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Dear Henry

Independent Assurance Report

This Independent Assurance Report (the "Report") is made in accordance with the terms of our contract dated 26 March 2026 (the "Engagement Letter"). The purpose is to report to the North East Mayoral Strategic Authority ("North East MSA" or the "Authority") in connection with its requirement for Grant Thornton UK Advisory & Tax LLP ("Grant Thornton", "we", "us") (together, the "Parties") to perform an independent assurance assessment of its Franchising Scheme Assessment ("the Assessment") as prepared in accordance with the Transport Act 2000 ("the Act"). The Report is prepared to comply with section 123D of the Act and as a result, this Report may not be suitable for any other purpose other than that set out in the Act. For the avoidance of doubt, the terms and conditions of that engagement, including, but not limited to, the Parties' respective liabilities, shall apply.

Output

The Report must state whether, in our opinion:

- the information relied on by the Authority in producing the economic (value for money) and financial (affordability) cases of their assessment is of sufficient quality;
- the analysis of that information is of sufficient quality; and
- that the Authority has had due regard to guidance issued by the Secretary of State under section 123B of the Act in preparing its assessment.

The intent of the legislation is that the Report provides independent assurance that the Assessment prepared by the Authority has been produced in good faith and professionally and does not contain obvious material or arithmetic errors which could cast doubt on its overall conclusions. In particular, the aim of the report is to provide assurance:

- in the accuracy of the data used;
- that the affordability and value for money analyses have been developed with appropriate care by suitably qualified experts; and
- that the process followed was robust.

Background

The North East MSA has recently prepared an Assessment as part of its Bus Reform programme, which is working to enable a Mayoral Decision on whether to proceed with a bus franchising scheme.

In preparation for the next stage of this statutory process, the Authority appointed Grant Thornton to undertake independent assurance on the Assessment, in compliance with the Act, and the Department for Transport's Franchising Scheme Guidance: 'Setting up a bus franchising scheme' ("the Guidance").

The Authority issued a Notice of Intent to conduct an assessment of a franchising scheme in August 2024. The Authority appointed EY (and its sub-contractor Systra) to provide support in completing the Assessment.

In late 2025, the Authority approved the commencement of the procurement of an Auditor, with a formal decision to request an Independent Assurance Report approved in March 2026.

Responsibilities of the North East MSA

The Authority's responsibilities in relation to this Report included but were not limited to:

- preparing the Assessment;
- providing us with any such information as may be reasonably requested by us in connection with the preparation of this Report;
- responding to any queries raised by us and ensuring that there were appropriate resources available to respond to such queries; and
- any such other matters as may be agreed by the parties.

The North East MSA has elected to undertake their assessment of a franchising scheme in accordance with the Guidance which was updated on 29 January 2026. They have provided us with a letter of representation (dated 12 June 2026) confirming the North East MSA has provided us with all the information of which it is aware that is material to the Assessment and our review, as required by the Act and Guidance.

Our responsibilities

The Report must state whether, in the opinion of the auditor:

- the information relied on by the authority in considering the matters referred to in section 123B(3)(d) or (e) of the Act is of sufficient quality;
- the analysis of that information in the assessment is of sufficient quality; and
- the authority had due regard to guidance issued under section 123B of the Act in preparing the assessment.

As the Authority prepared their Assessment in accordance with Guidance which was updated on 29 January 2026, we have undertaken our responsibilities in alignment with the same Guidance. When forming an opinion as to whether the information relied upon and the analysis of the information by the Authority is of sufficient quality, auditors are required to look at the assessment in the round. The auditor does not need to review in detail every data source or assumption, but should consider whether there are significant areas of weakness, omission or error which individually or collectively could have a material impact on the assessment's conclusions on the costs, benefits, risks or value for money of any of the options. In doing so the auditor should consider:

- whether there are any significant and material gaps in the information used;
- whether the information used generally comes from recognised sources;
- whether the information used appears to have been selected objectively, rather than to support the arguments in favour, or against, any particular option;
- whether the assessment takes into account any effects or potential effects from the COVID-19 pandemic;
- whether the information used, collectively, is relevant and not significantly out of date;
- whether the assumptions used in the assessment are recorded and, where reasonably possible, supported by recognised sources;
- whether, where information and evidence is less well defined, but would otherwise lead to an absence of data from the assessment, the authority's approach is not unreasonable and potential risks associated with the assumptions made are identified;

- whether appropriate ranges have been used for forecasts and associated uncertainties identified in the assessment;
- the mathematical and modelling accuracy of the analytical methods used to calculate the impacts of the options;
- whether the Authority's assumptions on the costs and benefits of the best Enhanced Partnership ("EP") reflect the evidence available of what could realistically be delivered through an EP at the point at which the assessment was developed; and
- the availability, quality and – where relevant – timeliness of receipt from bus operators of the information available to the authority.

Where information and evidence is less well defined, but would otherwise lead to an absence of data, the Authority should flag where an auditor has questioned the basis of the assumption and include the potential consequence to the business case of the assumption being removed. This allows the potential risk identified by the auditor to be clearly included within the business case and addressed via a sensitivity test.

Where we consider that there are material issues with the quality of information or its analysis, we are required to advise the Authority accordingly and identify, where relevant, what different approach or data source we would recommend.

We do not pass judgement on the decisions taken by the Authority or the outcome of the Assessment – our role is to consider the process that has been followed, the accuracy and robustness of the information that has been used in the analysis, and that the mechanics of the process have been carried out correctly.

Although the Act requires the Report to be prepared by an 'auditor', this is not intended or required by the Act to be a formal audit report in accordance with Financial Reporting Guidelines.

Our approach to meeting the requirements of section 123D of the Act was as follows:

- We have reviewed the documentation provided by the North East MSA;
- Our work was conducted in line with the Act and the Guidance and supported via a series of clarification questions and answers developed via a collaborative working document with the Authority. This forms a record of our detailed review. Our work was organised under the following workstreams:
 - Process – in line with the Guidance, our work considered how the Assessment has been prepared and whether the Authority followed the requirements of the Act and the Guidance;
 - Assessment review – this element of the work evaluated the quality of the analysis undertaken, the quality of the information used, whether the analysis of that information was of sufficient quality and whether the Authority had due regard to the Guidance; and
 - Base data including bus operator data – this element of the work evaluated the quality and timeliness of the information used to underpin the Assessment of whether the analysis of that information was of sufficient quality and whether the Authority had due regard to the Guidance.
- In relation to the Demand and Revenue Model, Operating Cost Model, Financial Model and Economic Appraisal Model, (together "the Models") we have undertaken the following procedures:
 - Calculation reviews of the Models – this element of the work evaluated the arithmetical accuracy of the analytical methods used; and
 - Technical / Methodological / Analytical reviews of the Models – in line with the Guidance, this element of the work evaluated the quality of the analysis undertaken and the quality of the information used.

Section 123B (3) (d) and (e) of the Act requires the Assessment to include consideration of whether the proposed scheme is affordable and represents value for money. During our work we identified and collated Observations in relation to the Assessment which we have reported to the Authority. These are detailed within the Appendix to this letter, and this letter should be understood in the context of those Observations.

Inherent limitations

The procedures we have performed do not constitute an examination made in accordance with International Standards on Auditing (UK). Our Report relates only to the Assessment and does not extend to any financial statements of the North East MSA nor the statutory financial statements of any of the bus operators on which the Assessment is based.

The procedures we have undertaken have not considered the whole internal control system in place at the North East MSA nor have we tested elements of the internal control system, placing reliance on the information provided that we considered necessary for us to be able to provide an opinion on the matters required under the Act.

The process of modelling on which the Assessment is based necessarily involves a simplified representation of the real world, using a set of data and input assumptions and calculations to provide forecasts that inform decision making. As a result, there is inherent uncertainty over any forecasts or projections calculated by a model as these are based upon a series of assumptions from which future actual outcomes may differ.

Conclusion

Based on our review of the Assessment, we are of the opinion that:

- the information relied on by the Authority in considering the matters referred to in section 123B(3)(d) or (e) of the Act is of sufficient quality;
- the analysis of that information in the Assessment is, of sufficient quality; and
- the Authority had due regard to guidance issued under section 123B of the Act in preparing the Assessment.

Use of our Report

This Report is made solely to the North East MSA, as a body, in accordance with the terms of our Engagement Letter. Our work has been undertaken to prepare a report on the Assessment, which includes providing an opinion on the matters required under the Act. We acknowledge that the North East MSA may rely on the contents of the Report and that the Report may be used by the North East MSA in accordance with the provisions of the Act. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than to the North East MSA, as a body, for our work, for this Report, or for the conclusions we have formed.

Grant Thornton UK Advisory & Tax LLP

Grant Thornton UK Advisory & Tax LLP
Chartered Accountants
London
16 June 2026

Appendix 1 – Our Observations

Detailed below are our Report observations

Subject	Commentary
Financial and Economic Assessment – Uncertainty in Forecasting	<p>We are satisfied that the affordability and value for money analysis has been developed with appropriate care by suitably qualified experts and that the process was robust and in accordance with current guidance. However, it should be noted that variabilities always exist within this type of analysis and may impact on the financial forecasts and economic benefits of this Assessment.</p> <p>Throughout the Assessment, the Authority has reviewed available data and information sources, developing a set of baseline assumptions that have been used in the modelling of the franchising scheme, impacting both the economic and financial modelling. We acknowledge that economic modelling of this nature is inherently subjective and that reasonable practitioners may reach different conclusions when applying judgement to complex forecasting inputs. Our observations should therefore be read in that context.</p> <p>Whilst we understand the assumptions selected, due to a lack of contemporary industry data, we consider that there is an inherent risk that the outturn position would in practice be less favourable than the modelled scenario presented. In particular, while we acknowledge that there will be benefits derived from branding and marketing, the exact value of these are uncertain.</p> <p>We note that a sensitivity test has been run at a lower benefit level, more aligned to our professional view of a reasonable set of assumptions, and that under this sensitivity the economic case continues to demonstrate a value for money (VfM) outcome that remains sufficient to support the investment decision, albeit at a lower level. Should the lower sensitivity position materialise in practice, this would have an impact on the affordability position of the Assessment as discussed in our Observation in respect of the additional investment need, below. This financial risk is one of a wider set of financial risks inherent to bus franchising, which the Authority has considered in its Assessment.</p> <p>We would emphasise that forecasting and appraisal of this type is, by its nature, forward-looking and subject to a degree of uncertainty that cannot be fully eliminated. The underlying methodology is sound, is consistent with the latest applicable guidance, and has been carried out by suitably experienced specialists. Our observations do not call into question the integrity of the approach adopted but rather reflect the inherent limitations of long-range forecasting and the sensitivity of the outputs to key assumptions.</p> <p>We recommend that the team continues to monitor actual outcomes against forecast benefits, revisits key assumptions at appropriate review points, and ensures affordability considerations are kept under regular review.</p>

Subject	Commentary
Investment need presented within the Assessment	<p>The Financial Case notes that an additional investment need of £83.8m is required over the first 10 years of franchising and identifies possible funding sources to cover this, noting that the central assumption is that this can be met from the Integrated Settlement. There is more limited reference made to the larger 30-year additional investment need of £334.1m.</p> <p>For modelling purposes, the Integrated Settlement has been assumed to continue across the first 10 years of the franchising period, with a similar mechanism assumed to be available for the remaining 20 years. However, the current Integrated Settlement is due to end during the initial franchise term, having been set for an initial period covering 2026 to 2030, which will result in a need for alternative funding to be identified beyond this period (noting that a need to identify funding would apply in both the franchised and EP scenario). In the event that alternative funding is not identified, the FSA acknowledges that the Authority would need to explore potential solutions, which either be to increase funding, or to make adjustments to the bus service in terms of network, fares and levels of service to ensure long term affordability. However, it should also be noted that if a decision to change services were made, some savings would not be immediate and may be limited.</p>
Identified financial modelling discrepancy	<p>During our review of the financial models supporting the Assessment, we identified a formula error within the staff cost calculations. While the correct input assumptions were included within the financial model, a calculation error meant these were not included within the total of the investment need. The excluded costs amount to approximately £2.3m (unindexed) per annum, resulting in a cumulative additional investment need of approximately £29.8m (indexed) over the period to 2038/39 and £104.9m (indexed) over the 30-year appraisal period.</p> <p>We consider it appropriate to treat this as non-material for the purposes of this Assessment for the following reasons:</p> <ul style="list-style-type: none"> • The existence of an additional investment need was already acknowledged within the Assessment; the omission increased its scale but did not alter its nature or the conclusions drawn regarding the affordability of the Assessment. • The Assessment already accepts that the additional investment required will need to be met from sources not yet fully identified, and this additional sum falls within the same category. • The discrepancy has been subject to appropriate scrutiny by the management team, including the Statutory Section 73 Officer, who has confirmed that the ultimate affordability gap remains within the parameters of the potential funding sources identified in the Assessment.
Establishment of Delivery Body arrangements	<p>The implementation of Franchising depends significantly on the establishment of new Delivery Body arrangements. Importantly, the establishment of these arrangements falls outside the scope of the Assessment and is being progressed separately. This represents a material dependency: without a properly structured and adequately funded delivery approach, the strategic objectives and wider benefits of bus franchising cannot be realised.</p>

Subject	Commentary
BSIP and Secured services funding	<p>In calculating annual BSIP and Secured Services income, the Authority has used confirmed 2024/25 values, rather than 2025/26 values, as the final values relating to that financial year had not been confirmed at the time the modelling was undertaken. It is noted that draft 2025/26 values were included (but not used) within the financial model. Instead, the 2024/25 values have been used, and have been assumed to increase annually at RPI.</p> <p>The difference between the agreed 2024/25 and draft 2025/26 values is significant. Extrapolated across the entire modelled term, this would significantly reduce the investment need required by the Authority to fund bus franchising. The use of the 2024/25 figures represents a prudent approach by the Authority and it is positive to acknowledge a degree of unmodelled upside that could potentially be used to counteract possible downsides identified in the franchising case.</p>
Operator Data in respect of small and medium operators	<p>The operator data received by the North East MSA is, in places, of inconsistent quality, particularly in respect of small and medium sized operators (SMOs). It is acknowledged that this is consistent with the challenges experienced by other authorities in gathering operator data for the purposes of assessing franchising. To address this issue, the North East MSA has considered data from both large operators and SMOs in aggregate, and, due to the issues in SMO data quality, has not been able to fully assess the differences in cost base of SMOs in comparison to a large operator. While this only represents approximately 11% of service mileage and 13% of Peak Vehicle Requirements, SMOs can represent disproportionate amounts of specific classes of services – for example school services.</p> <p>The Authority should ensure that, should it proceed to implement franchising, a detailed procurement plan is developed that gives specific consideration in respect of SMOs, with regards to contract sizes, pricing assumptions, and procurement qualification thresholds, to ensure the specific characteristics of SMOs are taken into account.</p>
Franchising objectives	<p>The Strategic Case sets out a range of objectives and associated outcomes and measures intended to support the comparison of franchising with the Enhanced Partnership, alongside a capability-based argument that franchising is better placed to achieve these objectives.</p> <p>However, the definition of objectives and measures in some instances could be developed further to add additional clarity around SMART (Specific, Measurable, Achievable, Realistic, Time bound) characteristics (a requirement of the Guidance), and the use of at least one self-referential measure defined relative to the reference case being assessed.</p> <p>While this does not impact upon our conclusion with regards to the Assessment, incorporating these findings would provide for a strengthened Strategic Case that more clearly articulates why franchising performs better than the EP against these objectives. The Authority should ensure that, should it proceed to implement franchising, a detailed procurement plan is developed that ensures it aligns with the delivery of SMART objectives.</p>
Agglomeration benefits	<p>The approach to calculation of agglomeration benefits is not strictly in line with DfT Transport analysis guidance (TAG) and uses a bespoke method that should only be seen as an approximation. Specifically, this bespoke method uses the estimated change in generalised cost for bus users in place of the change in generalised cost for all transport users, which could over-estimate benefits.</p> <p>Although the implication of this is not likely to be material to overall conclusions of the Assessment, in our view the business case would be strengthened by noting explicitly this divergence from DfT TAG.</p>

Subject	Commentary
Depot acquisition	<p>The Commercial Case identifies depot acquisition as a critical dependency for the successful implementation of franchising and recognises the associated delivery risks. However, it does not clearly demonstrate how the Authority has assured itself that proposed contingency approaches, including the potential use of compulsory purchase powers, are legally robust and practically deliverable within the proposed transition timescales.</p> <p>The acquisition of depots is a critical enabler of franchising, without which, such a transition is unlikely to be feasible. It is acknowledged that this is consistent with the position of other authorities seeking to introduce franchising. Should the decision to proceed to franchising be made, a detailed procurement plan in respect of depots should give appropriate consideration to analysis of feasibility, precedent, timescale or risk in relation to depot acquisition contingencies.</p>
Benefits from improved bus priority and bus stops	<p>The financial forecasts in the Financial Case incorporate a significant uplift in overall bus demand resulting from bus priority measures (2%) and bus stop improvements (2%). Based on additional evidence presented through our process of clarification questions, we are aware that, although not material to the assessment, the justification given within the FSA for the assumption did not accurately reflect why the amounts had been modelled.</p>
Typographical errors within the Financial Case	<p>The Financial Case contains typographical errors that, while not impacting on the outcome of the Financial Case (as the financial modelling itself utilised the appropriate figures), would benefit from being amended to aid clarity and readability of the case. In particular, we would note that:</p> <ul style="list-style-type: none"> - Section 2.2.3 of the Financial Case states that "£11.2 million is used to operate and subsidise services that are not seen as commercially viable by the commercial operators". This figure should have been stated as £13.5m - Section 4.4.13 of the Financial Case states that "ENCTS patronage is forecast to reduce by 22%". This figure should have been stated as 43%
Residual value mechanism for fleet	<p>Section 6.3.17 of the Financial Case states that ongoing fleet investment in the franchising case is assumed to be the same as in the current EP. The Authority has confirmed that they consider the introduction of a Residual Value mechanism with regards to the transfer of fleet from one operator to another will have no impact on the modelled costs of the Authority. While the exact nature of any Residual Value mechanism is yet to be defined, it should be noted that it is considered likely any such mechanism would result in the Authority assuming liability for the fair value of vehicles, which, if the network were to be reduced in scale during franchised operations, the North East MSA would be expected to meet, which could impact on the available funding of the Authority for other purposes.</p>
Financial & Economic cases – impact of forecasting simplifications	<p>Within the approach to forecasting operating costs and passenger demand/revenue there are two issues, relating to the quality of the analysis, which add to our conclusion that the franchising case may be positioned towards the upper end of the range of realistically possible outcomes for both affordability and the economic case. These are as follows:</p> <ul style="list-style-type: none"> • It has been confirmed that no marginal impact of worsening road congestion on bus driver hours or fleet size has been taken into account in calculating operating costs. Although we understand that these impacts can be managed to a degree, we would expect this to be in tension with the improvements to performance and reliability that are also assumed. Although the Authority's experienced advisor has confirmed its view that this omission is a reasonable simplification, in our view this simplification remains unjustified – and appears unnecessary given that the relevant factors are generated within other parts of the modelling approach. • We note that no assessment has been made to support the assumption that no demand/revenue will be lost to routine occurrence of crowding. We would anticipate this to be localised and that the impacts on the case might be managed in practice. We concluded that, without any assessment of its potential significance however, this represents an unknown level of risk to the case.

Subject	Commentary
Balance sheet assessment	<p>It is a requirement of the statutory guidance in respect of the Financial Case that Authorities should undertake an assessment of how the options considered would impact on the balance sheet of the franchising Authority.</p> <p>We note that an assessment of the balance sheet implications of franchising has not been included within the Financial Case. However, we have been provided with a briefing note, reviewed and confirmed as reflective of the understood balance sheet position by the Statutory Section 73 Officer at the North East MSA, that demonstrates the impact on the Authority balance sheet has been considered.</p>
Impact of franchising on SMOs in the Economic Case	<p>The Economic Case section of the Franchising Guidance sets out that:</p> <p>“Particular consideration should be given to small and medium sized operators, and the potential impacts of the options on that group and that an authority should include in this section an assessment of local operators that they consider to be small and medium sized.”</p> <p>We note that the impact on SMOs has been considered within the FSA which reduces our concern in principle. However, it has not been addressed directly within the Economic Case section as specifically required by the relevant guidance.</p>
Operator data used to develop assumptions for the Assessment	<p>As part of developing the Assessment’s assumptions, the Authority collected operator data from a range of sources, including large operators and a number of small and medium operators (SMOs). This data informed the patronage and revenue assumptions used within the Assessment.</p> <p>Operator-reported cost data was subsequently adjusted through triangulation against publicly available financial statements, resulting in a downward revision to operator costs to align model outputs with an assumed 4% operating margins.</p> <p>While triangulation against recognised external sources is a reasonable validation approach in circumstances where operator data is of variable quality, the Assessment does not make it clear to the reader that operator-reported cost data has been adjusted in this way. This creates uncertainty around a key input: If operator costs are higher than the adjusted figures suggest, the modelled financial outcomes could be less favourable than the modelled scenario presented. The Assessment would be strengthened by explicitly acknowledging these adjustments, explaining the basis on which a 4% operating margin was considered a reasonable proxy for the true operator costs, and setting out the sensitivity of the financial outputs to this assumption.</p>