Tyne and Wear.

You requested the QCS Board's (the Board) view on whether Nexus' proposed consultation activities are sufficient to meet the statutory requirement as detailed in Section 125 of the Transport Act 2000.

In accordance with Section 1268(2) of the Transport Act 2000 the Board can provide advice on matters of a procedural nature. Having considered your consultation proposals and further correspondence on the matter from Nexus' Cathy Massarella, the Board is of the opinion that it meets the minimum statutory requirement. This advice is given without prejudice based on the information currently known to the QCS Board. The Board reserve the right to review this opinion in the event of further information coming to their attention.

The Board also wish to advise that it is the responsibility of the Local Authority (or Authorities) proposing the scheme to ensure that all interested individuals, businesses or other Bodies are consulted on these proposals and they must be able to demonstrate their approach to ensuring this.

In accordance with Regulation 8 of The Quality Contract Schemes (QCS Boards) (England) Regulations 2009 a notice of this request and the advice given will be published in at least one newspaper within the area of the proposed scheme and in Notices and Proceedings. A copy of the request for advice, the email received from Ms Massarella and this letter will be made available on request to any interested party.

Yours Sincerely

A handwritten signature in black ink, appearing to be 'John Furzeland', with a large, sweeping flourish at the end.

John Furzeland  
For and on behalf of the QCS Board

Blank page

**IN THE MATTER OF A QUALITY CONTRACT SCHEME TO BE PROPOSED  
TO THE NORTH EAST COMBINED AUTHORITY BY THE TYNE AND WEAR  
PASSENGER TRANSPORT EXECUTIVE**

---

**ADVICE ON CONSULTATION AND PROCESS**

---

## **A. INTRODUCTION**

1. We are instructed by Alison Rhodes, solicitor, of Nexus' legal department on behalf of the North East Combined Authority [“the NECA”] to advise on several matters relating to a Quality Contracts Scheme [“QCS”] being proposed by the Tyne and Wear Passenger Transport Executive [“Nexus”]. We have been asked to provide this Advice to the NECA so that it is available to the Members of the NECA in advance of their meeting on 21 October 2014, at which we understand they will consider the issues raised by our instructions.
  
2. In line with those instructions, in this Advice we consider:
  - a. Whether the statutory preconditions for taking the step in section 126C(4) Transport Act 2000 (as amended) [“the TA”] – namely, sending a written request to the QCS Board to begin the performance of its statutory functions under section 126D TA – have been complied with;
  - b. Whether, as detailed in the Consultation Report, Nexus has undertaken adequate consultation on behalf of the NECA which complies with the NECA’s obligations under the TA;
  - c. Whether, based on the consultation responses to the formal and supplemental consultation and the revisions to the QCS now recommended by Nexus, there are any matters on which the NECA should require Nexus to re-consult before proceeding to consider the QCS; and
  - d. Whether, in light of our response to the above questions, it would be lawful for the NECA to make that request under section 126C(4).

3. By way of a separate advice, we advise on the lawfulness of Nexus' approach to proportionality and Nexus' consideration of the Public Interest Tests contained in section 124(1) TA.

## **B. SUMMARY AND OVERVIEW OF ADVICE**

4. In summary, we advise that:
  - a. Nexus has complied with the statutory preconditions to making a request under section 126C(4) TA;
  - b. The consultation carried out by Nexus was adequate, and complied with the requirements of the TA;
  - c. There is no requirement for Nexus to re-consult on any matters; and
  - d. In light of that advice, it would be lawful for the NECA to make a request under section 126C(4) TA.
5. Part II TA, insofar as it relates to the procedure to be followed up to and including the making of a Quality Contracts Scheme, is labyrinthine. We have therefore structured our Advice below so as to endeavour to make clear the process that has to be followed.
6. Unless otherwise indicated, references to statutory provisions are references to provisions in the TA. This Advice should be read alongside the Consultation Report, to which we refer, and which provides a detailed account of the consultation processes undertaken by Nexus. In light of that Report, we do not set out the consultation processes in detail here.

## **C. COMPLIANCE WITH THE STATUTORY PRECONDITIONS**

7. By way of an earlier advice dated 16 July 2013, Leading Counsel advised that Nexus had complied with the statutory requirements necessary for then Tyne and Wear Integrated Transport Authority ["TWITA"] to lawfully proceed to formal consultation on the QCS under section 125. The TWITA subsequently resolved to proceed to formal consultation on 26 July 2013, and directed Nexus to conduct that consultation

process on its behalf. References below to the NECA or to Nexus are therefore largely interchangeable.

8. Given Leading Counsel's previous Advice, we therefore concentrate in this Advice on the steps taken subsequent to the commencement of formal consultation.
9. Pursuant to sections 126C(1) to (3), before the NECA can proceed with the proposed QCS and before the QCS can be requested to discharge its functions, it is necessary for:
  - a. sections 125(1) to (3) to have been complied with; and
  - b. the QCS Board to have been sent:
    - i. copies of all written responses received from the persons consulted;
    - ii. information about representations made orally at meetings or other events held by the Nexus during the consultation period; and
    - iii. a summary of the action which Nexus has taken to comply with sections 125(1) to (3) TA.

10. We therefore consider below whether these requirements have been complied with

### **Section 125(1)**

11. Section 125(1) provides that if an authority proposes to make a QCS, they must:
  - a. Publish, in such manner as they think fit, a consultation document complying with subsection (1A);
  - b. Supply a copy of that document to each of the persons mentioned in subsection (3);
  - c. Give notice in accordance with subsection (2) of the proposed scheme in at least one newspaper circulating in the area to which it relates; and
  - d. Send a copy of that notice (the notice in sub-paragraph c. above) to the senior traffic commissioner as soon as reasonably practicable after its publication.

12. We now consider each of those requirements in turn. In doing so, we make reference to Nexus' *Consultation Report: Proposal for a Quality Contracts Scheme in Tyne and Wear* which specifically considers whether the requirements of section 125 have been met.

*Section 125(1)(a) – publication of the consultation document*

13. Section 125(1)(a) requires the consultation document to comply with subsection (1A) which in turn refers to compliance with subsection (1B). These subsections provide as follows:

*(1A) The consultation document mentioned in subsection (1)(a) must include—*

- (a) a description of the proposed scheme;*
- (b) a statement of the reasons why the authority or authorities are satisfied that the conditions in subsection (1) or, as the case may be, (1A) of section 124 are met;*
- (c) a description of any arrangements which the authority or authorities intend to make (including arrangements with other authorities or other persons) for or in connection with the implementation of the scheme;*
- (d) a statement of how any costs which the authority or authorities expect to incur under the scheme are to be defrayed;*
- (e) a declaration by the chief finance officer or officers of the authority or authorities that, after taking into account—*
  - (i) any estimated income from fares, and*
  - (ii) any grants from Ministers of the Crown or government departments,**any remaining funding required to implement the scheme can be provided from other resources available to the authority or authorities;*
- (f) the date by which any written responses to the consultation must be submitted to the authority or authorities.*

*(1B) The description of the proposed scheme contained in the consultation document in accordance with subsection (1A)(a) must include—*

- (a) an outline of the local services which are proposed to be provided under it;*
- (b) a statement of any proposed exclusions from the scheme by virtue of section 127(4).*

14. In his earlier Advice, Leading Counsel advised that the materials published for consultation in July 2013 complied with the requirements in section 125(1A) and (1B). We continue to be of that view.

15. In exercise of its discretion as to the method of publication under section 125(1), we understand that the consultation document was published on Nexus' website and was supplied in hard copy to all statutory consultees identified in section 125(3). A social media campaign was also undertaken to publicise the consultation and hard copies of the documentation were available at meetings and events held to publicise the QCS. So far as we are aware, no complaint was made about that process and we consider that such a publication strategy was appropriate.

16. We therefore advise that section 125(1)(a) has been satisfied.

*Section 125(1)(b) - supply of the consultation document*

17. Section 125(1)(b) requires that copies of the consultation document be supplied to each of the persons mentioned in subsection (3). Sub-section (3) provides:

*(3) After giving notice of the proposed scheme, the authority or authorities must consult—*

- (a) all persons operating local services in the area to which it relates,*
- (b) all other persons holding a PSV operator's licence or a community bus permit who would, in the opinion of the authority or authorities, be affected by it,*
- (c) such organisations appearing to the authority or authorities to be representative of users of local services as they think fit,*
- (d) any other relevant local authority any part of whose area would, in the opinion of the authority or authorities, be affected by it,*

...

*(f) the chief officer of police for each police area covering the whole or part of [the area to which the proposed scheme relates] 1 , and*

*(g) such other persons as the authority or authorities think fit.*

18. As set out in the Consultation Report, Nexus supplied copies of the consultation document and accompanying materials (ie more than was actually required to be supplied under subsection (3)) to all of those persons. We therefore advise that section 125(1)(b) has been satisfied.

19. It is also convenient to briefly consider section 125(3) under this heading. Section 125(3) requires Nexus to “consult”. We consider the requirements of adequate consultation below.

*Section 125(1)(c) – notice of the proposed scheme*

20. Section 125(1)(c) requires that notice is given of the proposed scheme in accordance with subsection (2) in at least one newspaper circulating in the area to which the proposed QCS relates. Subsection (2) provides:

*(2) The notice must—*

*(a) describe the proposed scheme, and*

*(b) state where a copy of the scheme and the consultation document may be inspected.*

21. As set out in the Consultation Report, Nexus published a notice complying with those requirements in four local newspapers so as to ensure effective coverage across the whole area of the proposed scheme. We therefore advise that section 125(1)(c) has been satisfied.

*Section 125(1)(d) – notification of the traffic commissioner*

22. Section 125(1)(d) requires that the notice referred to in section 125(1)(c) is sent to the senior traffic commissioner. As set out in the Consultation Report, in accordance with

that requirement, a copy of the notice was sent to the Senior Traffic Commissioner. Upon receipt of the notice by the Senior Traffic Commissioner a QCS Board was constituted pursuant to section 126A.

23. We therefore advise that section 125(1)(d) has been satisfied, as have all the other requirements in section 125(1).

**Section 125(2) and 125(3)**

24. We have considered compliance with sections 125(2) and (3) above in our consideration of section 125(1). We advise that they have been complied with. In doing so we note that, as set out in the Consultation Report<sup>3</sup>, the QCS Board previously advised Nexus, on a without prejudice basis, that its proposed approach to consultation would comply with the requirements of section 125.

**Section 126C(3)**

25. Section 126C(3) itself imposes further requirements additional to those contained in section 125 by requiring compliance with section 126C(2) before a request can be made to the QCS Board under section 126C(4). Section 126C(2) provides:

*(2) If the authority or authorities wish to proceed with the proposed scheme, they must send each of the following to the QCS board as soon as reasonably practicable after the end of the consultation period—*

- (a) copies of all written responses received from the persons consulted,*
- (b) information about representations made orally at meetings or other events held by the authority or authorities during the consultation period,*
- (c) a summary of the action which the authority or authorities have taken to comply with the requirements of section 125(1) to (3).*

26. We understand that the QCS Board have been supplied with that documentation and that the information was supplied as soon as reasonably practicable.

27. Over and above that requirement, we also understand the QCS Board have also been supplied with responses from the supplementary consultation that Nexus engaged in after the close of the formal statutory consultation process.

28. We therefore advise that Nexus has complied with the requirements of section 126C(3).

### **Conclusion**

29. It follows that Nexus has complied with the statutory pre-conditions for the NECA to be able to lawfully proceed to make a formal request under section 126(4).

## **D. ADEQUATE CONSULTATION**

30. Above, in our consideration of section 125(3), we referred to the need for consultation to have been “*adequate*”. We consider that requirement here.

### **Additional consultation**

31. The first point we wish to highlight is that Nexus’ consultation exercises have gone beyond what is required by the statutory regime. While there is only one consultation “trigger” under the statutory regime, Nexus consulted before this trigger was reached and then consulted again after considering making changes to the QCS Proposal in light of the responses received under the statutory consultation. In addition, Nexus undertook a public information campaign alongside the statutory consultation process. These additional consultation processes are described in detail in the Consultation Report.

32. Nexus’ discussions with operators and other parties before the formal statutory consultation, was fully in accordance with the statutory Guidance (see para 10). Similarly, as set out in the Consultation Report, the targeted consultation Nexus engaged in after the statutory consultation accorded with the Guidance (see para 16). In addition, Nexus was provided with direction and guidance from the TWITA on how to conduct the consultation.

### **The requirements of adequate consultation**

33. Although there is no general duty to consult, *R v North and East Devon Health Authority, ex parte Coughlan* [2001] QB 213 at [108], makes it clear that where consultation is carried out, in order for it to be adequate it is necessary that:

- a. consultation be undertaken at a time when proposals are still at a formative stage;
- b. sufficient reasons for particular proposals be given to allow those consulted to give intelligent consideration and an intelligent response;
- c. adequate time must be given for this purpose; and
- d. the product of consultation be conscientiously taken into account when the ultimate decision is taken.

34. Addressing each of those points in turn, it is clear that Nexus' approach to consultation was adequate:

- a. Nexus consulted in accordance with the statutory regime. No QCS has yet been made, nor has the QCS been considered by the QCS Board. It is still open for changes to be made to the QCS. Indeed, Nexus made alterations to the proposed QCS – for instance to the structure of the procurement – in response to consultation. It follows that the QCS Proposal was still at a formative stage when the consultation took place, and indeed remains at that stage today.
- b. Nexus' consultation was accompanied with detailed documentation outlining the QCS Proposal and Nexus' reasons for what was proposed. Responses provided to the consultation exercises were full, detailed and considered. Although some responses indicated that insufficient information had been provided, the duty is one of substance, and we are of the opinion that no consultee was deprived of the opportunity "*to identify and draw to the attention of the decision maker relevant factors which the decision maker may, either by accident or design, have overlooked when deciding upon a preferred*

*option for consultation*” (see *R (JL & AT Baird) v Environment Agency* [2011] EWHC 939 (Admin), at [41] per Sullivan LJ).

- c. As noted above, there have essentially been three consultation periods. The formal statutory consultation process was extended in response to consultee requests for additional time. In accordance with the statutory Guidance, the statutory consultation process lasted for in excess of 12 weeks; as explained in the Consultation Report, the statutory consultation period lasted for 17 weeks and 3 days. The subsequent targeted supplemental consultation period lasted for 8 weeks, and no time extensions were requested. We are therefore of the view that every consultee had adequate time to prepare their case.
- d. The responses to consultation have clearly been conscientiously taken into account; this is plain from Nexus’ considered response to the representations it received, as evidenced particularly in the Consultation Report and the Public Interest Test Report. Moreover, Nexus has made changes to the proposed QCS in response to those representations.

35. We therefore advise that the consultation undertaken by Nexus has been adequate.

**E. ARE THERE ANY MATTERS ON WHICH NEXUS SHOULD RE-CONSULT?**

36. At the outset we note two important points:

- a. First, Nexus has been alive to the potential need for re-consultation throughout the process. Having initially informally consulted on a proposed QCS, Nexus made changes to that QCS before proceeding to formal consultation on those revisions. Following the conclusion of the formal statutory consultation, Nexus then re-consulted on certain issues and the responses to that re-consultation led to Nexus making changes to the proposal.
- b. Secondly, there is no obligation in the TA (or in the statutory Guidance) for Nexus to re-consult on proposed changes to a QCS following formal consultation.

37. It is clear as a matter of authority that there is no duty to re-consult unless there is a *“fundamental difference between the proposals consulted on and those which the*

*consulting party subsequently wishes to adopt*” (see *R (Smith) v East Kent Hospital NHS Trust* [2002] EWHC 2640 (Admin) at [45]). Further, where the revised proposals emerge from the consultation process itself, there is no general duty to re-consult on those revisions (see *Smith*, at [57]).

38. We do not consider that there was any fundamental difference between the QCS consulted upon during the formal statutory consultation and the QCS as it is now formulated, and as proposed to be referred to the QCS Board. The main change relates to the phasing of the procurement strategy. The basic structure of that strategy remains unchanged, and the phasing was introduced to address concerns expressed in responses to the consultation process.

39. We therefore consider that a further round of re-consultation is unnecessary. In any event, we again emphasise that at this stage the QCS is only being sent to the QCS Board for consideration. Operators will have a full opportunity to make representations to the QCS Board on the revisions to the QCS and, also, whether the statutory consultation requirements have been met, since examination of that matter is one of the statutory functions of the QCS Board: see section 126D(1)(b) and (3). We refer to this provision further, below, in relation to the risks of legal challenge at this stage of the process.

#### **F. WOULD IT BE LAWFUL FOR THE NECA TO MAKE A REQUEST UNDER SECTION 126C?**

40. It follows from our Advice above, and the accompanying Advice we have provided on the Public Interest Tests and proportionality, that we are of the opinion it would be lawful for the NECA to make a request for the QCS Board to consider the QCS, pursuant to section 126C.

#### **G. NEXT STEPS**

41. If the NECA are of the view that it is appropriate to make a request to the QCS Board under section 126C(4) for it to begin its statutory function under section 126D, then by virtue of section 126C(5) it is necessary for the NECA to:

- a. publish that request;
- b. send to the QCS Board a copy of the proposed QCS it is to consider under section 126D (in addition to the documents it will already have received); and
- c. as the proposed QCS to be sent to the QCS Board differs from the proposed QCS consulted upon under the statutory consultation process in section 125(1), publish a further notice stating where the now proposed QCS may be inspected.

42. These will obviously be fairly simple steps to comply with. Once sections 126C(4) and (5) are complied with, it will then be for the QCS Board to discharge its statutory functions in accordance with section 126D.

#### **H. THE RISK OF CHALLENGE TO THE NECA'S DECISION**

43. Notwithstanding our Advice that it would be lawful for the NECA to refer the QCS to the QCS Board, the potential remains for a challenge to be made to any such decision alleging that the statutory prerequisites to such a request being made have not been complied with.

44. However, we note that by virtue of section 126D(1)(b), one of the duties of the QCS Board is to *“form an opinion whether the authority or authorities have complied with the requirements of section 125(1) to (3)”*.

45. Sections 126D(3), (4) and (6) make it clear that if – contrary to our advice – the QCS Board determine that Nexus has not complied with section 125, that determination does not result in the QCS Board not having jurisdiction to consider the QCS. Instead, section 126D(3) gives the QCS Board the power to make recommendations as to actions to take in response. By virtue of section 126D(6), if those recommendations are complied with and notice of that compliance is published, then section 126D applies as if those requirements had in fact been complied with. The result of that is that the QCS Board can proceed to consider the QCS Proposal in accordance with section 126D.

46. Given the statutory role of the QCS Board that we have outlined above, we consider that any legal challenge on the basis that Nexus has not complied with the statutory preconditions to making a request under section 126C(4) would be premature at this stage. Judicial review is a remedy of last-resort. Where an alternative, satisfactory and convenient remedy is available, judicial review will not be available. For the reasons given, the QCS Board is an alternative remedy for any challenge to a decision under section 126C(4) on the basis that statutory procedures have not been complied with. Hence any such challenge by way of judicial review at this stage would be inappropriate.

## **I. SUMMARY**

47. We therefore advise that the NECA can lawfully proceed to make a request under section 126C(4) to the QCS Board that it begin to discharge its statutory functions.

48. Please do not hesitate to contact us if we can be of any further assistance.

**JAMES PEREIRA QC**  
**JACK CONNAH**

Francis Taylor Building  
Inner Temple, EC4Y 7BY

1 October 2014

This page is intentionally left blank

**IN THE MATTER OF A QUALITY CONTRACT SCHEME TO BE PROPOSED  
TO THE COMBINED AUTHORITY BY THE TYNE AND WEAR PASSENGER  
TRANSPORT EXECUTIVE**

---

**ADVICE ON THE PUBLIC INTEREST TEST AND  
PROPORTIONALITY**

---

**A. INTRODUCTION**

1. We are instructed by Alison Rhodes, solicitor, of the Tyne and Wear Passenger Transport Executive's ["Nexus"] legal department on behalf of the North East Combined Authority ["the NECA"] to advise on several matters relating to a Quality Contracts Scheme ["QCS"] being proposed by Nexus. We have been asked to provide this Advice to the NECA so that it is available to the Members of the NECA in advance of their meeting on 21 October 2014 when we understand that they will be meeting to consider the issues raised by our instructions.
  
2. In line with those instructions, in this Advice we consider:
  - a. Whether the Public Interest Test Report ["the PIT Report"], and in particular its proportionality analysis, represents a lawful analysis on each of the statutory tests under section 124 of the Transport Act 2000 (as amended) ["TA"];
  - b. Whether in analysing those matters, Nexus has taken into account all matters that it should properly have taken into account and discounted all of those that it should not;
  - c. Whether the QCS would, if made:
    - i. engage the rights of the Operators under Article 1 of the First Protocol of the European Convention on Human Rights ["A1P1"]; and
    - ii. be proportionate for the purposes of A1P1;
  - d. Whether the draft QCS, as revised and as annexed to the PIT Report is in a form which could, subject to review by the QCS Board, be lawfully made by the NECA if it so decided; and

- e. Whether, in all the circumstances, the QCS and supporting information in the appendices provide sufficient information to enable the NECA to make a lawful decision as to whether or not to refer the QCS to the QCS Board.
3. In answering these questions we have taken the opportunity to comment on certain aspects of the Opinion written by Michael Beloff QC and Naina Patel on behalf of Stagecoach, dated 22 November 2013. By way of a separate Advice, we advise on whether Nexus has complied with the statutory formalities required for a request to be made to the QCS Board to discharge its functions under section 126D of the Transport Act 2000.

## **B. SUMMARY AND OVERVIEW OF ADVICE**

4. In summary, we advise that:
  - a. The PIT Report represents a lawful analysis of the statutory tests contained within section 124(1);
  - b. Nexus has taken into account all, and only, material considerations in reaching its conclusions;
  - c. As regards A1P1:
    - i. although it may be that the operators' business goodwill is not a possession under A1P1, the NECA should proceed on the basis that the QCS, if made, would engage the rights of operators under A1P1; and
    - ii. Nexus' assessment sets out a justifiable conclusion that interference with those rights would be proportionate;
  - d. The draft QCS, as revised and annexed to the PIT Report, is in a form which could, subject to review by the QCS Board, be lawfully made by the NECA if it so decided; and
  - e. The QCS and supporting information in the appendices provide sufficient information to enable the NECA to make a lawful decision as to whether or not to refer the QCS to the QCS Board.
5. Unless otherwise indicated, references to statutory provisions within this Advice are references to provisions in the TA. This Advice should be read alongside the PIT

Report, to which we refer, and which provides a detailed assessment by Nexus of the QCS's compliance with the public interest tests set out in section 124(1).

**C. NEXUS' CONSIDERATION OF THE PUBLIC INTEREST TEST CONTAINED IN SECTIONS 124(1)(a) - (d)**

6. Before a QCS can be “made” it is necessary for the NECA to be “*satisfied that*”:
  - a. the proposed scheme will result in an increase in the use of bus services in the area to which the proposed scheme relates. We note that the TA makes it clear that an increase in the use of bus services includes reducing, arresting or reversing a decline in the use of bus services;
  - b. the proposed scheme will bring benefits to persons using local services in the area to which the proposed scheme relates, by improving the quality of those services;
  - c. the proposed scheme will contribute to the implementation of the local transport policies of the NECA;
  - d. the proposed scheme will contribute to the implementation of those policies in a way which is economic, efficient and effective; and
  - e. any adverse effects of the proposed scheme on operators will be proportionate to the improvement in the well-being of persons living or working in the area to which the proposed scheme relates and, in particular, to the achievement of the objectives mentioned in paragraphs (a) to (d).
  
7. The statutory Guidance on QCSs provides guidance on those “*public interest criteria*”. It provides (at para 7) that they are:

*“... intended to ensure that the QCSs can be made only where there is a demonstrable, evidence-based case for doing so and where any adverse impacts on operators have been duly taken into consideration by the LTA.”*
  
8. There is a clear line of authority that where a statutory provision is framed subjectively it will be for the decision maker to evaluate the facts and come to a judgment on them. This is reflected in the Guidance, which provides (at para 52) that

the essential question is “*whether the authority’s overall judgment about each of the “public interest” criteria is reasonable*”. As stated in the well-known *Tameside* case:

*“... the court must inquire whether those facts exist, and have been taken into account, whether the judgment has been made on a proper self-direction as to those facts, whether the judgment has not been made upon other facts which ought not to have been taken into account”* (see *Secretary of State for Education and Science v Tameside Metropolitan Borough Council* [1977] AC 1014, 1047).

9. The question on which we have to advise therefore is not upon the correctness of Nexus’ judgment, but its lawfulness. In this section, we concentrate on the public interest test contained in sections 124(1)(a) to (d).
10. The PIT Report sets out, in detail, Nexus’s consideration of whether those elements of the public interest test are satisfied. In respect of Test (a), Nexus has set out a “Do Minimum” scenario which represents its considered view of how the bus market in Tyne and Wear will evolve without intervention in that market. Assessed against that scenario, Nexus has set out its reasons for being satisfied that the QCS will grow bus patronage in the QCS area. In our view, in reaching that conclusion, Nexus has taken into account relevant factors, and has not taken into account any irrelevant factors. We therefore consider the NECA could lawfully conclude that Test (a) is satisfied.
11. In respect of Test (b), Nexus has clearly set out the improvements in well-being arising from improvements in the quality of the services that would be delivered under the QCS. We have no reason to doubt that on that basis the NECA can lawfully be satisfied that the QCS will deliver those benefits.
12. In respect of Test (c), Nexus has conducted a careful assessment of the relevant local transport policies and has concluded that the QCS will contribute towards their implementation. That assessment, in our opinion, allows for the NECA to lawfully conclude that the QCS will contribute towards the implementation of its transport policies.

13. In respect of Test (d), Nexus has explained in detail the modifications it has made to its assessment of the “3Es” of economy, efficiency and effectiveness in response to consultation feedback. In doing so, Nexus has concluded in the PIT Report that its approach is now in accordance with that outlined in the statutory Guidance. In doing so, it appears to us to have provided sufficient reasons to support that conclusion. We therefore consider that the NECA could lawfully be satisfied that Test (d) is satisfied.

#### **D. THE PROPER APPROACH TO TAKE TOWARDS A PROPORTIONALITY ASSESSMENT**

14. This leaves the question of proportionality. We have set out section 124(1)(e) above. The Guidance explains that this section:

*“63 ... is designed to ensure that the LTA has properly considered any adverse impacts on operators, taking them fully into account by weighing them up against the relevant benefits when determining whether to proceed with a QCS.”*

15. Although the concept of proportionality was originally developed in the context of European Union and human rights jurisprudence, section 124(1)(e) provides a basis in domestic law for applying a proportionality standard.

16. There are four elements to the legal test for proportionality, as recently restated by Lord Sumption in *Bank Mellat v HM Treasury (No 2)* [2013] 3 WLR 179 at [20]. For our purposes, these four elements are:

- a. Whether the objectives sought to be achieved through the QCS are sufficiently important to justify the adverse effects on operators;
- b. Whether the QCS is rationally connected to the objectives;
- c. Whether a potentially less intrusive measure, such as a VPA, could have been used; and
- d. Whether, having regard to these matters and to the severity of the consequences, a fair balance has been struck between the rights of the Operators and the interests of the community.

17. Notwithstanding that those elements are presented as distinct requirements, in *Bank Mellat* it was recognised that “*in practice they inevitably overlap because the same facts are likely to be relevant to more than one of them*”. It follows that there is no requirement for a proportionality assessment to mechanistically separate out the elements.
18. There are several matters we wish to specifically address.

**Least intrusive means**

19. *Cusack v Harrow LBC* [2013] UKSC 40, [2013] 1 WLR 2022 provides a useful example of the courts’ approach to proportionality in a situation similar to the one here where there is a choice between two measures; in this case, the QCS or the VPA. The approach that Beloff and Patel seem to be advocating in their Opinion is that it cannot be proportionate to introduce a QCS where there exists another route – the VPA – which has less of a detrimental impact on existing operators.
20. Putting aside for a moment the argument that the VPA will not deliver the same benefits as a QCS, it seems to us from *Cusack* that the suggestion made by Beloff and Patel is incorrect as a matter of law. In *Cusack* there were two statutory powers available which achieved the same result; the only salient difference was that one carried a right to compensation and the other did not. The Supreme Court concluded that it was proportionate to adopt the measure that did not carry compensation even though the other would have necessarily had less of an impact on Mr Cusack.
21. Another comparison is *R (Sinclair Collis) v Secretary of State for Health* [2011] EWCA Civ 437, [2012] QB 394 which concerned cigarette vending machines. There, the two options presented were either a complete ban on cigarette vending machines or voluntary regulation. The Court of Appeal held<sup>1</sup> that it was not irrational to proceed with a ban given the disadvantages of a voluntary scheme of regulation (including uncertainty as to whether such a scheme would have the same benefits as a ban in reducing child smoking). Neuburger LJ (as he then was) held (at [252]) that:

---

<sup>1</sup> By a majority – although the Supreme Court refused permission to appeal

*“It would be taking the law further than it has been taken by the Court of Justice if we were to hold that a Government measure infringed proportionality simply because another, less onerous, alternative was not considered, in circumstances where it is apparent that the Government reasonably took the view that that alternative would significantly fall short of the measure in terms of achieving the aim sought to be achieved.”* (emphasis added)

22. As regards the role of alternatives in the proportionality analysis, in the same case, Arden LJ noted (at [146]) that:

*“There are in fact a large number of instances in the jurisprudence of the European Court of Human Rights also where the “least intrusive means” test is not applied as part of the test of proportionality. These instances include AIP1 to the Convention. Thus, for example, in James v UK (1986) 8 EHRR 123 at [51] the court held:*

*“The availability of alternative solutions does not in itself render the leasehold reform legislation unjustified; it constitutes one factor, along with others, relevant for determining whether the means chosen could be regarded as reasonable and suited to achieving the legitimate aim being pursued, having regard to the need to strike a “fair balance”. Provided the legislature remained within these bounds, it is not for the court to say whether the legislation represented the best solution for dealing with the problem or whether the legislative discretion should have been exercised in another way.”*

### **Arithmetical calculations**

23. Although many of the matters Nexus has considered are monetary in nature, proportionality is not a mechanistic or arithmetical exercise. Again in *Sinclair Collis* (at [238]), Neuberger LJ stated that:

*“... neither principle nor common sense, nor the Court of Justice’s jurisprudence supports the notion that the assessment of proportionality must involve such an arithmetical or relatively mechanistic approach.”*

24. Proportionality is therefore a qualitative assessment, not purely a quantitative one. While monetising benefits and disadvantages may sometimes be possible, it is not always a necessary part of the proportionality assessment.

### **Uncertainty of outcomes**

25. The decision on the proportionality of the QCS has to be made at the time of the making of the QCS. However, although the decision has to be made at that point, the evidence going to the proportionality of the measure will obviously have to address the future impacts and benefits of the QCS which, as Nexus has pointed out, are inherently uncertain. That uncertainty is essentially an evidential point in two senses (although the difference may be largely semantic):

- a. first, in the sense of whether or not there is sufficient evidence to say that the benefits outweigh the drawbacks; and
- b. secondly, in the sense of whether it is proportionate to exercise a control<sup>2</sup> over the operators’ possessions when the impacts (benefits and disbenefits) of such control are uncertain.

26. It is fairly common for a proportionality assessment to have to be made on the basis of incomplete or uncertain evidence. For instance, in *Sinclair Collis* one of the grounds of challenge concerned the alleged inadequacy of the evidence. The evidence was not at all clear as to how effective a ban on cigarette vending machines would be as a means of reducing smoking by children. That uncertainty simply fed into the assessment of the proportionality of the measure, and notwithstanding the uncertainty the court upheld the ban. In doing so, Neuburger LJ noted that: *“the court should avoid being too exacting when it comes to an attack on the evidence on which the*

---

<sup>2</sup> We consider the nature of the interference with the Operators’ possessions below.

*measure is based. On the other hand, it would be wrong not to address and evaluate the supporting evidence” (at [205]).*

27. Arden LJ held that:

*“... the Secretary of State is not prevented from making a decision by reason of the fact that the effectiveness of the ban on [vending machines] in reducing under-age tobacco purchases is not capable of clear proof or by reason of the fact that only a trial of [the alternative voluntary regulation process] has been conducted” (at [143], emphasis added).*

28. It seems to us however that the evidential uncertainty point also applies to the claims of the operators that they will be severely disadvantaged. The courts are clear that it is necessary for complainants to show evidence of the interference of which they complain. This is clear, for instance, from *R (New London College Limited) v Secretary of State for the Home Department* [2012] EWCA Civ 51, at [96]:

*“Whilst there is evidence in this case of the economic disruption caused by the suspension of the college's licence, and liable to be caused by the withdrawal of the licence, the evidence does not deal with the goodwill of the business in the sense identified in Nicholds. Thus there is no concrete evidential basis on which to found a conclusion that the goodwill of the business has been or would be adversely affected by suspension or withdrawal of the licence. Nor, as it seems to me, can such an effect be inferred from the information available to us.”*

29. That approach reflects that adopted by the ECtHR in *Malik v United Kingdom* (23780/08) [2012] ECHR 438, at [107] where the ECtHR held that Dr Malik had not produced sufficient evidence of the impact he was alleging so as to show there was in fact an interference. While Nexus acknowledges that adverse impacts will occur, the same requirement for proof would apply to the alleged extent of any interference.

## E. ARTICLE 1 OF THE FIRST PROTOCOL

30. A1P1 is a generally applicable provision protecting the peaceful enjoyment of possessions. It is therefore worded quite differently to section 124(1)(e). It provides that:

*“Every natural or legal person is entitled to the peaceful enjoyment of his possessions. No one shall be deprived of his possessions except in the public interest and subject to the conditions provided for by law and by the general principles of international law.*

*The preceding provisions shall not, however, in any way impair the right of a State to enforce such laws as it deems necessary to control the use of property in accordance with the general interest or to secure the payment of taxes or other contributions or penalties.”*

31. A1P1 does not, in terms, refer to proportionality. However, on general principles any interference with possessions must be proportionate to satisfy A1P1. The discussion above under section D of this Advice explains some of the important principles that apply to a proportionality assessment.

32. In this section of our Advice we address in turn the following additional questions that arise under A1P1 specifically:

- a. Would the making of the QCS constitute an interference with a “possession”?
- b. If so, would that inference constitute a deprivation of, or a control on, that possession?
- c. What is the relevance of the non-payment of compensation?

### **Would the making of the QCS be an interference with a “possession”?**

33. The European Court of Human Rights [“ECtHR”] takes a broad approach to the question of whether something is a “possession”. Although the concept of a “possession” has been held to extend to things with economic value, including the

goodwill of a business, it expressly does not include expected future income. By contrast, goodwill focuses on the existing value of the business as a marketable asset, not future profit. Kenneth Parker QC (as he then was) set out the following approach in *Nicholds* (at [71] to [73]), which it is worth quoting in full:

*“71. I have two firm fixed points upon which to tackle the first question. First, the goodwill of a business, or part of a business, may constitute a “possession” under article 1. Second, an expectation of future income is not a “possession”. In R (Countryside Alliance) v Attorney General [2006] UKHRR 73 these propositions were established by the Divisional Court (May and Moses LJJ), after an extensive review of Strasbourg case law: paras 167–174. In the Court of Appeal [2007] QB 305 Sir Anthony Clarke MR, giving the judgment of the court (Brooke and Buxton LJJ with him), upheld the conclusion of the Divisional Court on this matter in the following terms, at para 114:*

*“It is sufficient to say that we reject the breadth of the claimants' claims as to the loss of their ‘livelihood’. Strasbourg case law, while stating that a professional man's clientele may form part of his possessions, as may the goodwill of a business, has very clearly ruled that any element of a claim that relates to loss of future income does not qualify in this respect, unless an enforceable claim to future income already exists. The Divisional Court set out the relevant Strasbourg case law in paras 170–172 of its judgment. We agree with their approach, including their unwillingness to follow the judgment of the Inner House of the Court of Session in *Adams v Scottish Ministers* 2004 SC 665 , para 97, in so far as it may have suggested that the livelihood of a self-employed person occupies some middle position between marketable goodwill and future income.”*

*72 It seems to me that “goodwill” in this context is not being used in the technical accounting sense of the difference between the cost of an acquired entity and the aggregate of the fair values of that entity's identifiable assets and liabilities: see, for example, Financial Reporting Standard 10. Goodwill is*

*there used to fill a gap in the balance sheet that would otherwise arise, may well be transient, is exclusively the result of acquisition and cannot be internally generated. It appears that “goodwill” is being used rather in the economic sense of the capitalised value of a business or part of a business as a going concern which, according to modern theory of corporate finance, is best understood as the expected free future cash flows of the business discounted to a present value at an appropriate after tax weighted average cost of funds: see Brealey & Myers, Principles of Corporate Finance , 7th ed (2003), sections 4.5 and 19.1. There is, of course, a connection with the accountancy concept of goodwill, which arises simply because the present value of net future cash flows on the economic model exceeds, or is thought to exceed, the aggregate of the fair values of the identifiable net assets that will be employed to generate those cash flows.*

*73 The business has a capital value or goodwill only if the entity can be, and is, organised in a way that allows future cash flows to be capitalised. So a group of plumbers can form a limited liability partnership or incorporate in a limited liability company, contract to supply their services to the entity so created and capitalise future cash flows (net of all costs, including labour) through the value of the partnership or company. Barristers cannot form partnerships or incorporate and have no way to capitalise future cash flows. However, temporary suspension from practice or disbarment would have the same economic impact on a barrister as would a trading suspension or prohibition on a company or partnership. The distinction between the situations seems to me to rest largely, if not wholly, on organisational factors. None the less, it is clear on Strasbourg jurisprudence, now confirmed by high domestic authority, that article 1 of the First Protocol protects only “goodwill”, as a form of asset with a monetary value, and does not protect an expected stream of future income which, for mainly organisational reasons, cannot be or is not capitalised. In other words, the Convention, differing perhaps in this respect from the law of the European Union, protects assets which have a monetary value, not economic interests as such.”*

34. Kenneth Parker QC's approach in those paragraphs was described as a "very convincing analysis" by Lord Bingham in *Countryside Alliance* [2008] 1 AC 719 at [21] and we see no reason to dissent.
35. An example of the ECtHR's approach is provided by *Van Marle v the Netherlands* (1986) 8 EHRR 483 at [42] where the ECtHR held that as a result of a measure requiring accountants to formally register so as to be able to continue to practice: "Their income fell, as did the value of their clientele and, more generally, their business. Consequently there was an interference with their right to the peaceful enjoyment of their possessions".
36. That said, as the licences the operators operate under are not alienable, and thus have no economic value it may well be that the licences themselves are not possessions, even if the goodwill in the business is. That would follow from the approach adopted in *Lumsdon* [2014] EWHC 28 (Admin) (the "*Quality Assurance Scheme for Advocates case*") where the court looked for a "marketable asset having a monetary value" (at [121]) when it was searching for a possession. The operators' licenses in and of themselves would not satisfy that criterion.
37. The operators' existing goodwill (even if only transient) may therefore be a possession for the purposes of A1P1. This is not a case like *R (Malik) v Waltham Forest Primary Care Trust* [2007] 1 WLR 2092 where the court held that a GP's patients were not a possession under A1P1 as they could not be sold and so had no economic value to the Appellant.
38. However, it seems to us that a legitimate question arises over whether the operators' customers represent a source of goodwill when they can easily move elsewhere and few are likely to give the operators repeat business for reasons other than the fact that they run the route or routes they use. In this respect, the approach of the Court of Appeal in *Whiteman Smith Motor Company Limited v Chaplin* [1934] 2 KB 35 is instructive. There, Scrutton LJ adopted the following, colourful, approach (at 42):

*"A division of the elements of goodwill was referred to during the argument, and appears in Mr. Merlin's book as the "cat, rat and dog" basis. The cat*

*prefers the old home to the person who keeps it, and stays in the old home though the person who has kept the house leaves. The □cat represents that part of the customers who continue to go to the old shop, though the old shopkeeper has gone; the probability of their custom may be regarded as an additional value given to the premises by the tenant's trading. The □dog represents that part of the customers who follow the person rather than the place; these the tenant may take away with him if he does not go too far. There remains a class of customer who may neither follow the place nor the person, but drift away elsewhere. They are neither a benefit to the landlord nor the tenant, and have been called "the □rat" for no particular reason except to keep the epigram in the animal kingdom."*

39. To those three animals, Maugham LJ added (at 50):

*"But really there should be a fourth animal, the □rabbit, to indicate the customers who come simply from propinquity to the premises; and, if this is borne in mind, it will be apparent that the □rabbit may be much bigger than the □cat, who (if indeed it does not wholly vanish) may well shrink to the dimensions of a mouse."*

40. It seems to us that unless the operators' customers are represented by the notional dog in the above passages (ie they follow the operator, rather than the route itself – see *Malik* at [85] per Moses LJ) then it may be that the goodwill of the operators such as it is may not in fact be a possession for the purposes of A1P1 at all.

41. However, so as to err on the side of caution, we are prepared to accept that the operator's business goodwill is a possession for the purposes of A1P1, and we therefore advise the NECA accordingly.

**Would the making of the QCS be a deprivation or a control?**

42. We note that Opinion of Beloff and Patel consigns its consideration of this issue to a footnote, where it is said that "... the QCS Proposal is likely to constitute either a deprivation of possessions ... or a control on the use of property ... depending on

*tender outcomes and their impact on individual operators*” (see footnote 5 of the Opinion). This is at odds with the clear view previously expressed by Stagecoach’s solicitors, Herbert Smith Freehills, in their letter to Nexus dated 24 October 2012, that the QCS would be a control (see paragraph 10.2.6). Whether that represents the view of Stagecoach’s solicitors or was informed by counsels’ advice, we know not. In any event, in what follows we attempt a more definitive answer.

43. The case law on where the distinction between a control and a deprivation lies is not a model of clarity. That lack of clarity perhaps reflects the fact that in most cases the courts are apparently or seemingly reluctant to find a deprivation; most cases find that the challenged measure is properly classified as a control of property instead.
44. Whether the interference is a deprivation rather than a control is to be assessed as a matter of substance, rather than legal form (*Sporrong and Lonnroth v Sweden* (1983) 5 EHRR 35 at [63]). A finding that an interference is a deprivation is akin to finding that there has been a “*de facto expropriation*” (see *Depalle v France* (2010) 54 EHRR 535, 559).
45. In *Lithgow v UK* (1986) 8 EHRR 329 at [107] deprivation was said to be the extinction of all of the legal rights of the owner by operation of the law or the exercise of a legal power to the same effect. This was expanded in *Fredin v Sweden (No 1)* (1991) 13 EHRR 784 at [41] where the court said that a deprivation would be made out if the owner was deprived of all meaningful use of the possession. Further, in *Mellacher v Austria* (1990) 12 EHRR 391 at [44], the ECtHR appears to suggest that there will not be a deprivation of property if the owner remains free to sell or dispose of their possession.
46. As regards the control of use, in *Cusack* in the Court of Appeal [2012] PTSR 90, at [25], Lewison LJ held that being prevented from accessing the highway amounted to a situation where: “*the right is being controlled so that it can only be exercised in a particular way*”. The Supreme Court approved of this approach. In *R (ex parte Eastside Cheese Co)* [1999] 3 CMLR 123 the Court of Appeal held that a prohibition on commercially exploiting cheese from a particular supplier (where there had been an outbreak of E-coli) was a control and not a deprivation.

47. The cases surveyed above place a very high threshold on making out a deprivation – the courts appear cautious to find that interference amounts to a deprivation without there being something equivalent to a formal expropriation of legal rights.
48. We are of the opinion that the operators would struggle to put their case as high as that. The effects of a QCS are limited in comparison. Even if an operator were to obtain no contracts, or only a limited number of contracts, under a QCS: they would retain their licences and their assets; their business would remain intact; they would still retain control over the direction of the business (i.e. it is their decision whether to bid under the QCS); they would remain free to run services that do not fall within the QCS; if they were successful in obtaining some contracts they would still receive an income (which depending on their bid may be a profitable income); and they would be free to sell, relocate, restructure or diversify as necessary. Further, the QCS would not result in any legal transfer of ownership and the QCS itself is of limited duration and can be revoked (a matter that went to a finding of control in *Eastside Cheese* at [56]).
49. We have also considered whether it could be said that parts of the operators’ businesses have been subject to a deprivation while other parts have been subject to a control. In *Mellacher*, landlords who had been deprived of part of their rental income by rent control legislation sought to argue that they had been deprived of *part* of their income by the controls. The ECtHR disagreed with that split analysis, holding that: “*The contested measures which, admittedly, deprived them of part of their income from the property amounted in the circumstances merely to a control of the use of property*” (at [44]). In *Van Marle* the appellants contended that they had suffered a “*partial deprivation*” (at [39]); the ECtHR rejected that approach. Similarly, in *Tre Traktörer Aktiebolag v Sweden* (1991) 13 EHRR 309 the revocation of an alcohol licence led to the appellant’s business folding, yet the ECtHR still held the measure to be a control, rather than a deprivation:

“55. Severe though it may have been, the interference at issue did not fall within the ambit of the second sentence of the first paragraph [ie it was not a deprivation]. The applicant company, although it could no longer operate *Le Cardinal* as a restaurant business, kept some economic interests represented

*by the leasing of the premises and the property assets contained therein, which it finally sold in June 1984. There was accordingly no deprivation of property in terms of Article 1 of the Protocol.”*

*The Court finds, however, that the withdrawal of TTA’s licence to serve alcoholic beverages in Le Cardinal constituted a measure of control of the use of property, which falls to be considered under the second paragraph of Article 1 of the Protocol.” (emphasis added)*

50. It made that finding notwithstanding its later comment (at [61]) that: “*the financial repercussions of the revocation were serious. The Court thus agrees with the Commission that this was a severe measure in the circumstances*”. The seriousness of the measure is obviously relevant to whether the control is “*in accordance with the general interest*”. On that basis, we note that the matters above (suggesting that the making of a QCS would be a control rather than a deprivation) also go to the proportionality of the QCS. This is because they indicate the true extent of the impact on the operators’ possession in the form of their business goodwill. The more limited that impact, the less that will be required by way of benefits to tip the proportionality balance.

51. We therefore advise that the making of QCS most likely constitutes a control on the use of the operators’ possessions, rather than a deprivation. Based on the approach of the ECtHR in *Tre Traktörer*, this is likely to be the case even if an operator fails to obtain any contracts in the tendering process.

#### **What is the relevance of the non-payment of compensation?**

52. We address the relevance of the non-payment of compensation upon the making of QCS as this is specifically referenced in the aforementioned Opinion by Beloff and Patel. They state that the “*taking of property without payment of compensation is justifiable only in exceptional circumstances*” (see para 5.8(3)(2)). That is true, but only where the QCS amounts to a deprivation (“*taking*” in the terms of their Opinion or “*de facto expropriation*” to use the language in *Depalle* at 559).

53. The starting point is that there is no requirement in A1P1 for compensation to be paid. Nor is there such a requirement as a matter of domestic law (see *Cusack*, at [4]). Authority is clear that it is only if the QCS amounts to a deprivation of property that a lack of compensation would then be compatible with A1P1 in only “*exceptional circumstances*”. In *Holy Monasteries v Greece* (1995) 20 EHRR 1 at [71] the ECtHR held that:

*“In this connection, the taking of property without payment of an amount reasonably related to its value will normally constitute a disproportionate interference and a total lack of compensation can be considered justifiable under Article 1 only in exceptional circumstances.”*

54. In *Eastside Cheese*, the Court of Appeal considered the above passage in the context of a measure found to be a control (rather than a deprivation) and noted (at [57]) that: “*It appears to us to have very much less force where, in a case such as the present, the object of the measure is to restrain the use of property in the public interest [as opposed to depriving a person of that property].*”

55. The fact that the domestic legislation makes no express provision for compensation may however itself lend some support to the argument that introducing a QCS is more in the nature of a control than a deprivation – were it a deprivation, one would expect to see a compensation mechanism in the legislation (as there is with compulsory purchase powers, for example).

56. *Cusack* provides a good example of the courts’ approach to compensation in control cases. As noted above, there, the Council had (largely by historical accident) two statutory powers available to it. One of those powers carried a right to compensation for those affected, and the other did not. The Council purported to use the power that did not carry a right to compensation. The Supreme Court held that there was no breach of A1P1. A1P1 did not require that where one power carrying compensation existed it had to be used over a power that did not carry that right (at [69]). It was held that although “*A1P1 does not impose any general requirement for compensation, its absence may be relevant to the issue of proportionality*” (at [42]).

57. In *R (Trailer & Marina (Leven) Ltd) v Secretary of State for the Environment* [2005] 1 WLR 1267 the Court of Appeal held that if restrictions (not amounting to *de facto* expropriation) are imposed on the use of property in the public interest then unless the detrimental effect on the individual “*far*” outweighs the public benefit, a lack of compensation would not normally infringe A1P1. Further, the Court of Appeal helpfully indicated (at [57]) that:

*“We have been referred to no case where the European Court of Human Rights has found that the absence of a provision in the relevant legislation for compensation has resulted in a control of use, as opposed to an expropriation, infringing article 1 of the First Protocol. However, in *S v France* (1990) 65 DR 250, the commission appears to have concluded that, where substantial compensation was payable in a control of use case (involving substantial interference with the applicant's enjoyment of her property) there was no infringement of article 1 of the First Protocol. None of this comes close to a doctrine that there can be no control of use without compensation.”* (emphasis added)

58. Further, although the lack of adequate compensation in *R (Kelsall) v Secretary of State for the Environment* [2003] EWCA Admin 459 led to a finding of a breach of A1P1 in respect of mink farmers whose business had been made illegal by legislative reforms, there the Government conceded that those farmers had been deprived of their possessions – thus triggering the higher “*exceptional circumstances*” threshold.

59. Finally, we note that Beloff and Patel cite *R (London and Continental Stations and Property Ltd v Rail Regulator* [2003] EWHC 2607 (Admin) apparently simply as an example of situation where compensation was offered. We cannot see the relevance of that case, nor the comparison. The case law is clear that there is no obligation to compensate: see *Cusack* at [4] where it was said that “*the right to compensation is a matter of law not concession*”. In *London and Continental* the legislation expressly provided for the payment of compensation.

60. It follows that the absence of compensation is merely one factor which goes to the proportionality of making the QCS and is therefore of relevance as to whether “*a fair*

*balance was struck between the demand of the general interests of the community and the requirements of the protection of the individual's fundamental rights"* (see *Sporrong and Lonnroth* at [69]).

## **F. THE LAWFULNESS OF NEXUS' PROPORTIONALITY ANALYSIS**

61. Having set out above the correct approach to take towards proportionality, and our advice as to the relevance and applicability of A1P1, we now consider the assessment of proportionality that Nexus has undertaken to inform its conclusions that Test (e) and A1P1 are satisfied by the QCS Proposal.

62. The PIT Report sets out Nexus' approach (at page 359):

*"Nexus notes that the proportionality test under section 124(1)(e) of the Act is closely aligned with, but not identical to, the proportionality analysis required under A1P1. Specifically, while section 124(1)(e) appears to focus on the proportionality of the benefits against impacts on Operators as a whole, it is clear that A1P1 requires proportionality to be assessed in respect of the impacts on individual Operators. Throughout this report, Nexus has sought, insofar as it has been able to do so, to identify and quantify both overall and individual Operator impacts. In what follows, Nexus therefore considers both levels of impact in assessing proportionality. Nexus considers that this approach satisfies both section 124(1)(e) and A1P1."*

63. It is clear from this that Nexus' assessment of proportionality under section 124(1)(e) and A1P1 has taken account of the impacts on operators taken as a whole and individually. This approach accords with our view of the law. We also consider that as far as the objectives sought to be achieved by the QCS are concerned, the statutory wording identifies these as being improvements in well-being, in particular those identified in sections 124(1)(a) to (d). A1P1 also requires identification of the "general interest" served by the measure in question. In our view, the relevant general interest in this case is the same as that referred to in section 124(1)(e).

64. We have considered Nexus' analysis of the QCS, as set out in the PIT Report. It is not the purpose of this Advice to summarise the totality of Nexus' assessment. We confine ourselves to the following observations:

- a. We consider the assessment of the statutory tests contained in section 124(1)(a) to (d) to be lawful and adequate. Indeed, we would go further and describe those assessments as thorough and conscientious. We do not consider that Nexus' analysis betrays any error of law or that the depth of the assessment and the reasoning provided is inadequate in any way. In particular, we are aware that Nexus has conscientiously considered the responses to consultation, and the material contained in the PIT Report indicates that all, and only, material considerations have been taken into account in its assessment.
- b. Nexus' assessment of the adverse impacts of the QCS is found in its consideration of section 124(1)(e) in the PIT. It appears to us that Nexus has identified the principal adverse impacts on operators and has assessed them appropriately, taking into account in particular the responses to consultation. Nexus has been mindful of the uncertainties inherent in assessing future impacts, and of the range of possible impacts that may arise. It has sought to quantify impacts (and indeed benefits) where possible while recognising the limitations on that exercise and that certain impacts (and benefits) are not amenable to quantification. Overall, Nexus' approach indicates a sensitivity towards the nature of the task at hand.
- c. Notably, as we have set out above, Nexus has attempted to identify impacts on operators as a whole and on operators individually. For the reasons it has given, this has not been a straightforward task. The uncertainties that arise are expressly acknowledged in the PIT, and rightly so.
- d. The VPA has also been assessed as part of the proportionality analysis. Nexus has compared the VPA to both the so-called "Do Minimum" scenario and the QCS. It has acknowledged that the VPA would bring some benefits and that it would have lesser adverse impacts on operators than the QCS. However, it has reached the considered view that the VPA delivers markedly fewer benefits than the QCS, and such benefits that it may deliver are less certain of being realised. We acknowledge that operators may take a different view of the

merits of the VPA compared to the QCS. Nevertheless, Nexus' judgment is, in our view, a lawful one which it is entitled to make.

- e. Nexus' assessment of proportionality sets out clearly the approach that it has taken. We consider that approach to accord with the law as we have set out above. We note that Nexus has explained the weight it attributes to the various benefits and adverse impacts identified. While Nexus' assessment must be read in the context of its analysis contained in the PIT Report as a whole, the reasoning set out in section 6 of that report is, in our view, sufficiently clear to justify its conclusions.

- 65. We therefore advise that in carrying out its proportionality assessment for the purposes of section 124(1)(e) and A1P1, Nexus has followed a lawful approach. It follows from this view that if the NECA were to be minded to adopt the same approach, that decision would also be lawful.

#### **G. THE POTENTIAL FOR LEGAL CHALLENGE AND THE COURT'S APPROACH TO PROPORTIONALITY CHALLENGES**

- 66. We accept that Operators are very likely to disagree with Nexus' assessment as to the proportionality of the QCS. The potential exists therefore for a legal challenge to be made against any decision of the NECA to refer the QCS to the QCS Board, on the basis that the QCS does not satisfy section 124(1)(e), or would be in breach of A1P1. However, we note that by virtue of section 126D(1)(b), one of the duties of the QCS Board is to "*form an opinion whether the conditions set out in the paragraphs of section 124(1) ... are met in the case of the proposed scheme*". Section 126D(2) provides that if the QCS Board considers that those conditions are not met, it can make recommendations as to the actions NECA can take in response. If modifications are made, the QCS Board can reconsider the modified proposal (see sections 126D(5) and (7), and 126C(6)). We therefore consider that any such challenge would be premature at this stage.

- 67. Additionally, we emphasise that any court called upon to assess a challenge to the proportionality of the QCS will adopt a supervisory role. Assuming, in line with our advice above, that the matter is assessed as one of control rather than deprivation, the

ECtHR set out the following approach in *Jacobsson v Sweden* (1989) 12 EHRR 56, [55]:

*"Under the second paragraph of article 1 of Protocol No 1, the contracting states are entitled, amongst other things, to control the use of property in accordance with the general interest by enforcing such laws as they deem necessary for the purpose. However, as this provision is to be construed in the light of the general principle enunciated in the first sentence of the first paragraph, there must be a reasonable relationship of proportionality between the means employed and the aim sought to be realised. In striking the fair balance thereby required between the general interest of the community and the requirements of the protection of the individual's fundamental rights, the authorities enjoy a wide margin of appreciation."*

68. That approach gives a wide margin of appreciation in cases involving "*the general interest of the community*" (an approach supported by Neuburger LJ in *Tralier & Marina* at [53] and recast as "*the public interest*" at [60]). For instance, in *Stec v UK* (2006) 43 EHRR 47 at [52] the ECtHR held that:

*"... a wide margin is usually allowed to the State under the Convention when it comes to general measures of economic or social strategy. Because of their direct knowledge of their society and its needs, the national authorities are in principle better placed than the international judge to appreciate what is in the public interest on social or economic grounds, and the Court will generally respect the legislature's policy choice unless it is "manifestly without reasonable foundation"."*

69. The footnote to that paragraph (fn 30) refers to *National & Provincial Building Society v UK* (1998) 25 E.H.R.R. 127 at [80] where the ECtHR held:

*"... it is recognised that a Contracting State, not least when framing and implementing policies in the area of taxation, enjoys a wide margin of appreciation and the Court will respect the legislature's assessment in such matters unless it is devoid of reasonable foundation."*

70. We recognise of course that the margin of appreciation applies when the supranational ECtHR is considering the legality of actions taken by national authorities. However, an analogous principle applies in domestic judicial review whereby the national court accords a margin of discretion to the administrative decision maker. For instance, in *Bank Mellat* the Supreme Court held that the proportionality principle did not entitle a court simply to substitute its views for those of the decision maker, and that the degree of respect accorded to that decision maker would vary (at [71]). It further noted that “*The intensity of review varies considerably according to the right in issue and the context in which the question arises*” (at [70]). In *R (Rotherham Borough Council) v The Secretary of State for Business Innovation and Skills* [2014] EWCA Civ 1080, the Court stated that: “*In principle, the more complex and the more judgment-based the decision, the greater the margin of discretion should be afforded to the decision-maker*” (at [70]).
71. As to whether the decision to make the QCS breaches the margin of discretion accorded, the test appears to be whether the decision maker’s judgment is “*manifestly without reasonable foundation*” (*James v UK* (1986), at [54] and the discussions of the matter in *Sinclair Collis*). That is obviously a high hurdle with overtones of *Wednesbury* unreasonableness.
72. A recent example of the operation of the margin of appreciation in a related context is provided by the *Rotherham* decision, in which the Court of Appeal made extensive reference to the approach in *Sinclair Collis*. The challenge was to the Secretary of State’s allocation of Structural Funding within the UK on the basis that, among other things, it was disproportionate. The Court of Appeal accepted that “*the identity of the decision-maker, the nature of the decision, the reasons for the decision and the effects of the decision*” were all relevant to the width of the margin of the discretion (see [54]). To that could be added the “*quality of the decision making process*” (see, *Sinclair Collis* at [136], per Arden LJ).
73. Applying those considerations, the Court in *Rotherham* held that the challenged decision was “*plainly concerned with matters of high level policy and economic, social and political judgment*” (at [57]). The Court therefore agreed with the judge that “*the margin of discretion was a wide one in the circumstances of this case*” (at

[56]). Referring to *Sinclair Collis*, the Court held that it would only interfere with the decision if it were “*manifestly inappropriate*”, “*manifestly wrong*” or if a “*very high threshold of unreasonableness is met*” (see [54], [56] and [57]).

74. In a passage of direct relevance to the decision the NECA has to take, the Court specifically considered that the objectives sought to be achieved “*could be achieved in many different ways*”; it therefore concluded that “*In our view, this is classic territory for affording the decision-maker a wide margin of discretion*” (at [57]).

75. We therefore consider that if it is decided to make a QCS, and that decision is subject to challenge on the grounds that it is not proportionate, the courts will afford a wide margin of discretion to the NECA. It will therefore be necessary for a challenger to demonstrate that the decision that the QCS was proportionate is “*irrational or manifestly inappropriate or manifestly wrong*” (see *Rotherham*, at [64]). That is plainly a very high hurdle for a would-be Claimant to clear, and we can see nothing to suggest that the view Nexus has reached at this stage – that the QCS is proportionate – could be challenged on that basis.

#### **H. IS THE QCS IN A FORM WHICH COULD BE “MADE”?**

76. As the Guidance acknowledges (at para 72), the TA is not for the most part prescriptive as to the form or content of a QCS. However, a number of matters that a QCS must contain are set out in section 127. The QCS must:

- a. Specify the area to which it relates;
- b. Specify the date on which it is to come into operation;
- c. Specify the period for which it is to remain in operation;
- d. Outline the local services which are to be provided under quality contracts;
- e. Outline the features of the proposed invitations to tender for quality contracts;  
and
- f. Specify the dates on which it is proposed that the NECA will issue invitations to tender for the provision of any services to which the QCS relates.

77. Section 127 also provides that the QCS may:

- a. Provide that certain local services, specified individually or by reference to a class, are excluded, subject to condition (if any); and
- b. Contain such ancillary provisions as the NECA think fit.

78. The QCS provided by Nexus carefully sets out the features of the QCS required by section 127(2) and a number of other ancillary matters that are necessary in Nexus' opinion.

79. We therefore advise that the current QCS is in a form that would be lawful for the NECA to "make" should it be approved by the QCS Board in due course.

**I. WOULD IT BE LAWFUL FOR THE NECA TO MAKE A REQUEST UNDER SECTION 126C?**

80. It follows from our Advice above, and the accompanying Advice we have provided on the consultation exercise and statutory preconditions, that the QCS and supporting information provide a lawful basis for the NECA to make a request for the QCS Board to consider the QCS, pursuant to section 126C.

**JAMES PEREIRA QC**  
**JACK CONNAH**

Francis Taylor Building  
Inner Temple, EC4Y 7BY

3 October 2014

## North East Combined Authority

### Leadership Board

---

**DATE:** 21 October 2014

**SUBJECT:** North East Combined Authority Budget 2015/16

**REPORT OF:** Lead Chief Executive and Chief Finance Officer

#### **1 EXECUTIVE SUMMARY**

- 1.1 The purpose of this report is to set out the key budget issues, principles and proposals that are likely to be included in the 2015/16 Budget Report for the North East Combined Authority (NECA) for consideration by the Leadership Board on 20th January 2015. Identifying them in this report forms the basis for consultation on NECA's Budget as required in its constitution. Not all the information needed to complete the budget is currently available. Further information about the detailed content of the budget is currently being developed, including information still to be announced or confirmed about some funding from Government. As further information becomes available it will be included in future reports, including information provided to Overview and Scrutiny Committee. The more detailed information, once available, will be reflected in the January Budget report alongside points that emerge from consultation.
- 1.2 This is the first formal Budget process that is being undertaken since the new Combined Authority was established in April. It builds upon the budget that was inherited for the current transitional year. NECA is required by law to set its Revenue Budget and Transport levies for 2015/16 by 15<sup>th</sup> February 2015 at the latest, so that the constituent councils can take the levies into account in setting their own budgets for 2015/16. It has been agreed that the Leadership Board will set the Budget and levies at its scheduled meeting on 20 January 2015, which will provide the information about levies in good time for the seven constituent councils to include it within their budgets.
- 1.3 This budget report sets out the indicative level of resources planned to be used in 2015/16 to help deliver the Objectives of NECA and the North East Strategic Economic Plan, which have been agreed by the North East Local Enterprise Partnership (NELEP). It is a policy led budget, which has also to be set in the context of the national position of austerity, which requires further savings to be achieved in local authority revenue spending; while also making available additional capital funding and provide incentives to help deliver investment in transport and infrastructure and to help secure economic growth.

# North East Combined Authority

## Leadership Board

---

1.4 At this point it is envisaged that –

- Capital Investment in transport, infrastructure and economic development appears likely to increase significantly in 2015/16, by almost £30m, potentially to around £130m or more, which is mainly the result of the region's success in the Growth Deal bids for Government Capital funding following the submission of the Strategic Economic Plan; investment relating to Enterprise Zones; and the continued investment in Metro's Asset Renewal Plan which attracts 90% grant funding from DfT;
- The budget is likely to include additional funding for investment in Skills, partly funded from a substantial allocation of almost £100m of European Social Funding to be available from 2015 to 2020 and a bid for Mental Health Skills funding of £1.7m that has been applied for;
- The provisional Transport Revenue Budget and Levies for 2015/16 are estimated to be almost £89m, which is a small cash reduction compared with the current year, to be delivered mainly through efficiency savings while seeking to maintain service outcomes; and
- The only significant fees or charges to be set by the NECA as part of the 2015/16 budget relate to Metro Fares, where an increase below RPI inflation is envisaged for implementation on 2 January 2015, and the Gold Card and Tyne Tunnel Tolls which will not change next year.

## 2 RECOMMENDATIONS

2.1 It is recommended that the Leadership Board –

- a) receive this report for consideration and comment;
- b) agree the budget approach of setting out a detailed budget for 2015/16, while seeking to develop a five year medium term plan to set the context for the detailed budget and developing a longer term infrastructure plan to support future funding bids, recognising that not all information will be available to enable the medium/long term plans to be completed in full by January 2015 and this will continue to be developed during 2015;
- c) agree that the following points and proposals form the basis of consultation about the NECA 2015/16 Budget : -
  1. The Revenue Budget and Capital Investment Programme of the NECA and NELEP will be developed to deliver the Strategic Objectives of NECA and the Objectives set out in the Strategic Economic Plan, as highlighted in Section 3 of this report;

# North East Combined Authority

## Leadership Board

---

2. Resources will be identified and secured to support the capacity of the NELEP and NECA to secure the resources and deliver the actions needed to deliver the SEP strategic objectives. Where possible, the revenue resources required to support the delivery of the objectives will be found from securing additional funding or offset by savings in existing budgets, in order to minimise the costs falling on the hard pressed revenue budgets of the seven constituent authorities;
3. The Transport Budget and Levy for Tyne and Wear is indicatively proposed to be set at £67.2m, which is a reduction of £1.0m (-1.5%), achieved by efficiency and other ITA cost savings and use of reserves. The grant to Nexus funded by the levy is proposed to be £64.5m, a saving of £0.42m achieved from efficiency savings in non-bus budgets. The budget for Bus Services will be protected at its current level in cash terms, which is consistent with the need to maintain this level of resource for the period of up to 10 years in line with the Bus Strategy. This will maintain service outcomes while improving value for money provided to districts and enabling them to help meet national funding cuts and fund any increase in contribution to non-transport NECA budgets;
4. The indicative Transport Budget and Levy for Durham County area is £16.057m, which is an increase of £0.467m (3%) on the original budget for 2014/15, due mainly to cost pressures in connection with concessionary Travel;
5. The current year's Transport Budget for Northumberland County area is £5.5m. Proposals about the level of the Budget and Levy for 2015/16 are still under consideration and will be circulated when available;
6. Proposals for the uplift in Metro fares to cover inflation cost pressures will be developed to constrain the average increase to less than the latest 2.4% RPI inflation index. No increase is envisaged in Gold Card prices. No increase in Tyne Tunnel Tolls is envisaged for January 2015, with the timing of the next increase to keep pace with inflation being subject to the level of future increase in the Retail Price Index;
7. The detailed budget report in January will include the outcome of consideration of proposals to enable the early release of potential benefits from the Enterprise Zones to support the Delivery of SEP objectives as determined by the NELEP. It will set out financing cost savings and funding flexibilities that NECA can provide to enable the

# North East Combined Authority

## Leadership Board

---

NELEP to allocate additional resources to further support the achievement of the SEP objectives; and

8. NECA will set out a balanced budget for 2015/16, maintaining a sufficient but minimal level of reserves to manage risk and will set out a treasury management strategy for borrowing and lending which will comply with the Prudential Code;
- d) Agree that a narrative document be prepared from the content of this report and the comments and decisions of the Leadership Board, which will set out the budget proposals in an appropriate format for consultation.

### **3 THE POLICY CONTEXT**

- 3.1 The Leadership Board have made clear the importance of a policy led budget, within the context of the national programme of austerity measures, to underpin the delivery of the NECA's policy priorities including the delivery of the Strategic Economic Plan.
- 3.2 The capital and revenue resources of the Combined Authority and the NELEP can secure will be targeted to achieve the priorities set out in the Strategic Economic Plan (SEP) and the Transport Levies that the Combined Authority will set will help meet the statutory transport responsibilities of the Combined Authority, which can also contribute to priorities in the SEP.
- 3.3 The Combined Authority has agreed three broad Policy priority areas –
- **Transport**
  - **Employability and Inclusion**
  - **Economic Development and Regeneration**
- 3.4 The North East Strategic Economic Plan 2014 which was published by the NELEP in April 2014 is aimed at delivering 'More and Better Jobs'. It identifies six strategic themes aimed at addressing the challenges facing the area and delivering the objectives of the SEP, these are –
1. **Innovation**, central to the ambition of better jobs and a more competitive business base, delivering medium term benefits as managers invest in new products, processes, markets and technologies supported by an ambitious open innovation system.
  2. **Business support and access to finance**: the key driver for more jobs and a strong private sector, addressing market failures to support a stronger indigenous businesses, with better access to finance, and able to progress expansion plans in national and international markets.

# North East Combined Authority

## Leadership Board

---

3. **Skills:** providing a demand led system, reflecting the need of employers, including for high level skills in support of better jobs, with access to high quality training facilities for both general and specialist training.
  4. **Inclusion:** central to ensuring no one is left behind, providing targeted and tailored support to neighbourhoods and groups facing major challenges in accessing training and employment opportunities, which lets everyone fully share in the benefits of a growing economy.
  5. **Economic assets and infrastructure:** developing the places for business to invest and people to live, developing new opportunities with towns and cities, coast and country, and heritage assets.
  6. **Transport and digital connectivity:** which serves and connects people and businesses, letting people move around for both work and leisure, and connecting the North East to the national and international economy.
- 3.5 The Revenue Budget and Capital Investment Programme of NECA, will contribute to the achievement of these objectives, as illustrated below.

### 3.6 Innovation Theme

- 3.6.1 In the context of the Adonis Review challenge to develop the North East as “*an exemplar of smart specialization and open innovation systems and practice*”, and significant evidence work to understand our innovation assets and challenges, the SEP sets out a strategic approach to investment of Local Growth Fund (LGF), European Structural and Investment Fund (ESIF) and other resources to facilitate effective innovation activity.
- 3.6.2 It prioritises investment into building innovation leadership, developing the effectiveness of our hubs and networks and delivering strategic investment to foster innovative businesses, clusters and a wider innovation culture. Within the Innovation Theme the following specific projects investment are planned for commissioning in 2015/16:

#### Local Growth Fund

Project	Total value	2015/16 Investment
Centre for Innovation in Formulation, led by the Centre for Process Innovation (CPI), based at NetPark	£7.4 m	£0.75 m
Low Carbon Energy centre, to be based at Newcastle Science City	£5.6 m	£1.30 m
Newcastle Life Sciences Incubation Hub to be based at Newcastle University	£5.6 m	£5.50 m
NETPark Infrastructure Phase 3	£6.8 m	£0.47 m
Sunderland Enterprise and Innovation Hub, to be hosted at Sunderland University	£3.5 m	£1.50 m

# North East Combined Authority

## Leadership Board

---

### European Regional Development Fund (ERDF)

- 3.6.3 An Innovation programme is being developed which relies heavily on successful bidding for European Funding for delivery. Key projects include a North East Innovation Supernetwork, University Research Commercialisation and Innovation Project Support. Access to European Funding is anticipated from April 2015.
- 3.6.4 In addition, a key action will be the creation of the North East Innovation Board and capacity in the Executive Team to provide leadership. This will require the creation of a core budget for innovation which supports this work, which will also include resources for marketing and intelligence activity. The cost of this capacity is expected to be achieved from core budgets, European Technical Assistance funding and in-kind secondment(s).
- 3.6.5 Through this capacity, the Executive Team will support partners to develop a range of other activities and facilities aligned with the strategy set down within the SEP, securing investment from sources including Department for Business, Innovation and Skills (BIS), Innovate UK and its agencies, Horizon 2020, Research Councils and other available funding streams as well as leveraging private investment and inward innovation investment.
- 3.6.6 Innovation activities will be also supported from other key programmes in the SEP/ESIF through liaison with other theme leads - including from:
- Business support targeting innovation support to NE businesses
  - Access to finance, in particular the funds planned within Jeremie 2 for Proof of concept and prototyping
  - Low Carbon Innovation projects in areas like energy and low carbon vehicles
  - High level skills

## **3.7 Business Support Theme**

### **Aims**

- 3.7.1 The Business Support and Access to Finance Programme will, through the work of the NELEP, the Combined Authority and their partners, support a dynamic and entrepreneurial Combined Authority area in which businesses and individuals have the ambition and confidence to develop and grow.
- 3.7.2 The programme is intended to be delivered in the short and medium term through its three inter-related intervention areas. Each intervention area has its own programme management and governance arrangements. These arrangements need to link effectively with each other. They also need to link with the programme management approach for the Innovation and Skills Programmes.

### **The Programme**

- 3.7.3 The programme has three strategic priorities for investing in and growing our businesses:

# North East Combined Authority

## Leadership Board

---

1. **Access to finance:** Increasing GVA and employment in North East businesses through the provision of a high-quality, demand-led business development programme. Through this component, the NELEP, the Combined Authority and partners will ensure the right mix of financial products is available to support business formation and growth, generating additional employment and GVA in the Combined Authority area.
2. **Business Support:** Ensuring North East businesses have access to finance necessary to support their growth and expansion plans. Through this component, the programme will support business growth and increase entrepreneurial activity by providing businesses in the Combined Authority area with those services that enable them to improve productivity and increase employment and trade
3. **Trade & Tourism:** Increasing the economic benefits from external markets through exports and tourism. The programme will increase the number of businesses exporting and the North East's presence in key international markets.

### Interventions and Projects

- 3.7.4 Within the North East LEP Business Support Programme, the following specific interventions and projects are planned for commissioning or delivery in 2015/16:

#### Local Growth Fund

Project	Total value	2015/16 Investment
North East Growth Hub	£0.5m	£0.5m

#### European Regional Development Fund (ERDF) and European Agricultural Fund for Rural Development (EAFRD)

- 3.7.5 In addition to the LGF Growth Hub award, the Business Support and Access to Finance theme programme is being developed and relies heavily on successful bidding for European Funding for delivery. Key projects for ERDF include Access to Finance from SMEs to support growth and innovation and coordinated business support. Key projects for EAFRD focus on tourism, market towns and the rural growth network.

### Trade & Tourism

- 3.7.6 Whilst the trade element of the Business Support Programme is reasonably well defined, further work is underway to identify how best to promote our key regional assets.

### Inter-relations with other SEP Programmes

- 3.7.7 Business support activities will be also supported from other key programmes in the SEP/ESIF including from:

# North East Combined Authority

## Leadership Board

---

- Innovation support providing specific business support for NE businesses, particularly through activities to support bringing new products and business processes to the market and including development of incubation space (through ERDF).
- Support for Low Carbon and Sustainability projects which increase the role of the low carbon energy economy and energy generation sector, including programmes to support business energy efficiency, low carbon supply chains, resilience and renewable energy generation (all through ERDF).
- Support for intermediate, technical and high level skills (all through ESF) and including specific activities for start-up, entrepreneurship and self-employment.
- Enterprise Advisers, to be funded through the Local Growth Fund.
- Inward investment support provided by the local authorities, UKTI and coordinated through the Combined Authority.
- Programmes of employability and skills improvements to overcome barriers which prevent access to the labour market (all through the European Social Fund (ESF)).

3.7.8 Liaison between the Business Support Board and the Innovation, Skills and Employability and Inclusion Programmes (governance structures and executive support) is ongoing to ensure that the provision through these programmes is appropriate, joined up where necessary and contributes to SEP Business Support objectives.

### 3.8 Skills Theme

#### Aims

3.8.1 The Skills Theme aims to shift the skills market in the North East towards higher skill levels and greater demand for higher skills, with an emphasis on economic demand, be it existing employer needs, projected shortages, or new skills sets for emerging opportunities, and to create a landscape where companies (and individuals), realise the benefits of training and see the returns on their investment. The main objective of the programme is to deliver and investment plan against three key priority areas for Skills:

1. Oversee and influence investment in skills supply and demand to enable the skills system to deliver better economic outcomes. Establish clear, evidenced based policy priorities for investment and action on skills. The main activities for the NELEP will be to:

- Create and implement the investment framework for £113m of ESF, manage a complex set of Opt-in arrangements and commissioning routes for the skills programme. Direct and secure other resources to core priorities, e.g. Higher Education Funding Council for England (HEFCE), private sector.

# North East Combined Authority

## Leadership Board

---

- Use the Skills pilot to shift provision funded through the National Adult Skills Budget to deliver more economically focussed outcomes for learners in the north east. Improve performance management of delivery of mainstream skills provision in the Area.
  - Direct working with employer groups and provider base to better link supply and demand and enable improved responsiveness to investment opportunities, in particular the increasing number of opportunities arising from the Skills Funding Agency (SFA).
2. Focus on Young people – deliver a North East Education Challenge to improve educational outcome and school quality. Deliver a programme of Enterprise advisers as an early adopter area for national policy.
  3. Skills Capital – Ensure high quality training facilities which help engage employers and learners are available to support a higher skilled workforce. On-going programme management of the LGF investment in the skills capital programme for the North East. Support the appraisal process for the 5 shortlisted skills capital projects and ensure a robust pipeline for slippage and future funding.

### The Programme

3.8.2 The headlines to the Skills Programme in 2015/16 will be:

- Education Challenge
- Skills Pilot
- Deliver the LGF capital programme
- Enterprise Advisers Scheme

Project Title	Total project cost (£m)	LGF investment (£m)
Tyne Met College - STEM and Innovation Centre	1.20	1.00
Facilities for Marine and Offshore Engineering, South Tyneside College	3.35	1.10
Rural Skills Development, East Durham College	11.11	10.00
Newcastle College Group - Low Carbon Tech Centre	30.00	9.90
Port of Blyth Offshore and Wind Energy Training Facility (BEACH)	1.20	0.40

# North East Combined Authority

## Leadership Board

---

### 3.9 Employability and Inclusion

3.9.1 Over the next year, the investment in Employability and Inclusion will be based on the roll-out of the initial phase of the next round of European Social Fund (ESF). This funding will:

- Provide additional and more intensive support to help people to develop the skills needed to move towards work, enter work (including self-employment), and to progress in work
- Help older workers, workless people and those facing redundancy to upgrade their skills, learn new skills or retrain to enter, re-enter or stay engaged with the labour market and adapt to new market conditions including through targeted apprenticeships linked to economic opportunities
- Support activities to reduce the number of young people not in employment, education or training and those at risk of disengaging and embed opportunities to raise ambition
- Support activities to tackle the multiple barriers faced in a holistic and integrated way to avoid problems becoming entrenched through specific targeted interventions
- Targeted activities to support bottom-up social inclusion through community focused actions in particular geographic locations with high levels of deprivation, poverty and exclusion
- Targeted activities for those with protected characteristics and from specific communities who face multiple barriers and facing high levels of exclusion from opportunities and/or poverty

3.9.2 As part of this initial phase, up to £1.7million will be released to support the delivery of the Mental Health Trailblazer. Announced as part of the North East Growth Deal, the trailblazer will work with Government to design and develop mental health and employment integration to inform future national and local support for people with mental health conditions. This represents a significant opportunity for NECA to demonstrate its capacity and capability to work in new ways with the Government and develop an initial platform of devolved powers.

3.9.3 Another strategic priority is to ensure that young people are equipped and qualified to access the opportunities which will be available in a successful modern economy. To this end, NECA is coordinating the North East Youth Contract. Five of the local authorities within the Combined Authority successfully secured £4.5 million from the Government's Youth Contract programme. This resource is being used to launch a high-profile campaign to encourage employers to provide a chance for young people to succeed; provide employers with dedicated advisers to help simplify the process of recruiting young people; developing a new and shared "Young People's Commitment" that will provide a clear offer of support to all young people who are unemployed or NEET for 3 months, in return for their commitment to fully

# North East Combined Authority

## Leadership Board

---

engage with the scheme; and strengthening the network of Employment Advisers and Peer Mentors for those young people with the greatest needs.

### 3.10 Economic assets and infrastructure

3.10.1 Local authorities are continuing to invest resources in a variety of infrastructure projects that are essential if the region and its businesses are able to compete in an increasingly competitive global environment. Recently, significant resources have been applied to key developments across the region including the Enterprise Zones in Northumberland, Sunderland and on Tyneside all of which have attracted interest and investment from private sector users.

3.10.2 It is vital that we continue to make a very strong strategic case for further future investment in the region's economic assets and infrastructure. For this reason it is important that we progress our commitment to work with private sector partners towards the development of a strategic investment plan for the region. The aim will be to develop a plan that shows how resources will be used to build on the opportunities to grow the economy and demonstrate a clear alignment between the different planned investments including those associated with transport, housing and energy infrastructure.

3.10.3 The Growth Deal announced substantial infrastructure funding from 2015/16 and 2016/17. It is uncertain when there will be another round of Growth Deals but the proposed Investment Plan will enable the region to compete effectively for the other funding sources available. In addition, the Scotland Referendum has raised the possibility of increased devolution to the regions and the presence of a long term vision of how resources will make a difference to the region's economic future has the potential to greatly support the case for more autonomy over larger sums of the national spending programmes.

3.10.4 Government funding schemes and other programmed investments by government agencies continue to play a crucial role in supporting the efforts of local public and private sector partners to provide the environment in which businesses are able to grow and create the jobs needed in the local economy. The successful Growth Deal bid announced in July allocated a total of £298.3 to support economic growth in the region, including £24m towards three strategically important economic infrastructure projects that will enable the region to build on the opportunities such as those presented by Hitachi's investment in Newton Aycliffe and £28.9m towards five infrastructure developments that will support the growth of innovation in the region (listed in the table associated with paragraph 3.6.2 above).

#### Local Growth Fund (LGF) Projects

Project Title	Total Cost (£m)	LGF Allocation (£m)
Swans Wet Berth Infilling	18	8
Infrastructure for Merchant Park	10	10
North East Rural Growth Network	22	6
<b>Totals</b>	<b>50</b>	<b>24</b>

# North East Combined Authority

## Leadership Board

---

3.10.5 The new European Structural and Investment Fund programme with an estimated £460m available over the programme period (2015-2023) will also provide resources that can be used to co-fund investment in the region's economic infrastructure, particularly that associated with the low carbon sector as well as strategic sites and premises for SMEs, and to support the wide policy programme of the SEP. An element of match funding for ESI funds will be required from other funds. A proposal to use up to £10m per annum of the European resources as a platform for a capital investment fund (building on the JESSICA model) supported by the European Investment Bank and private investors represents a significant opportunity for the future.

3.10.6 It is vital that the limited local resources available are used to best effect projects that make a demonstrable contribution to economic growth in the region within the context of an agreed plan and that opportunities to increase the level of available funding are explored and developed further to maximise the opportunities of future funding bids. It is therefore important that the governance arrangements established to make decisions on resource allocation are able to properly reflect the priorities of local people and businesses.

### 3.11 Transport and Digital Connectivity

3.11.1 Excellent transport links are fundamental to the economy of the North East Combined Authority area. The importance of transport connectivity is highlighted in the North East Local Enterprise Partnership's Strategic Economic Plan (SEP) as a crucial element in our growth agenda, helping to close the gap in the employment rate with other regions of England, link people to jobs and key services and enable businesses to move their goods quickly and efficiently.

3.11.2 The Combined Authority has a duty to ensure good public transport provision. Public transport plays an essential role in connecting people to jobs and key services. Promoting the use of more efficient modes of public transport also facilitates sustainable growth. Public transport accessibility in the north east is generally good. However, better connections to key employment sites from areas of deprivation and improved fares and ticketing options are required.

3.11.3 Nexus, the Tyne and Wear Passenger Transport Executive, along with Durham and Northumberland county councils aim to improve quality of life by creating better public transport networks. Nexus is currently pursuing three major programmes; the Bus Strategy, smart ticketing and Metro: all change.

3.11.4 The Combined Authority also has a key role to play in encouraging investment in our wider transport infrastructure. In addition to advocacy for a transatlantic connection from Newcastle International Airport Limited and close working with the Highways Agency and Network Rail to encourage further investment in our strategic road and rail networks a focused package of investment on local networks to facilitate further investment by

# North East Combined Authority

## Leadership Board

government in our national infrastructure is a key component of our Strategic Economic Plan.

3.11.5 The transport proposals in the North East SEP contain investment for both the A1 and A19 corridors, with packages designed to complement existing investment such as the current A1 Western Bypass Lobley Hill to Coalhouse junction scheme, and to facilitate improvements to important trunk road junctions, such as the A19 at Testos and Silverlink.

3.11.6 Next year should see a significant increase in capital investment in Highway and Transport projects. The initial programme for 2015/16 is estimated to be at least £130m, which represents an increase of almost £30m (29%), which is mainly the result of successful Growth Deal Funding for major schemes. The growth deal also included an announcement of a further investment of £69.6m for schemes starting in the following year 2016/17 in addition to the Metro asset renewal programme and LTP funding programmes.

### Indicative Growth Deal Transport Projects

Area / Promoter	Scheme	Total scheme cost	SEP Contribution (£m)	2015/16 Indicative grant
		£m	£m	£m
Durham	Horden (Peterlee) Station	7.00	3.34	3.34
North Tyneside Council	A1058 Coast Road major scheme (Billy Mill – Norham Road Improvements)	8.70	5.84	2.94
Sunderland City Council	Low Carbon Zone Infrastructure	13.50	5.95	5.95
South Tyneside Council/Nexus	South Shields Transport Hub: Consolidation of Metro and bus terminals in the heart of South Shields.	13.60	6.90	2.07
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 2), Cowgate to Osborne Road.	8.10	4.09	3.50
Gateshead Council	A167 Park and Ride corridor	7.46	4.99	2.46
Newcastle City Council	A1 corridor complementary local network works - Scotswood Bridgehead improvements	4.20	3.70	1.70
North Tyneside Council	A1056-A189 Weetslade roundabout improvements and A1-A19 link (A1056)	4.80	4.32	0.68
Newcastle City Council	Direct link from Newcastle Central station to the Stephenson Quarter regeneration site (£200m)	10.00	6.00	1.00
Nexus	Central Metro Station Refurbishment	7.88	2.51	2.51
Newcastle City Council	Northern Access Corridor (Gosforth Transport Improvements Phase 3), Osborne Road to Haddricks Mill.	4.93	4.43	0.50
South Tyneside Council	A194/A185 (The Arches) Junction	6.70	5.83	0.00
South Tyneside Council	A19/A194/A1300 Lindisfarne Roundabout	4.00	3.48	3.48
North Tyneside Council	A191 junctions including coach lane and Tyne View Park	1.50	1.50	1.00
North Tyneside Council	A19 employment corridor access improvements e.g. the roundabout of A191 and The Silverlink North	4.70	4.70	0.50
LA7 LSTF 2015/16 Capital Package	UTMC, 'Gateway Improvements', Cycle package to complement revenue bids for A1/A19 corridor, Northumberland and Durham	7.52	7.52	4.00
		<b>114.60</b>	<b>75.10</b>	<b>35.63</b>

Note figures are still indicative and will be updated in the January report.

# North East Combined Authority

## Leadership Board

---

- 3.11.7 NECA is working with NELEP and the delivering councils to identify ways that funding flexibilities can enable early delivery of approved projects and the development of plans and bids for future projects.
- 3.11.8 While the Transport Revenue Budget and levies proposed for 2015/16 will reduce in cash terms, as they contribute to the delivery of national funding cuts, this will be achieved through efficiency savings and use of reserves to protect service outcomes, as well as meeting the increasing costs of statutory concessionary travel.
- 3.11.9 At a time when transport services are having to be cut in many parts of the country the protection of transport service outcomes alongside the investment in improvements to transport and highways infrastructure will help contribute to the outcomes of Inclusion, Transport and Connectivity.
- 3.11.10 We have an existing broadband improvement project covering much of the North East through the Broadband Delivery UK (BDUK) initiative. The Combined Authority will be looking to support this to maximise its coverage by using money from the European Programme from 2015.

## **4 BACKGROUND INFORMATION – BUDGET PROCESS**

- 4.1 Levying Bodies regulations require Transport Authorities to set their Budgets and Levies by 15<sup>th</sup> February each year. Traditionally levies have been set in January to ensure that this statutory deadline is met, but also to give constituent councils information about the transport levies as early as possible to enable them to reflect it in their budgets. As well as transport levies the Budget will set out any contributions from Councils to meeting the non transport costs of the Combined Authority and will set out information about the Capital Investment Programme of the Combined Authority and how the programme is to be funded.
- 4.2 As the accountable body for the North East Local Enterprise Partnership (NELEP) the Budget will include information about the funds available to NELEP and the NELEP's proposed Budget for 2015/16. Further guidance is expected shortly about the monitoring, accounting and governance requirements to be required from LEPs and Accountable Bodies as part of the grant conditions relating to the release of the additional Growth Deal Funding secured from Government next year. The budget will need to reflect the guidance and the resource requirements needed to meet the grant conditions.
- 4.3 It is good practice for all organisations to develop a Medium Term Financial Strategy (MTFS) and it would be preferable to develop the 2015/16 Budget for NECA in the context of as much information as possible over a five year Medium Term Plan period. For NECA this would involve developing a revenue budget and capital programme for Highway/Transport; Economic Development (including LEP activity); Skills; and a Corporate Budget. This will need to reflect the latest announcements on new external funding for

# North East Combined Authority

## Leadership Board

---

2015/16 onwards and any new announcements over the coming months. While as much information as possible will be collected to present the MTFS in January, more information is likely to be available for Transport services and it is likely that additional information about funding and spending priorities for skills and economic development will be needed in order to fully develop the plan for these areas over a five year period.

- 4.4 A five year period is considered appropriate because it would cover a sufficiently long period to show how the current revenue deficit within the Nexus Budget for transport activity in Tyne and Wear could be addressed and show the planned use of reserves over the period. It would also reference events in the later years of the MTFS period, which could have an uncertain but potentially material impact on the Budget in those years, for example changes in national insurance contributions, the 2016 pension valuation and re-letting the Metro Concession together with confirmation of DfT funding for Metro operations effective from 2019 when the current 9 year arrangement, established in 2010 is renewed.
- 4.5 The capital investment programme will include schemes that have been approved so far with funding secured. It would also be appropriate to identify resources that may be available and potential schemes in development for future funding bidding rounds. The detailed capital programme is a dynamic document that will be updated on a regular basis as information about projects and funding approvals is received. It will be considered and updated in periodic monitoring reports to the Leader's Board.
- 4.6 Major transport and infrastructure projects can have a very long planning, design and implementation period, with future ambitious plans, such as the replacement of the Fleet of Metro cars, and potential Metro system extensions, covering a period of 15 years or longer. Early identification and development of potential projects to help achieve the Strategic Long Term policy objectives of the Combined Authority can help with the development of project plans, business cases and preparing funding plans and bids. It is proposed that a longer term view of investment over a 15 to 20 year period be developed. It is anticipated that this will take time and resources to put in place, so an update on the process will be given in January. Developing longer term plans will assist with future bids to secure the additional resources needed to achieve the SEP objectives.
- 4.7 A key decision in the Revenue Budget is what the level of the Transport Levy will be for 2015/16 and future years for Tyne and Wear and for Durham and Northumberland and the level of the contribution from the 7 councils for non-transport costs, including the contribution to fund capacity and corporate costs.
- 4.8 The constitution of the Combined Authority requires an early consultation on Budget Proposals, giving at least two months for the consultation process to be completed. This report will start the consultation process, which will include

# North East Combined Authority

## Leadership Board

---

consideration of the budget report by Overview and Scrutiny Committee, the seven constituent councils, consideration by NELEP and a consultation with the North East Chamber of Commerce.

- 4.9 To ensure that a Budget Report is prepared for the Leaders Board in January which can secure unanimous approval from Leaders it is necessary to ensure that the budget is policy led and that any issues that need to be taken into account are highlighted during the early stages of the preparation of the Budget in the next few months, with any issues resolved by mid December so that a final report can be drafted for circulation on 9<sup>th</sup> January. The budget proposals need to be considered by the NELEP and by the Transport Committees as well as the Overview and Scrutiny Committee.
- 4.10 Leaders have made clear the need for a policy led budget to underpin the delivery of policy priorities including the delivery of the Strategic Economic Plan, which must also take into account the constraints on revenue budgets imposed by national austerity measures. Initial technical briefings and discussions on the budget process and timetable have taken place with all councils and this has resulted in the high level proposal for 2015/16 in this report. Further details will be developed and fine tuned in partnership with the NELEP; councils and delivery organisations over the next few months. This additional detailed work and the feedback from consultation will then be reflected in a detailed 2015/16 Budget Report for consideration in January 2015.
- 4.11 The timetable for developing the 2015/16 Budget and the Medium Term Financial is very tight and involves a number of steps for discussion, consultation and development of the Budget, as can be seen from the draft timetable set out in Appendix A. Further consideration needs to be given to the various steps in the process and the route through the various Officer/Leaders meetings, NECA Transport Committees, Overview and Scrutiny Committee; NELEP Board and the NECA Leadership Board. The consultation process itself needs to be considered in more detail and set out in the report to the October Board. In some cases meeting dates have still to be confirmed and these will be confirmed and included in the schedule when they are known.

## **5 CONTEXT OF AUSTERITY MEASURES**

- 5.1 The budget is being developed in the context of significant revenue funding cuts for local government as part of the delivery of the national austerity measures. While final Government Revenue grant levels have not yet been confirmed, the Government's provisional funding allocations for 2015/16 announced earlier this year indicated a significant extra cash cut in total revenue spending power for the seven councils in the NECA area in 2015/16 of -£64m, which is around 80% higher than the headlined national average cut in spending power.

# North East Combined Authority

## Leadership Board

---

5.2 The Government has made more resources available nationally to help deliver improvements to infrastructure transport and economic development through Growth Deal Funding and the bid submitted by NELEP and NECA was particularly successful, with indicative funding amounted to £289m from 2015/16 onwards announced in July, including £93.1m of previously committed funding. The grant approval letters are expected to be signed off in the next few months in time to be fully reflected in the January Budget report.

## 6 BUDGET PROPOSALS

### 6.1 Capital Investment / Expenditure

6.1.1 The capital investment programme in the current year is estimated at £100.6m, mainly made up of Metro asset renewal investment programme and Local Transport Plan capital investment, summarised in Appendix 3. Initial estimates for 2015/16 indicate that this is likely to rise to over £130m, mainly as a result of the additional funding for transport and infrastructure announced as part of the Growth Deal.

6.1.2 The substantial programme of Metro asset renewal and improvement works is continuing with an increase programme of £41m envisaged for 2015/16.

6.1.3 The Local Transport Programme Integrated Transport Block has been announced for 2015/16 at £13.95m. This represent a reduction of -£10.67m (-43%) compared with the £24.62m programme in the current year, mainly as a result of the 43% national topslice in this funding block to help finance the Growth Deal. Effectively the loss of this general funding has partly funded the new Growth Deal projects.

### 6.2 Transport Revenue Budgets and Levies for 2015/16

6.2.1 Revenue transport budgets in 2014/15 amounted to £89.34m. Indicative changes identified so far for Durham and Tyne and Wear would involve a net reduction in this budget of £0.540m (-0.6%). Give the significant national higher pressures of funding cuts, this demonstrates the importance and high priority given to Transport in the region.

6.2.2 The 2015/16 budget will need to reflect the requirement to maintain the Regional Transport Team. The team is currently resourced using a mix of funding sources, including a topslice of the allocation received for Local Transport Plan activity, the out-going Tyne and Wear Integrated Transport Authority (TWITA) Service Level Agreement and contributions from individual local authorities and the LEP. The Combined Authority Transport Group is developing a proposition on the level of resource required for the team and the way in which it should be funded. This will reflect the new governance and working arrangements established for the Combined Authority and the range of transport responsibilities it now holds. This work will be used to inform the

# North East Combined Authority

## Leadership Board

---

detailed budget proposal that will be considered by the Leadership Board in January.

### **Durham County Council**

6.2.3 The Budget and Levy for public passenger transport activity in County Durham is expected to be in the region of £16.057m for 2015/16. This compares with a budget of £15.590 in 2014/15.

6.2.4 Following a recent retendering exercise there has been a reduction in overall tendered bus service costs. However, this is being offset by continued pressure on concessionary fare reimbursement to operators, in line with fares inflation and a general increase in the number of concessionary travel journeys.

6.2.5 After a number of years of major changes in the commercially operated bus services, the overall bus network in County Durham appears to have now stabilised. There is a modest growth in passenger numbers over the past 12 months and this trend is forecast to continue over the coming year. There is not expected to be any significant commercial changes in 2015/16 and only a very small number of planned contract renewals. The focus of our spend will therefore be on maintaining the current contracts, which provide a level of accessibility in rural and semi-rural areas and supplement the daytime commercial network with early and later journeys.

6.2.6 The other main area of work for the transport team in Durham will be to continue to deliver efficiency savings against the home to school transport budget. This will continue to involve working closely with schools, our education colleagues and our transport operators with a focus on developing the interface between scholar services and the public transport network.

### **Northumberland County**

6.2.7 The revenue Transport Budget in 2014/15 is £5.5m. In the context of the requirement for significant savings over the next 3 years the Council is currently reviewing all areas of discretionary spending and this includes supported bus services. Any proposals to amend the Council's existing policy will be consulted upon during the next few months as part of the budget setting process. In respect of concessionary travel the council will continue to enforce an effective application of the policy for the issue of concessionary passes.

### **Tyne and Wear**

6.2.8 A proposal is being developed in more detail for consideration by Tyne and Wear Sub Committee which would see the Transport Budget and Levy for Tyne and Wear being set at £67.2m. This is a reduction of £1.007m on the budget in 2014/15, achieved by efficiency and other cost savings in the ITA and Nexus Budgets and the use of ITA reserves. This will maintain service

# North East Combined Authority

## Leadership Board

outcomes while improving value for money provided to districts and help them to meet national funding cuts, as well as fully funding any increase in contribution to non-transport NECA budgets.

6.2.9 The distribution of the Levy within Tyne and Wear is based upon population and the levy will reflect changes in population as well as the cut in the overall amount. The indicative levy for 2015/16 for each of the Tyne and Wear districts is shown below.

	2014/15 Levy	Indicative 2015/16 Levy	Change			
			Population Change	Levy Reduction	Total	
	£	£	£	£	£	%
Gateshead	£12,318,818	£12,069,094	-£68,844	-£180,880	-£249,724	-2.0%
Newcastle	£17,383,460	£17,308,521	£184,466	-£259,404	-£74,939	-0.4%
North Tyneside	£12,398,399	£12,199,080	-£16,490	-£182,829	-£199,319	-1.6%
South Tyneside	£9,135,299	£8,962,961	-£38,010	-£134,328	-£172,338	-1.9%
Sunderland	£16,971,156	£16,660,344	-£61,122	-£249,690	-£310,812	-1.8%
<b>Tyne &amp; Wear</b>	<b>£68,207,132</b>	<b>£67,200,000</b>	<b>£0</b>	<b>-£1,007,132</b>	<b>-£1,007,132</b>	<b>-1.5%</b>

6.2.10 This reduction would bring the overall annual transport levy reduction to £10.3m, plus £1.4m of retained grant annually since 2010/11, achieved through efficiency savings and use of reserves, whilst protecting service outcomes. This level of saving while protecting service outcomes is a significant achievement, particularly in the light of the cost pressures in respect of concessionary Travel and outcomes in other regions around the country where there have been some significant cuts in services.

6.2.11 The levy is used to fund ITA costs as well as providing a grant to Nexus to fund transport services. The allocation of the levy is proposed as follows.

	2014/15	2015/16	Change
	£	£	£
<b>ITA Costs</b>	3,287,132	2,700,000	-587,132
<b>Grant to Nexus</b>	64,920,000	64,500,000	-420,000
	<b>68,207,132</b>	<b>67,200,000</b>	<b>-1,007,132</b>

6.2.12 Savings on the former ITA budget include savings in pension and capital financing costs, reduction in support costs following the creation of NECA and some use of reserves. The Nexus savings will be achieved by efficiency savings in non-bus budgets. The budget for Bus Services will be protected at its current level in cash terms, which is consistent with the need to maintain this level of resource in cash terms for the period of up to 10 years in line with the Bus Strategy.

6.2.13 The Nexus Budget is balanced by use of £2.8m planned use of reserves to fund bus costs pending the delivery of further efficiency savings in future

# North East Combined Authority

## Leadership Board

---

years while maintaining service outcomes. Further details of the ITA and Nexus Budgets will be reported to Tyne and Wear Sub Committee for consideration.

### **6.3 Economic Development / NELEP Capacity**

6.3.1 The NELEP core team is part funded from a Government contribution matched by a contribution from the constituent authorities. The Government has announced a continuation of their £250k grant in 2015/16. Match funding will continue to be provided and is funded by equal contributions from the seven constituent authorities. It is important to secure greater certainty about the available funding over the medium term period of up to 5 years, to ensure that effective capacity can be put in place to deliver the SEP project and programme related activity. Additional funding sources are also being identified to cover project and programme related activity.

6.3.2 The NELEP has significant loan funds and an update on the estimated level of funds available next year will be reported to the January meeting.

### **6.4 NECA Corporate Costs**

6.4.1 When NECA was established the LA7 support budget was increased by around £60k to create a small corporate budget of £140k for the transitional year (£20k for each council). It is now clear that the corporate costs are higher than this and an exercise is underway to identify the revised estimate of costs in 2014/15 and the level of the capacity required from 2015/16, including the additional accountable body responsibilities that will be placed on NECA as part of the Growth Deal funding and its grant conditions, which are due to be received shortly.

6.4.2 The main areas of cost relate to support and input from the Lead Chief Executive, Monitoring Officer and legal costs, Chief Finance Officer and Finance costs, HR support, Internal and External Audit, administration and co-ordination costs continued from previous years and other operating costs. At this stage an indicative budget of up to £300k (an extra £160k - £22.8k for each authority) is suggested for planning purposes. As more information is collected on capacity requirements this will be considered and evaluated in more detail over the next month, with details of the final proposals reported in January. Given the scale of the organisation and its responsibilities, this level of costs is relatively low.

6.4.3 In Tyne and Wear compensating savings have been found in the transport budget, but it is not simply possible to transfer the funds between transport and corporate budgets. This is because separate accounts must be kept in for transport, with is funded by the transport levy and non-transport costs which are funded by separate contributions. The reductions in the Tyne and Wear transport levies produce significant savings of between £75k and £311k per council, some of which can fund the increase in corporate costs for Tyne

# North East Combined Authority

## Leadership Board

---

and Wear authorities. Opportunities for offsetting savings are being explored in Durham and Northumberland and at this stage there appear to be opportunities for savings relating to treasury management costs through a pooled mechanism, which could offset the increase in corporate costs. Further details of this are current being considered by Directors of Finance / Treasurers and the Chief Finance Officer of NECA.

### **6.5 NECA funding Flexibilities**

6.5.1 A number of opportunities have been identified following the creation of NECA to deliver improved funding flexibilities to help achieve economic objectives within the SEP; to deliver treasury management savings for constituent authorities and to boost resources availability to help achieve the SEP objectives.

6.5.2 A report commissioned by NELEP from DTZ about the Enterprise Zones is in the final stages of completion and will be reported to the NELEP Board, after which its content can be included in the January Budget report. The flexibilities of treasury management arrangements by NECA should help increase surplus resources which can be used to support economic development initiatives; provide capacity to support delivery and the development of major projects and future funding bids. These proposals are currently subject to consideration by Directors of Resources.

6.5.3 NECA should also be able to assist with more flexibility cash flow management of funding to enable capital investment to be accelerated where this is possible to help achieve the earlier delivery of SEP objectives.

### **6.6 Fees and Charges**

6.6.1 The main fees and charges that feature as part of the NECA / Nexus Budget relate to Metro Fares, the Gold Card for concessionary Travel on Metro and the Tyne Tunnel Tolls.

6.6.2 In the past, in order to meet budget targets and to align with national rail fare increases, Metro fares have traditionally been reviewed with changes coming into effect from January. At this stage, the proposal being worked up for consideration by the Tyne and Wear Sub-Committee is to increase Metro fares from 2<sup>nd</sup> January 2015 by a weighted average of 2.2%; this figure is slightly below the level of the Retail Price Index of 2.5% (as at July 2014).

6.6.3 This increase is necessary in order to help meet the financial targets required by the Nexus Medium Term Financial Strategy and will build on the improvements identified as part of the January 2014 fares review. In particular, it is anticipated that there will be proposals to introduce new customer benefits associated with the roll out of smart ticketing technology; notably the 'Pop Pay As You Go' product and daily price capping for multiple

# North East Combined Authority

## Leadership Board

---

journeys using a smartcard. In addition, the review is exploring ways of further enhancing the offer to young people, particularly 16 to 18 year olds as well as freezing the fare for one zone single journeys.

6.6.4 No increase is planned for the Gold Card next year, with the cost of the Card having been significantly reduced earlier this year

6.6.5 In terms of the Tyne Tunnel Tolls, the toll for cars of £1.60 was set in January 2013 and the tolls for Heavy Good Vehicles (HGV) of £3.20 was set in January 2014. The tolls are due to rise to keep pace with inflation as measured by the Retail Price Index (RPI), with increases limited to whole 10p figures and the ratio between HGV and Car tolls being preserved at 2:1. RPI figures for August 2014, are such that no increase is needed in January 2015. The date of future toll increases will depend in the increase in inflation as measured by RPI each year. Payments to the operator also rise with inflation. Based on forecast future RPI increases the next date for a toll increase looks likely to be January 2016, when tolls for cars may rise by 10p and tolls for HGVs may rise by 20p. Any increase in future years will be reflected in the budget consultation for 2016/17 onwards.

### 6.7 Reserves and Contingencies

6.7.1 The General Reserve of NECA was set at a relatively low level of £350k for 2014/15. It looks likely that this reserve will be drawn upon to fund corporate costs. The revised estimate of the likely outturn reserves at the end of 2014/15 is currently being assessed and is likely to be between £200k and £250k. The required level of Corporate Reserve will be reassessed based upon a risk assessment taking into account the resources available to meet corporate costs next year and may need to be restored to a higher level.

6.7.2 The Tyne and Wear Transport budget also include a contingency. It is estimated that this will amount to £388k by the end of 2014/15. This will be reduced over the next three years to part fund the proposed cut in the Levy from 2015/16. Other significant reserves are ringfenced for the financing of the Tyne Tunnels, for capital investment or being held on behalf of the Region for the North East Smart Ticketing Initiative (NESTI).

6.7.3 Nexus are planning to use some of their general reserves help balance their budget over the next three years.

### 7 Potential Impact on Objectives

7.1 The budget and Medium Term Financial Strategy will reflect the Policy Objectives of the Combined Authority including the delivery of the Strategic Economic Plan. Future reports will set out revenue and capital budget proposals that will help deliver the Objectives on the Combined Authority

# North East Combined Authority

## Leadership Board

---

### **8 Finance and Other Resources**

- 8.1 The financial and other resources are summarised in this report, where they are known. Further detail will be identified in time for the January Budget Report, including an update on the available funding sources following the NELEP Board meeting in November.

### **9 Legal**

- 9.1 The NECA is required by virtue of the Transport Levying Bodies Regulations 1992 to issue the transport levy before 15 February preceding the commencement of the financial year in respect of which it is issued.
- 9.2 In accordance with the Budget and Policy Framework Rules of Procedure of the NECA's Constitution, at least 2 months before the calculations on the Revenue Budget and transport levy are required to be finalised, the Leadership Board will produce initial outline proposals to the NECA's Overview and Scrutiny Committee. The accompanying information will include details of how it is intended to consult with the Constituent Authorities, stakeholders and residents as well as the timetable for the consultation and preparation of the final proposals. The Overview and Scrutiny Committee, after considering the consultation proposals and timetable can make appropriate recommendations to the Leadership Board in that regard.
- 9.3 Once the consultation process has been completed, details of the final proposals in relation to the Revenue Budget and levy will be referred to the Overview and Scrutiny Committee. The Leadership Board when considering the final proposals will take into account the recommendations and/or observations of the Overview and Scrutiny Committee. The Leadership Board must approve the final proposals unanimously.

### **10 Other Considerations**

#### **10.1 Consultation/Community Engagement**

- 10.1.1 The NECA constitution requires that consultation on its budget proposals to be undertaken at least two months prior to the budget being agreed. It is proposed that the 2015/16 Budget Proposals be reported to the Leaders Board on 21 October to start a consultation process, which will include the Overview and Scrutiny Committee and the North East Chamber of Commerce.
- 10.1.2 NELEP will be considering its budget from November to January. Consultation on any specific Transport proposals with service impact in Durham, Northumberland and Tyne and Wear will be undertaken by individual councils/delivery organisations. Overview and Scrutiny Committee will consider the budget process and the key proposals at its meetings on 15<sup>th</sup>

# North East Combined Authority

## Leadership Board

---

October, November (if it wishes to do so, date to be confirmed) and 9<sup>th</sup> December.

10.1.3 In order to assist with the consultation process, it is proposed that a narrative document be prepared from the content of this report and the comments and decisions of the Leaders board of 21 October, which will set out the budget proposals in an appropriate format for consultation.

10.1.4 With recommendation for Transport budgets and Levies being considered by committees in December, comments on the initial proposals should be received by 30<sup>th</sup> November if they are to be reflected in the reports to the Transport North East Committee and by Durham and Northumberland County Councils. Comments on all budget proposals should be received by 24<sup>th</sup> December 2014 in order to be taken into account in producing the Budget report for the NECA Leaders Board meeting in January. Additional comments received after these dates could be taken into account by the Leaders Board in taking their decision on 20<sup>th</sup> January.

### 10.2 Human Rights

Any human rights issues will be reflected in the future reports on budget proposals.

### 10.3 Equalities and Diversity

There are no specific issues arising directly from this report.

### 10.4 Risk Management

10.4.1 Appropriate risk management arrangements will be put in place and reported as part of the Budget Report in January. Key issues will be the level of reserves and mitigation measures that can be put in place.

### 10.5 Crime and Disorder

There are no crime and disorder implications directly arising from this report.

### 10.6 Environment and Sustainability

There are no specific issues arising directly from this report. The Budget reports will set out environment and sustainability implications.

## 11 Background Documents

11.1 NECA constitution. Growth Deal announcement – July 2014. NECA 2014/15 Budget Report – April 2014.

# North East Combined Authority

## Leadership Board

---

### **12 Links to Plans in the Policy Framework**

- 12.1 The Budget Report itself will reflect all of the NECA Plans and Policies and links to the policies are set out in the report.

### **13 Appendices**

- 13.1 Appendix 1 : Updated Budget Timetable (note the diagram is being updated to reflect latest information about dates of meetings);  
Appendix 2 : Summary of Headline Budget Figures.  
Appendix 3 : Summary of Capital Investment Indicative Figures  
Appendix 4 : Summary of NELEP / European Funding

### **14 Contact Officers**

- 14.1 Paul Woods, Chief Finance Officer. Paul.Woods@northtyneside.gov.uk, Tel: 07446936840

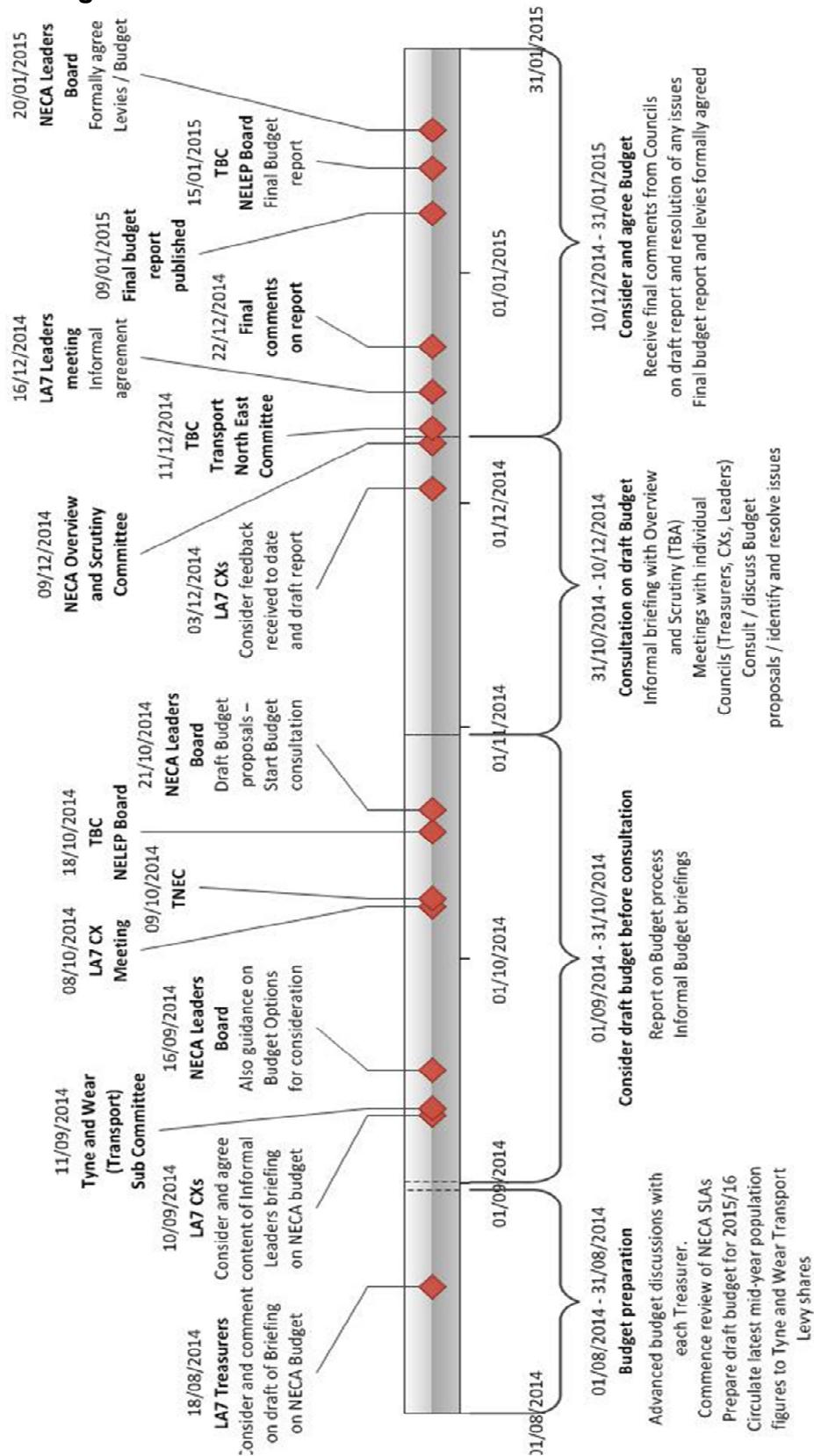
### **15 Sign off**

- Head of Paid Service ✓
- Monitoring Officer ✓
- Chief Finance Officer ✓

# North East Combined Authority

## Leadership Board

### Appendix 1 : Budget Timetable



# North East Combined Authority

## Leadership Board

### Appendix 2 : Summary of Headline Revenue Budget Information 2014/15 and 2015/16 (Indicative)

	2014/15			2015/16
	Total Gross Revenue Expenditure	External Income / Direct Grants / Reserves	Net Revenue Expenditure	Indicative Figures – Net Revenue Expenditure
	£000	£000	£000	£000
<u>Transport</u>				
Tyne & Wear (Grant to Nexus)	115,318	-50,398	64,920	64,500
Tyne & Wear (non-Nexus)	3,287	0	3,287	2,700
Northumberland	5,543	0	5,543	Tbc
Durham	15,590	0	15,590	16,057
<b>Transport Sub Total</b>	<b>139,738</b>	<b>-50,398</b>	<b>89,340</b>	<b>Tbc</b>
<u>NELEP</u>				
LEP Executive Core Team	525	-275	250	250
Growth Strategy Development	250	-250	0	0
Regional Improvement and Efficiency Partnership	190	-190	0	0
ERDF Policy Strategy and Co-ordination	28	-28	0	0
NELEP Skills Advice	55	-55	0	0
Growing Places Fund Administration	90	-90	0	0
Regional Growth Fund Admin.	294	-294	0	0
<b>NELEP Sub Total</b>	<b>1,432</b>	<b>-1,182</b>	<b>250</b>	<b>250</b>
<u>Core Team &amp; Admin.</u>				
Combined Authority Corporate Costs Budget	140	0	140	Up to 300
<b>Total</b>	<b>141,310</b>	<b>-51,580</b>	<b>89,730</b>	<b>Tbc</b>

Note that some of the figures for 2015/16 are not yet available. Figures exclude Tyne Tunnel Gross Expenditure and Income. The NELEP are considering their budget figures next month and the figures for use if NELEP funds will be updated when information is available. Detailed figures will be included in the January report

# North East Combined Authority

## Leadership Board

### Appendix 3 : Summary of Headline Capital Expenditure Estimates 2014/15 and 2015/16 (Indicative)

	2014/15 Programme	2015/16 Indicative
	£m	£m
Local Growth Fund – Transport Schemes	n/a	40.15
Local Growth Fund – other	n/a	Tbc
Metro Capital Programme (excluding LTP ITB contribution for match funding, shown below)	36.05	38.36
LTP Integrated Transport Block, (including the match funded contribution to secure the DfT Metro Capital Funding - £2.64m in 2014/15, which also needs to be continued in 2015/16.)	24.62	13.95
LTP Highways Maintenance Block	33.54	33.54 *
Tyne Tunnels Capital Programme	3.50	4.00
Other Capital Grants	2.91	n/a
Total	100.62	130.00

\* LTP Highway Maintenance Block figures for 2015/16 are still to be confirmed.

# North East Combined Authority

## Leadership Board

---

### Appendix 4 : Summary of NELEP / European Funding

#### North East Investment Fund

The North East Investment Fund is a £55m loan fund. Managed by the North East LEP the fund includes £25m of Growing Places Fund (GPF) and £30m of Regional Growth Fund (RGF). Local Partners including the local authorities play an important role in securing and delivering European funded projects. The fund supports capital projects that encourage economic growth and create jobs in the North East LEP area.

##### **Growing Places Fund £25m**

All of the £25m has now been allocated with projects drawing down funds in line with their agreed profiles of spend. Loan repayments have already commenced for some projects and will continue in 2015/16 and beyond. Projects supported cover, private and public sector led developments including North East Enterprise Zone infrastructure investment.

##### **Regional Growth Fund £30m**

As part of the government's RGF Round 3, the NELEP secured funding of £30m, which jointly funds the NE Investment Fund. The 2 year RGF funding covered the financial years, 2013/14 and 2014/15. £20.5m has been approved towards schemes to date with the remaining balance to be recommended for approval shortly following completion of the necessary due diligence.

#### **NE Growth Deal 2015/2021**

The North East LEP has secured £289.3 m from the Government's Local Growth Fund to support economic growth in the area – with £47.9m of new funding confirmed for 2015/16 and £69.6 for 2016/17 to 2021. This includes:

- As part of the Government's on-going commitment to the North East LEP a provisional award of a further £78.7m of funding for projects starting in 2016 and beyond; and
- £ 93.1m of funding which the Government has previously committed as part of Local Growth Deal funding to the area.

Please note the headline figures above cover funding for the North East area. Clarity is being sought from central government as to the exact funds which will be managed by the NELEP.

Further guidance from central government is expected shortly on the monitoring and evaluation requirements linked to the Growth Deal Funding award. The necessary systems and processes will be developed and put in place by NELEP and Combined Authority officers once this guidance is received.

A full summary of the North East Growth Deal is available from the following link on the NELEP website;

<http://www.nelep.co.uk/media/7313/north-east-growth-deal.pdf>

# North East Combined Authority

## Leadership Board

---

### European Funding Summary

The North East LEP has received a notional allocation of €550.5m worth of European Structural and Investment Funds resource (covering European Regional Development Fund, European Social Fund and European Agriculture Fund for Rural Development). This represents approximately £470.6m<sup>1</sup> of investment and is accompanied by a further £7.7m for the Youth Employment Initiative in County Durham providing significant opportunities.

European Structural and Investment Funds are focused on reducing disparities in economic performance between higher and lower performing areas by driving local growth. In contrast to 2007-13, the programmes for 2014-2020 will be organised at the national level but informed and delivered through a LEP area strategic framework. This is set out in the North East LEP European Structural and Investment Strategy which aligns the local priorities set out in the Strategic Economic Plan to the European objectives of smart, sustainable and inclusive growth. The strategy therefore addresses a wide range of potential activities including innovation, business support and access to finance, sustainable and low carbon growth, employability and inclusion and skills.

The strategy, currently in draft form, has been developed in consultation with, and engagement of, local partners and stakeholders. It is currently in the process of being finalised in tandem with the national negotiations on the Partnership Agreement and Operational Programmes. The Agreement and Programmes will be agreed by the UK Government and the European Commission and set the boundaries for local strategies. Subject to the successful completion of these negotiations, expected in early 2015, local strategies and the resultant project calls will be launched. Preparations for implementation are being taken forward in line with those for the Strategic Economic Plan.

Funding for the preparation and delivery of the European Structural and Investment Funds is provided through Technical Assistance. This is established through articles 58 and 59 of the Common Provisions (1303/2013) which set out a series of parameters for the use of the funding. As with other European funding sources, Technical Assistance requires match funding from local partners. This is separate to project-level delivery funding which should be considered in the development of applications.

Within the 2007-2013 European Regional Development Fund programme Technical Assistance is currently used to support two full time members of staff in the NELEP team to prepare for and implement the 2014-2020 European Structural and Investment Funds programme as well as officers and discrete projects across local partners to support project development and delivery. Current LEP-level arrangements will end once the new programme is approved (TA currently ends Dec 2014) with the wider support due to end by September 2015. Technical Assistance

---

<sup>1</sup> Please note this represents the fixed exchange rate used by Government in the planning process and the actual figure will be subject to currency fluctuations over the period of the programme.

# North East Combined Authority

## Leadership Board

---

through European Social Fund (ESF) has been more limited in its availability but has also supported some locally based activities.

As part of the UK Government's approach to the 2014-2020 funding period up to half of the Technical Assistance budget (approximately 5% of total spend) is to be made available to local partners to support the delivery of the programme. Local Enterprise Partnerships and local areas will not receive any specific allocation for this funding, but at a proportional rate would represent around £9.2m for the North East LEP area over the programme up to the end of 2023. The resource would include both ERDF and ESF funding, require local match funding and be accessed through an application to the national Technical Assistance allocation. The process for this has yet to be established by national government.

Technical Assistance provides a significant potential resource; however it will require both careful development in response to the need for match funding and the tightly defined framework for eligible activity. Project development and delivery support programme management and strategic support will need to demonstrate differentiation and alignment as appropriate with Managing Authority functions. This is particularly relevant in relation to strategic oversight and support work for the local sub-committee for European Structural and Investment Funds.

This page is intentionally left blank

## North East Combined Authority

### North East Leadership Board (NELB)

---

REPORT FOR DECISION

**DATE:** 21 October 2014

**SUBJECT:** Mental Health and Employment Integration Trailblazer

**REPORT OF:** Portfolio holder for Employability, Inclusion and Skills

#### EXECUTIVE SUMMARY

Nationally, over 40% of Employment and Support Allowance (ESA) claimants have mental or behavioural disorders as their primary condition. In addition, nearly 25% of Jobseekers Allowance (JSA) claimants experience mental health issues. In the North East, the scale of the problem is significant.

Despite its prevalence, historical attempts at supporting individual with mental health into work have had limited success. On this basis, in late 2013, the Department of Work and Pensions (DWP) and the Department of Health (DH) commissioned RAND Europe to investigate further the links between mental health and employment and to report on prospective interventions which could tackle the issue. RAND subsequently recommended that feasibility tests of four particular interventions should be run to better support those with mental health needs into work.

On 7 July 2014, the Government announced via the Growth Deal for Local Enterprise Partnerships (LEPs), the commissioning of four pilots aimed at better integrating mental and health support by testing the four. The North East was identified as one of those trailblazer pilots (together with Greater Manchester, Blackpool, and West London). The pilots will run for two years.

The trailblazers will further test support to boost employment and clinical outcomes for people with mental health conditions, as well as testing integrated and better sequenced delivery models to better complement public services at the local level at scale. To this end, the Government has committed to providing up to £1.7m in 2015/2016 to support the design and delivery of this trailblazer in the North East subject to a satisfactory business case which includes local matched investment.

By 1 October 2014, the Government expected that central and local teams would work together intensively to arrive at a design proposal; a detailed implementation plan; and a business case.

This timescale has been met with the a 'hub and spoke' model being developed; with a central team resource of employment support brokered into existing psychological wellbeing services commissioned by Clinical Commissioning Groups (CCGs). Individually tailored support will be provided through joint case management with a six-month intervention that continues in-work. At this stage, the proposal identifies potential area clusters based on North Tyneside; and Sunderland/Durham –

# North East Combined Authority

## North East Leadership Board (NELB)

---

REPORT FOR DECISION

but individual local authorities still retain the option to participate or not.

The main outcomes anticipated from the trailblazer are:

- Supporting people to compete in the open-labour market
- Better job outcome rates
- Better job sustainability
- Improved clinical recovery rates, reduced relapse rates, earlier engagement (IAPT KPIs TBC)
- Benefit off-flows
- Local economic benefit

The precise targets will be defined as the trailblazer develops.

It is anticipated that the Government will formally announce whether the business case has been successful on 21 November. In the meantime, the work to develop the approach will continue – particularly in engaging the relevant health services through the Health and Well Being Boards.

Between November and January, in-scope delivery services will be consulted with a view to securing opt in/out commitments. In tandem with this, the model will be fully costed and the appropriate infrastructure and governance arrangements developed. The aim would then be to launch the initiative in March 2015.

### RECOMMENDATIONS

The Leadership Board is recommended to:

- endorse the submission of the business case to Government to secure the delivery of a Mental Health and Employment Integration Trailblazer pilot as per the North East Growth Deal; and
- authorise the further development of the trailblazer with a view to introducing the agreed delivery model from 1 April 2015, subject to the consideration of a further report detailing the implications and impacts.

### **1 Background information**

- 1.1 Nationally, over 40% of Employment and Support Allowance (ESA) claimants have mental or behavioural disorders as their primary condition. In addition, nearly 25% of Jobseekers Allowance (JSA) claimants experience mental health issues.
- 1.2 In the North East, the scale of the problem is significant. The Combined Authority Area has 34,690 residents claiming ESA for a mental or behavioural disorder. There are 22,050 ESA claimants who are assigned to “work related activities groups” (WRAG) because they have a health condition or disability which prevents them from working – including 10,430 with a mental or behavioural disorder. As a result, there is a large demand for mental health therapies (around 13,000 per quarter).
- 1.3 Despite its prevalence, historical attempts at supporting individual with mental health into work have had limited success. Common anecdotal evidence suggests a lack of integration between employment and wellbeing interventions and with no coordination between referrals to mental health services and employment support.
- 1.4 Late in 2013, the Department of Work and Pensions (DWP) and the Department of Health (DH) commissioned RAND Europe to investigate further the links between mental health and employment and to report on prospective interventions which could tackle the issue.
- 1.5 In January 2014, RAND recommended that feasibility tests of four particular interventions should be run to better support those with mental health needs into work. These, known collectively as the Psychological Wellbeing and Work pilots, were:
  - (i) Employment support based on Individual Placement Support (IPS) in Improving Access to Psychological Therapies (IAPT) services for Employment and Support Allowance claimants;
  - (ii) Group work in employment services to build self-efficacy and resilience using a specific JOBS II model;
  - (iii) Telephone-based specialist psychological and employment-related support for Jobseekers Allowance claimants
  - (iv) Online mental health and work assessment and support for people in or out of work. For pilots 1-3 claimants will be referred to provision by Jobcentre work coaches.

1.5 On 7 July 2014, the Government announced via the Growth Deal for Local Enterprise Partnerships (LEPs), the commissioning of four pilots aimed at better integrating mental and health support by testing the four interventions outlined above. The North East was identified as one of those trailblazer pilots (together with Greater Manchester, Blackpool, and West London). The pilots will run for two years.

### 2. Growth Deal trailblazers

2.1 The North East Growth Deal included the following commitment:

*In addition, the North East LEP and partners will work with the Government to jointly design and develop a mental health and employment integration trailblazer to inform future national and local support for people with mental health conditions. The trailblazers will further test support to boost employment and clinical outcomes for people with mental health conditions, as well as testing integrated and better sequenced delivery models to better complement public services at the local level at scale. This will form part of a national pilot building on the first phase of Department for Works and Pension and Department of Health's scoping trials. The Department for Communities and Local Government will provide up to £1.7m in 2015/2016 to support the design and delivery of this LEP trailblazer subject to a satisfactory business case which includes local matched investment.*

2.2 The subsequent overarching framework for Growth Deal trailblazers confirmed that the pilots are purposeful tests of design, which will look to gather design and implementation lessons on interventions and integration of services as a necessary first step before further investment. The trailblazers will undertake tests of impact, whereby they will gather impact evidence on the most promising interventions and locally-led integration which most effectively, and in coordination, tackle mental health and employment needs and deliver measurable mental health, employment and off benefit outcomes.

2.3 On this basis, the trailblazers are intended to test both interventions and integration to most effectively support individuals with mental health issues and employment support needs. It is expected that a promising trailblazer would encompass interventions – clinical as well as employment support – which are evidence-based and would facilitate local integration of existing and new services. The diagram at Appendix 1 illustrates the intended approach.

- 2.4 The target cohort for these trailblazers will be in large part individuals claiming Employment and Support Allowance (ESA) and experiencing mental health conditions, though those claiming Jobseekers Allowance (JSA) can be included in interventions where local discretion over design suggests a particular need for such inclusion. It is anticipated that each trailblazer will work with 1500 to 2000 beneficiaries.
- 2.5 Given the strategic significance of this policy area, the Government committed to providing:
- £7m across the four areas, subject to the delivery of robust business cases and designs.
  - Policy expertise drawing on experts across Whitehall, and particularly in the Department for Work and Pensions (DWP), Department of Health (DH), NHS England, Cabinet Office (CO) and the Public Service Transformation Network (PSTN)
  - Wider flexibilities required to undertake these trailblazers, where appropriate
  - Support in evaluation procurement and design
- 2.6 In return, the Government expects to draw on local commitment, insight and a willingness to use local learning from the trailblazers to influence the national policy agenda. Specifically, trailblazer areas are expected to:
- Provide local financial and resource match
  - Undertake interventions which are grounded in evidence
  - Commit through the involvement of local stakeholders across health and employment services, particularly Jobcentre Plus (JCP), Clinical Commissioning Groups (CCGs) and Health and Wellbeing Boards, local Improving Access to Psychological Therapies (IAPT)
  - Commit, alongside the Government's commitment, to deliver robust evidence of the trailblazers' impact in delivering worthwhile outcomes for communities including measurable improvements in mental health, sustained job entries and flows off out of work benefits.
- 2.7 To ensure that the intervention design allows for robust evaluation, each trailblazer area is expected to engage evaluation expertise at an early stage of design. The outcomes of particular concern will be expected to include both employment and health indicators. Impact estimates would be expected to cover impacts on benefit off-flows (6 months) as well as continuous employment (on a measure of 26 weeks out of 30). Equivalent measures related to mental health would include measures of wellbeing and work self-

efficacy at specified intervals following attachment to the trailblazer.

- 2.8 The trailblazers will be locally-led and locally-designed interventions. Governance at the local level will, therefore, be shaped by local discretion. Centrally, support and governance will be provided through:
- A Steering Group: drawing on expertise across Whitehall to oversee the design and sign-off process
  - 4 trailblazer-specific teams: each to work with one of the trailblazer areas to support design and implementation
  - A Learning Network: to facilitate the sharing of emerging best practice and to unblock obstacles encountered by trailblazer areas

### 3 Development process

- 3.1 By 1 October 2014, the Government expected that central and local teams would work together intensively to arrive at three outputs:
- a. Design proposal: to capture planned interventions and integration of services, including prospective cohorts
  - b. Detailed implementation plan: to include plans for commissioning (where relevant), governance, delivery, monitoring and evaluation, data sharing and timelines
  - c. Business case: to include financial estimates of estimated costs, attachment and success assumptions, local financial match and an initial estimate of discounted savings
- 3.2 On this basis, the expected timeline of next steps was as follows:
- By mid-August: scoping meetings take place in each trailblazer area
  - Throughout August and early September: Co-design workshops take place in each area, led by local stakeholders and supported by central teams. Early conversations with evaluation experts are used to ensure that design plans reflect evaluation needs.
  - Mid-September: Final drafts of design, implementation plan and business plan for each area are submitted for sign off by local and central teams
  - October/November: Procurement processes are initiated
  - March/April 2015: Delivery of trailblazers starts

### 4 The North East Trailblazer

4.1 In developing the approach for the trailblazer, the following principles have been applied:

- Voluntary participation
- Competitive employment is primary goal
- Job search consistent with individual preferences
- Job search / placement is rapid (not a long term training / 'work preparation' intervention)
- Employment specialists and clinical team work and are located together
- Benefits counselling supports the transition from welfare to work

4.2 This has led to the to the development of the following basic model:

- A 'Hub and Spoke' model, with a central team resource of employment support brokered into existing psychological wellbeing services commissioned by CCGs.
- Potential staff co-location
- Individual Placement Service (IPS) model
- Individually tailored support
- Joint Case Management
- Six month intervention
- In-work support
- Potential area clusters
- Option to participate or opt-out across areas

4.3 Within this the role of the Joint Case Management Team would be to:

- Broker psychological and employment interventions
- Support tailored to individual need – with required intensity
- Develop joint needs assessment and action plans
- Raise profile of mental health with clinical and employment practitioners
- Advocacy across services – potential application for benefit conditionality easements
- Joint case management and data sharing
- Six month intervention

- Job placement and continued support when in-work

4.4 This continued in-work support would be targeted at people leaving the Joint Case Management Team into work (at 4 weeks) or at anyone leaving IAPT. It would continue up until the individual had 26 weeks in sustained employment. It would be telephone-based and would include clinical care. Its aim would be to:

- Improve job sustainability following exit from psychological therapy
- Refer back to clinical intervention on relapse to prevent exit from work
- Improve tracking and data on impact on sustained employment
- Support engagement with self-help interventions to maintain good mental health

## 5 Outcomes

5.1 The main outcomes anticipated from the trailblazer are:

- Supporting people to compete in the open-labour market
- Better job outcome rates
- Better job sustainability
- Improved clinical recovery rates, reduced relapse rates, earlier engagement (IAPT KPIs TBC)
- Benefit off-flows
- Local economic benefit

The precise targets will be defined as the trailblazer develops.

## 6 Next steps

6.1 The initial business case was submitted to the Cabinet Office and the Leadership Board is now requested to endorse the delivery model advocated. Following this, the delivery model will be further discussed with the Clinical Commissioning Groups with reports going to each of the respective Health and Well Being Boards in October and November.

6.2 In terms of securing Government approval, the business case will be considered as part of the normal Transformation Challenge Award (where the Government allocation of £1.7million for 2015/16 is coming from) process with a formal announcement anticipated on 21 November.

6.3 Between November and January, in-scope delivery services will be consulted with a view to securing open/out commitments. In tandem with this, the

# North East Combined Authority

## North East Leadership Board (NELB)

REPORT FOR DECISION

model will be fully costed and the appropriate infrastructure and governance arrangements developed. The aim would then be to launch the initiative in March 2015.

### **7 Potential impact on objectives**

7.1 The trailblazer contributes to the objective within the Employability and Inclusion priority of the Strategic Economic Plan (SEP) that seeks to:

*Support activities to tackle the multiple barriers faced in a holistic and integrated way to avoid problems becoming entrenched through specific targeted interventions*

7.2 The trailblazer also starts to demonstrate to Government the ability of the Combined Authority to collaborate with Government and create new ways of working to tackle long-standing challenges associated with worklessness. This will significantly assist in demonstrating the credibility of the Combined Authority when negotiating with Government for the further devolution of powers associated with employability and welfare to work.

### **8. Finance and other resources**

8.1 Subject to consideration of the submitted business case, the trailblazer will secure £1.7m from the Government's Transformation Challenge Award. The expectation is to match this resource from the European Social Fund (ESF), in line with the LEP's European Structural and Investment Funds strategic priorities. Other local match will be sought where appropriate and adding value to the pilot.

### **9 Legal**

9.1 There are no legal implications at this stage.

### **10 Other considerations**

#### **10.1 Consultation/community engagement**

Not applicable

#### **10.2 Human rights**

There are no specific human rights implications arising from this report.

#### **10.3 Equalities and diversity**

There are no specific equalities and diversity implications arising from this

report.

### 10.4 Risk management

There are no specific risk management implications arising from this report.

### 10.5 Crime and disorder

There are no specific crime and disorder implications arising from this report.

### 10.6 Environment and sustainability

There are no specific environment and sustainability implications arising from this report.

## 11 Background documents

More and Better Jobs – A Strategic Economic Plan for the North East, March 2014; together with the associated Implementation Plans for Skills, and Employability and Inclusion

## 12 Links to plans and policy framework

None

## 13 Appendices

Diagram highlighting the Government's priorities for the Mental Health and Employment Integration Trailblazer Pilots

## 14 Contact Officers

Geoff Paul, Director of Planning, Economy and Housing, Northumberland County Council – [geoff.paul@northumberland.gov.uk](mailto:geoff.paul@northumberland.gov.uk)

Kevin Higgins, Employability Development Manager, Northumberland County Council – [kevin.higgins@northumberland.gov.uk](mailto:kevin.higgins@northumberland.gov.uk)

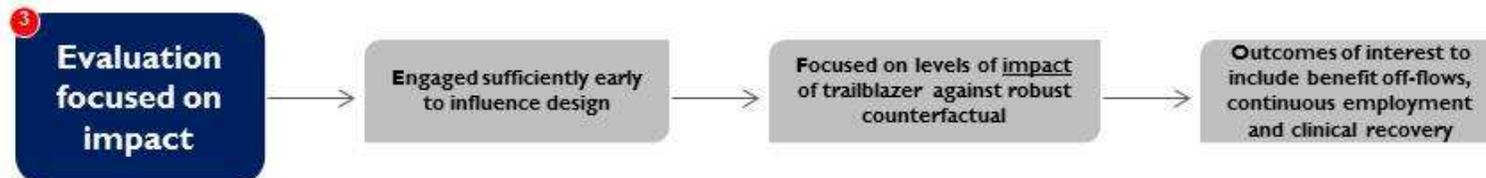
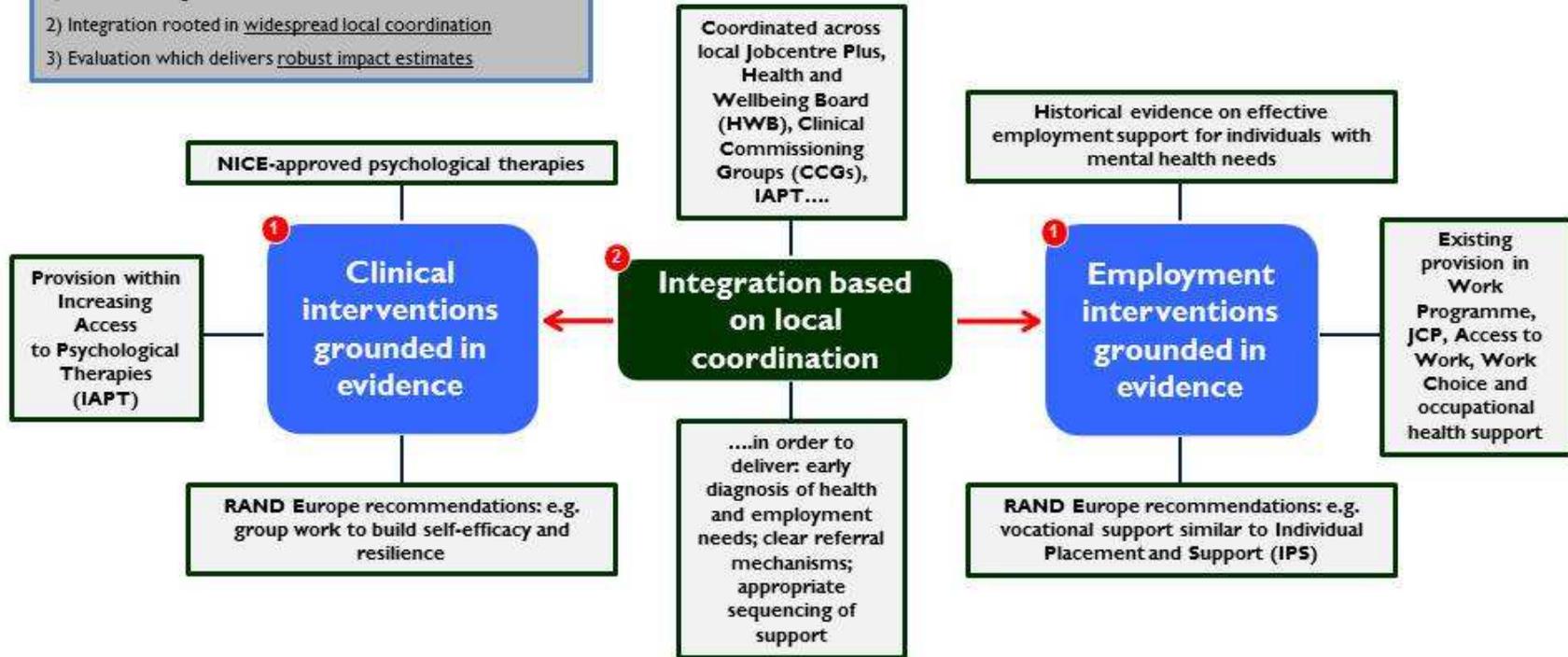
## 15 Sign off

- Head of Paid Service √
- Monitoring Officer √
- Section 151 Officer √

## MENTAL HEALTH AND EMPLOYMENT: NORTH EAST TRAILBLAZER – 3 PRIORITIES

We want these trailblazers to reflect three particular priorities:

- 1) Interventions grounded in evidence of What Works
- 2) Integration rooted in widespread local coordination
- 3) Evaluation which delivers robust impact estimates



This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank