

**North East Mayoral Strategic Authority
Franchising Scheme Assessment**

March 2026

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Management Case

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List of acronyms

Acronym	Definition
ABODS	Analysis Bus Open Data Service
AMCB	Analysis of monetised costs and benefits
AQMA(s)	Air Quality Management Area(s)
AST	Appraisal Summary Table
AVA	Audio-visual announcements
AVL	Automatic vehicle location
BAU	Business as usual
BCR	Benefit to Cost Ratio
BODS	Bus Open Data Service
BRPB	Bus Reform Programme Board
BS	British Standard
BSIP	Bus Service Improvement Plan
BSOG	Bus Service Operators Grant
CAZ	Clean Air Zone
CBA	Cost Benefit Analysis
CCTV	Closed-circuit television
CDEL	Capital Departmental Expenditure Limit
CIPFA	Chartered Institute of Public Finance and Accountancy
CMA	Competition and Markets Authority
CPI	Consumer price inflation
CPIH	Consumer Price Index including owner occupiers' housing costs
CPT	Confederation of Passenger Transport
CRSTS	City Region Sustainable Transport Settlement
DB	Delivery Body
DCC	Durham County Council
DERV	Diesel Engine Road Vehicle
DfT	Department for Transport
DI	Distributional impacts
DMO	Debt Management Office
DRM	Demand and revenue model
DRT	Demand responsive transport
DVLA	Driver and Vehicle Licensing Agency
DVSA	Driver and Vehicle Standards Agency
ENCTS	English National Concessionary Travel Scheme
EP	Enhanced Partnership
ETM(s)	Electronic Ticket Machine(s)
FSA	Franchising Scheme Assessment
FTE	Full-time equivalent
GDP	Gross domestic product
GFA(s)	Grant Funding Agreement(s)
GHG	Greenhouse gases
GJT	Generalised journey time
GMCA	Greater Manchester Combined Authority
GNE	Go North East

GVA	Gross Value Added
HGV(s)	Heavy goods vehicle(s)
HMG	His Majesty's Government
HMRC	His Majesty's Revenue and Customs
ICE	Internal combustion engine
IS	Integrated Settlement
ISO	International Organisation for Standardisation
ITS	Intelligent Transport System(s)
JTC	North East Joint Transport Committee
KPI(s)	Key Performance Indicator(s)
KRN	Key Route Network
LA	Local authority
LA7	The seven North East local authorities
LCRCA	Liverpool City Region Combined Authority
LGP	Local Growth Plan
LTA	Local Transport Authority
LTP	Local Transport Plan
LUF	Levelling Up Fund
MCA	Mayoral Combined Authority
MEC(s)	Marginal external cost(s)
MSA	Mayoral Strategic Authority
NATA	New approach to appraisal
NCC	Northumberland County Council
NHS	National Health Service
NO ₂	Nitrogen dioxide
NPV	Net Present Value
NTEM	National Trip End Model
NTS	National Travel Survey
NWF	National Walth Fund
OB	Optimism bias
ONS	Office for National Statistics
OR	Options Report
PFI	Private finance initiative
PTE	Passenger Transport Executive
PV	Present value
PVB	Present value of benefits
PVC	Present value of costs
PVR	Peak Vehicle Requirement
PWLB	Public Works Loan Board
QA	Qualifying Agreement
RAG	Red, Amber, Green
RDEL	Resource Departmental Expenditure Limit
RFIs	Requests for Information
RPI	Retail price inflation
RVM	Residual Value Mechanism
SEND	Special educational needs and disability

SLT	Senior Leadership Team
SMO(s)	Small and medium sized operator(s)
SOLACE	Society of Local Authority Chief Executives
SRO	Senior Reporting Officer
T&W	Tyne and Wear
TA2000	Transport Act 2000 (as amended)
TAG	Transport Analysis Guidance
TC	Traffic Commissioner
TCF	Transforming Cities Fund
TCR	Transport for City Regions
TEE	Transport economic efficiency
The MSA	The North East Mayoral Strategic Authority
TL	Transport Levy
ToR	Terms of Reference
TRSE	Transport-related social exclusion
TTWA(s)	Travel to work area(s)
TUPE	Transfer of Undertakings (Protection of Employment)
TVCA	Tees Valley Combined Authority
TWITA	Tyne and Wear Integrated Transport Authority
ULEBS	Ultra Low Emission Bus Scheme
UTMC	Urban traffic management and control facility
VAT	Value Added Tax
VfM	Value for money
VoT	Value of time
WEI	Wider economic impacts
YNYCA	York and North Yorkshire Combined Authority
ZEB(s)	Zero emission bus(es)
ZEBRA	Zero Emission Bus Regional Areas

Key definitions

Term	Definition for purposes of this FSA
Bus network specification	A detailed plan set by the franchising authority that defines routes, frequencies, service standards and ticketing arrangements for the local bus network.
MSA area	The geographic area of the North East MSA, covering the local authority areas of County Durham, Gateshead, Northumberland, North Tyneside, Newcastle, South Tyneside and Sunderland.
Cabinet	The North East MSA Cabinet, comprised of members appointed by the region's seven constituent authorities (or their appointed substitutes) and the North East Mayor, plus additional non-voting members.
Cost risk	The risk that operating costs (for example, fuel, staff, maintenance) are higher than forecast.
Delivery Body	The organisation that will deliver franchising on behalf of the MSA, assumed to be a single body operating across the North East built on Nexus' powers as a PTE.
English National Concessionary Travel Scheme	The statutory scheme, providing free off-peak bus travel across England for older and disabled people, including localised discretionary enhancements.
Franchising Scheme	The legal document through which franchising is implemented.
Integrated network	A single, cohesive network that is efficiently designed, simple, and easy to use that enables people and goods to make greener journeys.
Integrated settlement	A consolidated funding arrangement through which central government channels multiple thematic funding streams – including transport – directly to the MSA to support locally determined priorities and achieve outcomes agreed with central government.
The Mayor's Fares	Fares introduced by the MSA and subsidised through BSIP funding, namely the £1 under-22s single, £3 all-day under-22s ticket, £2.50 capped adult single, and adult all-day multi-modal and multi-operator tickets.
National Bus Strategy	'Bus Back Better', the national bus strategy for England published by the Department for Transport in March 2021.
North East	The geographic area of the North East MSA, covering the local authority areas of County Durham, Gateshead, Northumberland, North Tyneside, Newcastle, South Tyneside and Sunderland.
Peak Vehicle Requirement	The number of vehicles required to operate a service (or groups of services) at the highest frequency scheduled.
Pop Card	A pre-paid smartcard system that permits holders to pay for journeys on the Metro, almost all buses in Northumberland, Tyne and Wear, County Durham, and the Tees Valley, on the Shields Ferry, and on the Northumberland Line. The Pop Card has three versions: Pop Pay As You Go (standard version), Pop Blue (for those aged between 16 and 21), and Junior Blue (those aged 15 and under).
Reputational risk	The damage to the authority or operator's public image if services do not meet public expectations.

Resource board	In Tyne and Wear services which are in scope and serve schools are procured as resource boards which means operators submit a fixed price for up to 30 miles and a rate per mile thereafter without knowledge of the work to be carried out. Nexus then allocates school journeys to each board based on best value to Nexus.
Revenue risk	The financial risk of fare income being lower than expected.
Secured service	A service subsidised – in whole or in part – by Durham County Council, Northumberland County Council, or Nexus.
Smart capping	A ticketing system that automatically limits the total fare that a passenger pays to ensure that they never spend more than the cost of the best-value ticket available.
Statutory guidance	The ‘Setting up a bus franchising scheme’ guidance issued on 29 January 2026.
Strategic Authority	Strategic authorities (including the North East Mayoral Strategic Authority and other combined authorities) are public sector bodies with access to devolved powers and funding in England.
Transport Advisory Board	The MSA’s transport portfolio advisory board, which provides support and advice to the Mayor and Cabinet in steering and delivering the MSA’s transport strategies and programmes.
TUPE	Regulations that protect relevant employee’s jobs and terms and conditions of employment when services transfer to a new operator.
Zero Emission Buses	Buses with zero tailpipe emissions; all ZEBs in the North East are currently powered by electricity.

1. Introduction

- 1.1. Bus services provide essential connections to work, education, healthcare, and leisure destinations across the North East. Buses are the region's most used form of public transport and, in many parts of the region, the only public transport option available. The North East has one of the highest levels of bus use in the country, with 116¹ million journeys taken in 2024/25.
- 1.2. Buses are a sustainable travel option with associated benefits for passengers, the wider public and the planet. Car drivers changing one journey a week to buses or other sustainable travel options could save them approximately £180 per annum on petrol or diesel, improve public health through reduced road traffic emissions and increased active travel, and prevent around 214,000 tonnes of CO₂ emissions each year².
- 1.3. There has, however, been a marked decline in the region's bus network – with a 32% reduction in the size of the network³ and a 31% reduction in passenger journeys between 2009/10 and 2024/25 – the network now carries 52 million fewer passengers and covers 24 million fewer miles⁴. This decline is a continuation of decades-long trends – and has been sharper in the North East compared to the rest of England outside London.
- 1.4. Network decline manifests as reduced frequencies, shortened routes, or service cancellations – cutting residents off from many vital connections. It has impacted communities across the region – between 2009/10 and 2024/25, the size of the network in Tyne and Wear reduced by 28%, by 39% in County Durham, and by 43% in Northumberland⁵.
- 1.5. Buses are often poorly regarded by the public and used as a last resort travel choice. Recent public engagement reveals perceptions that buses sometimes cannot be relied on, do not take people to where they want to go, are not integrated with other modes of transport, or simply are not an attractive travel option when compared to their car. “Unreliable”, “late”, “expensive”, “slow” and “infrequent” were the five most common words used by residents to describe local bus services⁶. 47% of bus users have no alternate travel option and are a captive market with no choice beyond using their local bus service⁷.
- 1.6. Local bus services in Great Britain (outside of London) have been delivered in a deregulated market environment since 1986. Operators design and provide most local bus services, seeking to generate a profit by supplying bus services to meet consumer demand – and theoretically competing in the market to attract passengers. Public authorities have limited control under deregulation making this a highly unusual model internationally.

¹ “[Bus statistics data tables: BUS01](#)”. Department for Transport. 2025.

² “[North East Local Transport Plan: Delivering Green Transport](#)”. North East Mayoral Strategic Authority. 2025.

³ “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

⁴ “[Bus statistics data tables: BUS01](#)”. Department for Transport. 2025.

⁵ “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

⁶ “[Bus Reform Options Report](#)”. North East Mayoral Strategic Authority. 2024.

⁷ “[Your Bus Journey – Transport Focus Data Hub](#)”. Transport Focus. 2024.

- 1.7. The North East has collaborated with regional operators through an Enhanced Partnership (EP) since 2023 which has increased the level of influence the public sector has over the bus network. The EP has delivered a series of improvements - such as additional services, a popular package of fare interventions branded as 'The Mayor's Fares', and a passenger charter that applies on all bus services - without altering the deregulated market structure.
- 1.8. The North East gained access to franchising powers upon the establishment of the North East Combined Authority (now termed North East Mayoral Strategic Authority) in May 2024. Franchising provides public control over routes, fares, and standards by contracting operators to run services to a set specification – but also requires a commensurate transfer of risk to the public sector. It is an increasingly common delivery model in England with six other mayoral strategic authorities opting to make franchising schemes. Greater Manchester, the first area to franchise, highlights improvements to its bus services since franchising that include more affordable fares, better-connected communities, and improved punctuality⁸.
- 1.9. As will be explored in this assessment, significant public investment is currently required to sustain the bus network and provide interventions to position buses as an attractive travel choice, such as concessionary travel for older and disabled people and capped fares. Public sector funding for the regional bus network in 2024/25 is estimated at £123 million – equivalent to 51% of all bus operator income – with the required funding likely to grow in the future. Profit margins earned by commercial operators in the North East have typically averaged 10%, but significantly higher margins (up to 25%) have historically been earned by some operators.
- 1.10. Public funding does not provide a proportionate level of control for the public sector within the deregulated system, despite improvements brought about through the EP. There is similarly limited public accountability for the bus network as bus operators have the final say on commercial network changes. Integration between bus services and other transport types is not prioritised and is sometimes absent, including for ticketing, fares, branding, and passenger information.
- 1.11. Without intervention, further decline to the region's bus services would ultimately result in a skeleton network comprising a small number of profitable services clustered around urban corridors that only operate during daytime hours. Other services, such as socially necessary services serving the region's rural communities and early morning/late evening services, would become extremely limited or lost entirely.
- 1.12. If the MSA is to achieve the aim of the LTP by creating a green, integrated transport network that works for all, then intervention will be required to reverse this trend of long-term network decline. Without intervention, this decline will represent a significant barrier in the MSA's mission to make the North East the home of real opportunity.

⁸ ["Delivering better bus services for Greater Manchester"](#). Transport for Greater Manchester. 2025.

**Franchising Scheme Assessment:
Assessment Framework**

March 2026

1. Purpose of this assessment

- 1.1. The North East Mayoral Strategic Authority ('the MSA') has completed this franchising assessment as required by Section 123B of the Transport Act 2000. Section 123B(1) requires the MSA to complete an assessment of a proposed franchising scheme before it can take a decision whether to make the scheme.
- 1.2. Section 123B(2) specifies that this assessment must describe the effects that the proposed scheme is likely to produce and compare making the proposed scheme to one or more courses of action.
- 1.3. As the franchising authority for the North East, the MSA published a statutory notice of intention to prepare an assessment of a proposed franchising scheme on 8 August 2024 as required by Section 123C(4). Cabinet unanimously decided to publish this notice at its meeting on 30 July 2024.
- 1.4. This assessment:
 - Has been prepared by the MSA in accordance with the requirements in Section 123B and the requirements of statutory franchising guidance, as published in January 2026;
 - Covers the whole of the MSA's geography;
 - Describes the franchising scheme proposed by the MSA; and
 - Compares the proposed franchising scheme to the continuation of the current Enhanced Partnership (EP) in the North East.

2. The five cases in this assessment

- 2.1. Section 123B and the statutory franchising guidance establish a five-case model for the assessment which is similar to the Treasury five-case business case model used to assess public spending proposals.
- 2.2. The five cases presented in this assessment are:
- **The strategic case**, which details the EP and franchising options considered in the assessment and considers the contribution each make to achieving the MSA's Local Transport Plan and its other relevant policies.
 - **The economic case**, which presents the modelled change in network size and patronage for the EP and franchising options, appraises the monetised and non-monetised benefits and costs for each option and considers whether making the scheme would represent value for money.
 - **The financial case**, which considers funding flows, forecast revenue and capital costs, and potential funding sources for the EP and franchising options to determine whether they are affordable for the MSA.
 - **The commercial case**, which develops the commercial model for the proposed franchising scheme, compares this to the EP option and considers the extent to which the MSA would be able to let franchising contracts under the intended terms.
 - **The management case**, which considers how the region would operate the EP and franchising options, including organisational changes required, additional resource requirements, governance arrangements and how risk will be managed.
- 2.3. The assessment also incorporates a **conclusion** section, which draws on the conclusions reached in the five cases to present the MSA's preferred option and the rationale for that recommendation.
- 2.4. Statutory franchising guidance specifies that authorities do not need to complete the commercial and management cases for the EP option. The MSA has, however, elected to complete these cases for the EP option to present a clear alternative to franchising and demonstrate the differences between the reform options.
- 2.5. The assessment, alongside the independent audit and consultation reports, is intended to allow the North East Mayor to take an informed decision on whether to make the proposed franchising scheme.
- 2.6. In line with the statutory guidance requirement, this assessment presents a "*level of detail ... broadly equivalent to other significant decisions taken by the LTA or mayor, for example the approval of a strategic document such as a local plan or a decision to award a large contract*". Further activity will be required post-decision to operationalise the principles set out in the assessment and implement the chosen option.

3. Transport authority – functional arrangements

- 3.1. The MSA became the Local Transport Authority (LTA) for the North East upon its establishment on 7 May 2024 and is a franchising authority under the Transport Act 2000. Some operational transport functions which are ordinarily held by the LTA have been delegated by Cabinet to Durham County Council and Northumberland County Council, while Nexus exercises operational transport functions in Tyne and Wear on behalf of the area's five local authorities. Nexus is both an officer of the MSA and a Passenger Transport Executive (PTE) established by the provisions of the Transport Act 1968.
- 3.2. Franchising would significantly expand the role of the public sector in bus service delivery. This assessment assumes that franchising will be operationally delivered by a single (public sector) executive body working across the MSA's geography, built on Nexus' existing powers, responsible for planning, procuring and managing bus franchises (and other transport services). Consideration of such an approach is aligned with the devolution deal made between the LA7 and HM Government. A single body is proposed to:
- Provide a consistent offer to the travelling public, ensuring consistency across the region in planning services, overseeing the contracts delivering these services and providing information and ticketing services directly to the public.
 - Reflect the scale and complexity of contract management, and the management of financial risk – a single body can specialise in these areas and avoid major complexities over the allocation of financial risk, roles and responsibilities, and accountability.
 - Best enable the proposed franchising scheme to achieve the reform objectives established in the strategic case.
- 3.3. This body is referred to in the assessment as the Delivery Body (DB).
- 3.4. Establishment of the DB is outside the scope of the Bus Reform Project; the assessment therefore assumes that the DB is established along suitable timescales and is not a constraint for the proposed franchising scheme.
- 3.5. The management case provides further information on the DB, and its intended relationship to the MSA and the region's local authorities.
- 3.6. The proposed use of a single delivery body reflects the requirement set out in our devolution deal to explore alternative delivery models, the conclusions of practitioner-level workshops across the region, and the fact that the North East MSA is the single party holding the statutory powers to implement franchising and let franchise contracts. The North East MSA continues to explore the alternative delivery models available to ensure that the model selected to use for delivery is best suited to delivering the benefits of the proposed franchising scheme. Where a better model is developed this may form part of the decision-making process.
- 3.7. These arrangements do not, however, change the fact that services would be operated by bus operators under either an EP or franchising option.

4. Treatment of risk in this assessment

- 4.1. Risk is present across each case in the FSA however it was decided that risk would be primarily captured within the management case, including an overview of the risk management principles and risk ownership.
- 4.2. Risks, alongside mitigation strategies, are captured as part of a risk register which is appended to the management case.
- 4.3. As per statutory guidance, key commercial risks and their potential impacts are outlined in the commercial case.
- 4.4. Risks associated with franchising which were identified as ‘high-level’ risks were quantified and incorporated into the financial modelling. As per statutory guidance, these risks are specifically outlined in the financial case. Risks associated with the EP option were also identified however these were not quantified as these risks were deemed not to be incremental to the status quo and would be responded to as part of normal operations.

5. Overview of the proposed North East bus franchising scheme

5.1. Should a decision be made to proceed with franchising, the scheme that the MSA proposes to make through exercising its powers under sections 123G and 123H of the Transport Act 2000 is provided within this assessment.

5.2. The scheme confirms the following:

- Article 3 defines the area to which the franchising scheme applies.
- Article 4 confirms the date on which a local service contract may first be entered into, and the date on which a service to be delivered under that contract may first be provided.
- Article 5 specifies the local services that are intended to be provided under local service contracts.
- Article 6 notes any exceptions to the scheme.
- Article 7 states what additional facilities the MSA considers appropriate to provide in the area.
- Article 8 defines plans for consulting on the operation of the scheme.
- Article 9 provides for the revocation of the EP scheme upon the commencement of the franchising scheme.

5.3. The full franchising scheme can be found appended to this document as Appendix A.

Franchising Scheme Assessment:
Executive Summary

March 2026

1. Introduction

- 1.1. The North East Mayoral Strategic Authority ('the MSA') has completed an assessment of a proposed franchising scheme ('the FSA'). The FSA has been prepared in line with the requirements in the Transport Act 2000 and the statutory franchising guidance published in January 2026.

2. Strategic Case

- 2.1. The strategic case considers whether the proposed scheme contributes to the MSA's implementation of its Local Transport Plan (LTP) and other relevant MSA policies, as well as the contribution made to its neighbouring authorities' policies.
- 2.2. The North East LTP aims to create a green and integrated transport network that works for all. Policy commitments in the LTP include simple and easy to use multi-modal fares and ticketing products; seamless interchange between modes with different forms of transport no longer considered as separate networks; and consistent and cohesive brand identity that gives a clear 'look and feel' for passengers.
- 2.3. Achieving the LTP's aim will also enable the MSA to meet its wider strategic objectives by enabling inclusive economic growth; helping protect the environment and tackling climate change; and achieving better health outcomes for people in the North East.
- 2.4. Informed by the LTP and the MSA's wider strategic framework, six strategic objectives have been adopted for the Bus Reform Project and used to assess the reform options. These objectives, and the associated intended outcomes, are:

Table 1: Strategic objectives and outcomes

Objective	Outcome
Buses at the heart of an integrated transport network: 'The Angel Network'	There should be a single, integrated source of journey information and customer support that is easy to understand.
	A unified and integrated North East transport network.
	Bus fares should be affordable, and tickets should be easy and simple to use
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles.
	Information, including real time information, should be accurate, integrated, and accessible through a single source.
	The delivery model encourages the use of bus as part of a multi-modal network.
Improve bus punctuality and reliability	Passengers should be confident that buses will operate as scheduled.
Make the bus network resilient	The bus network should be financially sustainable and resilient in the long term.

Make the bus network accessible and inclusive to all	The bus network should be accessible to all communities and demographics, including disabled and older residents.
	The network should be responsive to the needs of urban, rural, and coastal communities, preserving and widening the reach of the network where possible.
Ensure that everyone feels safe when travelling, especially women and girls	People's safety should be central to the network – including at bus stops and stations, with a particular focus on the safety of women and girls and other vulnerable groups.
Create regional pride in its buses	Buses should play their part in delivering regional outputs, such as economic growth, carbon emission reduction and improved public health.
	North East residents should be advocates of the bus network.

2.5. The North East is home to approximately two million people across urban, rural, and coastal communities. There are a variety of transport needs and challenges across the region, including limited transport provision in rural and coastal areas which restrict residents' mobility – with 31% of residents at risk of transport-related social exclusion⁹.

2.6. Buses are extremely important across the region, providing vital transport links to employment, education, healthcare, leisure, and tourist destinations. Car ownership in the North East is lower than the national average – 28% have no access to a car or van, compared to 20% across England outside London¹⁰ – and 47% of local bus passengers have no alternative travel option¹¹.

2.7. There has been a significant and long-term decline to the North East bus network. Passenger journeys have fallen by 31% in the last fifteen years – representing a reduction of 52 million journeys compared to 2009/10¹². Mileage operated by bus companies in the region has also fallen by 32% over the same period – a loss of 24 million miles from the network; meaning passengers experience reduced frequencies or services being cancelled entirely¹³.

Patronage declined sharply as a result of the Covid-19 pandemic, and, while there has been some recovery in the post-pandemic years, patronage remains below pre-pandemic levels.

The Enhanced Partnership (EP)

2.8. The MSA¹⁴, its constituent authorities and Nexus entered into an Enhanced Partnership (EP) with the region's bus operators in March 2023. The EP is a statutory partnership with operators that enables the introduction of negotiated and agreed improvements to local bus

⁹ "TRSE in England Visualiser". Transport for the North. 2025.

¹⁰ "Car or van availability (census 2021)". Office for National Statistics. 2023.

¹¹ "Your Bus Journey – Transport Focus Data Hub". Transport Focus. 2024

¹² "Bus statistics data tables: BUS01". Department for Transport. 2025.

¹³ "Bus statistics data tables: BUS02". Department for Transport. 2025.

¹⁴ Through the North East Joint Transport Committee, the MSA's predecessor regional transport body.

services, such as the popular package of 'The Mayor's Fares' which have collectively been used 75 million times (to December 2025).

- 2.9. The EP does not, however, change the structure of the market which has seen long-term decline – and significant public funding is required to support the network and deliver improvements for passengers. Approximately £123 million of public funding was provided to North East operators in 2024/25 across various funding streams – equivalent to 51% of all operator revenue. Some interventions – such as fares interventions – depend on complex commercial negotiations with operators to agree reimbursement mechanisms; transparency is often limited, and it is challenging to ascertain the value for money of these arrangements.
- 2.10. The EP offers some level of input for communities and elected members into network change decisions through a Code of Conduct agreed as part of the EP, but the ultimate decision remains with operators and there are examples of limited engagement with communities despite the presence of an agreed Code of Conduct.

Franchising

- 2.11. The MSA has considered different options for local bus service reform, informed by a feasibility study and Options Report presented to Cabinet in July 2024; the feasibility study has been updated to take account of provisions introduced by the Bus Services Act 2025. In line with legislative and guidance requirements, the FSA compares making a franchising scheme to continuing with the current EP.
- 2.12. Franchising is a regulatory model in which the MSA awards contracts to operators following competitive procurement processes to operate local services to the MSA's specifications. This offers significantly greater public control but requires a commensurate transfer of risk from the private to the public sector. The MSA's proposed franchising model includes:
- A significant simplification of the fares and ticketing offer, replacing the approximately 370+ different bus tickets on offer with a simple zonal system for single tickets and multi-operator / multi-modal daily plus weekly caps.
 - Fares will not increase above inflation, and the size of the network will be maintained, for at least the first ten years of franchised services.
 - Introducing a single integrated transport network brand – the Angel Network - across bus services, including on vehicles and at bus stops and stations.
 - A single website and application providing digital information – in addition to journey planning and merchandising functions – and serving as a single source of truth.
 - Greater ability for communities, and their local elected representatives, to input into network planning and change decisions.
- 2.13. There are also various further investment opportunities that the MSA may subsequently decide to introduce under franchising, but which do not form part of the modelled franchising scenario in this assessment. These include:

- Introducing free travel on local bus services for under-18s.
- Harmonisation of the concessionary travel offering across the region.
- Increasing the number of vehicles to improve reliability of existing services and improve the frequency of both urban and rural services.
- Further decarbonisation of the region's bus fleet.

Assessment of options

2.14. Both continuing with the current EP and making the proposed franchising scheme (FS) have been assessed against six strategic reform objectives.

Objective	Outcome	Delivery option	
		FS	EP
Buses at the heart of an integrated transport network: 'The Angel Network'	There should be a single, integrated source of journey information and customer support that is easy to understand.		
	A unified and integrated North East transport network.		
	Bus fares should be affordable and tickets should be easy and simple to use.		
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles.		
	Information, including real time information, should be accurate, integrated and accessible through a single source.		
	The delivery model encourages use of bus as part of a multi modal network.		
Improve bus punctuality and reliability	Passengers should be confident that that buses will operate as scheduled.		
Make the bus network resilient.	The bus network should be financially sustainable and resilient in the long term.		
Make the bus network accessible and inclusive to all	The bus network should be accessible to all communities and demographics, including disabled and older residents.		
	The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible.		
Ensure that everyone feels safe when travelling, especially women and girls	People's safety should be central to the network – including at bus stops and stations, with a particular focus on the		

	safety of women and girls and other vulnerable groups.		
Create regional pride in its buses	Buses should play their part in delivering regional outputs, such as economic growth, carbon emission reduction and improved public health.		
	North East residents should be advocates of the bus network.		

Conclusion to the strategic case

- 2.15. Franchising offers greater fulfilment of the strategic objectives than the EP, including a significantly greater ability to place buses at the heart of an integrated transport network. Franchising is therefore the reform option that makes the greatest contribution to the implementation of the MSA's LTP and other relevant policies.

3. Economic Case

- 3.1. The economic case involves the appraisal of the franchising and EP options to understand their potential costs and benefits. Each option is appraised over a 30-year period from the proposed introduction of franchising in FY 29/30 to FY 58/59 in line with the Green Book and DfT Value for Money framework. This determines the net present value (NPV), benefit-cost ratio (BCR) and value for money (VfM) of the franchising option relative to the continuation of EP (the Reference Case).
- 3.2. The appraisal is underpinned by changes in bus demand, revenue, and costs over time under the two options according to exogenous and endogenous drivers.
- 3.3. The exogenous demand drivers are factors that determine the underlying trajectory of bus demand such as population, employment, and car ownership, and are common to both the EP and franchising options.
- 3.4. The endogenous demand drivers are the impact of policy and operational interventions/actions which will differ under EP and franchising. For example, franchising will introduce a range of initiatives including simplification of fares and ticketing and a single integrated brand. There will also be significant differences in the total miles operated and fare increases; these have been determined to achieve a particular level of operator margin (under EP) and level of public subsidy (under franchising) according to the cost forecast:
 - For network cuts, it is assumed that under the EP, historical trends will continue with a consistent year-on-year reduction in miles operated. Under franchising, it is assumed that the public sector will invest to maintain the network over the first ten years before further network cuts are implemented to limit public subsidy.
 - For fares, it is assumed that under the EP, there will continue to be above-inflation fare increases in line with historical trends which - in combination with network cuts - are expected to restore operator profitability and margins. Under franchising, it is assumed that fares will increase in line with inflation (RPI) for the first ten years after which above-inflation fare increases will be required to limit public subsidy.
- 3.5. Under the EP, bus demand is forecast to decline from 116 million journeys in 2024/25 to 47.8 million journeys by 2058/59 (a 58% reduction). Under franchising, the decline in demand is forecast to be temporarily reversed with an increase in demand in the first few years of franchising in response to franchising interventions and network stabilisation. Demand will then decline from 2032/33 in response to exogenous factors and further network cuts decreasing to 63.5 million journeys by 2058/59 (a 45% reduction from 2024/25). However, in 2058/59, franchising is expected to facilitate 15.7 million journeys more than the EP which will generate benefits to both passengers and the North East region as set out below.
- 3.6. The cost-benefit analysis has assessed the economic, environmental, and social impact of franchising relative to the continuation of the EP on a quantitative and qualitative basis. The main impacts quantified include:

- Generalised travel time savings to bus passengers due to the higher bus miles operated under franchising.
- User charge benefits due to the lower bus fare increases under franchising.
- Journey quality benefits due to a range of soft measure interventions proposed under franchising that are valued by bus passengers e.g. simplified ticketing.

3.7. Marginal external costs (MECs) of road vehicles include congestion, accidents and noise; with higher bus demand under franchising, fewer bus passengers switch to cars when compared to the EP which means that MECs will also be lower.

3.8. The costs associated with each delivery option is also assessed in this case. These costs include the capital, implementation, operating, management, and administrative costs.

3.9. The stream of discounted monetised benefits and costs across the 30-year appraisal period of franchising relative to EP indicate:

Discounted Monetised Benefits and Costs	Values
Present value of benefits (PVB)	£1,539 million (nearly 89% of which relate to transport economic efficiency benefits)
Present value of costs (PVC)	£778 million (around 93% of which relate to additional operating costs of franchising relative to EP)
Net Present Value (NPV)	£761 million
Benefit Cost Ratio (BCR)	1.98

A BCR of 1.98 indicates that franchising will deliver ‘Medium’ VfM as defined by DfT guidance.

3.10. Sensitivity tests have been undertaken to reflect the uncertainty around key assumptions such as capital costs, operator margins and demand uplifts. These show the VfM of franchising to be consistent across a range of scenarios.

3.11. In addition to the quantification of benefits, the qualitative assessment reveals that franchising will deliver benefits over EP in other areas such as affordability, security, and access to services. Franchising will also make a stronger contribution towards achieving the six strategic bus reform objectives than the EP.

Conclusion to the economic case

3.12. Overall, franchising represents a net benefit and higher value for money than the continuation of the EP and is therefore the preferred option from the perspective of maximising economic and social welfare.

4. Financial Case

- 4.1. The financial case considers the financial implications of continuing with the current EP or introducing a franchising scheme. The financial implications are compared over a consistent period from FY26/27 through transition and then over a 30-year appraisal period to FY58/59. The financial case concludes by considering whether the MSA and franchising DB can afford to make and operate the proposed franchising scheme.
- 4.2. The North East has a relatively complex funding structure for bus services (as compared to other authorities who have considered bus franchising) and relies on several disparate funding sources such as central government grants, MSA and local authority contributions (in the form of the transport levy) and farebox revenue.
- 4.3. Under the current EP, approximately 51% of income into the bus network that has been included in scope for franchising is sourced from the public sector, with the rest being received by operators mainly as farebox revenue.
- 4.4. The financial case explores funding and financing options, beginning by looking at current funding sources, as well as those that could be used under a franchising model. Financing options for capital costs such as Public Works Loan Board (PWLB) and National Wealth Fund (NWF) are also considered.
- 4.5. The financial modelling principles and approach which underpin the FSA are presented in the financial case, as well as the methodology for calculating operating costs based on operator data. The current EP represents the baseline reference case against which the franchising scheme is compared. The key assumption in the reference case is that private sector bus operators will seek to achieve a 10% profit margin which aligns with pre-Covid commercial norms and is supported by recent industry disclosures. The current public-sector funding into the bus network is assumed to continue in both the EP and franchising cases.
- 4.6. The financial case presents income and expenditure in both the current EP and franchising cases, as well as a comprehensive analysis and quantification of risks associated with Franchising. Under the current EP, operators take farebox revenue risk and are assumed to seek an operating margin of at least 10%. Under a franchising scheme, the MSA is proposing a gross cost franchising contract whereby operators would no longer take farebox revenue risk. This means that in a franchising model, operators will have guaranteed revenue and operational stability over long-term contracts that are competitively procured, which means that operators are content with a lower margin of 5%, akin to the margin observed in gross cost franchise contracts.
- 4.7. Because of the initiatives in the MSA's proposed franchising model, the franchising case is expected to enhance farebox revenue generated from the network, however it requires substantial capital and implementation costs upfront, which would represent a significant public investment in order to secure the benefits of franchising. The financial model forecasts an aggregate investment need of £81 million in the first 10 years of franchising (up to FY38/39) and an investment of £34 million is anticipated before the first services are franchised. This reflects a commitment to significant interventions such as maintaining the

current extent of the network for 10 years and capping fare increases, both of which are expected to increase patronage compared with the current EP case.

- 4.8. Sensitivity analyses over the first 10 years of franchising, show how the investment needed could be affected by changes in key assumptions such as higher operating costs which would increase the investment needed for 10 years of franchising by up to £132 million and higher margins which would increase the investment needed for 10 years of franchising by up to £72 million, whereas a change in depot acquisition costs would have a smaller effect. It should be noted that there is an opportunity cost of using this funding on bus franchising, in that these funds cannot be allocated to alternative priorities within the MSA.

Conclusion to the financial case

- 4.9. The MSA has an appropriate range of funding sources at its disposal, combined with control over the bus network and therefore over costs, a mixture of the funding sources will be able to meet the investment needed for 10 years of franchising.

5. Commercial Case

- 5.1. The commercial case considers the extent to which the MSA is likely to be able to secure that local services are operated under local service contracts.
- 5.2. Local bus services operate in a deregulated market environment, with three large operating groups in the region – Arriva, Go-Ahead, and Stagecoach. 87% of network mileage is provided by the private sector on a commercial basis, delivering services to meet objectives set by owning groups and financial stakeholders (such as target profit margins). Operators make individual commercial judgements and decisions on services, prices, and standards – with competition law requiring each operator to independently set its own fares.
- 5.3. Nexus, DCC and NCC procure socially necessary but mainly commercially unviable services which constitute around 13% of the region’s network by mileage. These services are provided under contract by a number of operators – including most of the region’s 19 small-and-medium-sized operators – and require an annual subsidy of approximately £32 million (2025/26). Such services are often procured reactively following operator decisions to revise or cancel a service.

EP

- 5.4. Operators will remain responsible for most aspects of bus services, but work in partnership with the public sector through the EP to deliver agreed improvements. Key features of this commercial model include:
- Operators will provide the fleet and depots required – with approximately 1,220 vehicles and 25 depots of various sizes currently used to operate local bus services. Decarbonisation of fleet and depots is being supported by public sector funding.
 - Operators will hold most revenue levers such as fares, ticketing, branding and marketing. Public sector influence is possible but requires negotiation with operators – including agreement of reimbursement mechanisms where necessary, which are themselves typically tied to commercial fares.
 - Operators will take direct revenue risk – but the public sector is indirectly exposed as it faces pressure to secure services which are cut by operators in response to reduced commercial viability, or face the alternative of residents being cut off from access to services – in turn generating increased costs (e.g. through taxi provision) or adverse social and economic consequences (such as worse health outcomes, increased joblessness).

Franchising

- 5.5. A proposed commercial model for franchising has been established, through which the MSA will gain greater influence over the network and the outcomes achieved for passengers but will accept greater financial and reputational risk. Key features of this model include:
- Most routes will be allocated into five-medium-sized contract packages. Services outside these packages will be let as individual contracts (which can be combined

into group bids). Contracts are expected to last a maximum of seven-to-eight years, inclusive of a guaranteed period and discretionary extension.

- The MSA will provide strategic depot sites to operators as part of the medium-sized contractual packages. Operators will continue to provide depots for smaller contracts.
- Control over key revenue and patronage levers such as network design, branding, marketing, fares, and ticketing will transfer to the MSA. This requires a commensurate transfer of revenue risk, with local service contracts procured on a gross-cost basis.

5.6. Franchising will be introduced in a phased manner. One medium-sized contract package will commence in September 2029, a further two medium-sized contracts will commence in September 2030, with the final two medium-sized contracts commencing in September 2031. Small contracts will be let concurrently with the medium-sized contracts.

5.7. The indicative phasing approach is summarised below, including the depots likely to be let in each tranche and an indication of the Peak Vehicle Requirement (PVR) for both medium and small contracts. This order of implementation remains provisional and subject to further testing.

Month	Medium contracts	Small contracts
Sept 2029	Washington and Riverside depots (c. 150 PVR)	7 contracts with PVR between 1 and 3
Sept 2030	Deptford, Sunderland, and South Shields depots (c. 190 PVR)	12 contracts with PVR between 1 and 3
	Durham and Consett depots (c. 110 PVR)	35 contracts with PVR between 1 and 11
Sept 2031	Percy Main, Ashington and Blyth depots (c. 160 PVR)	17 contracts with PVR between 1 and 5
	Slatyford and Walkergate depots (c. 170 PVR)	14 contracts with PVR between 1 and 13

5.8. The MSA has engaged with incumbent operators (including both incumbent large operators and SMOs) and potential new market entrants in a market testing exercise to understand the market appetite to bid for contracts on the intended terms. The commercial model was generally well-received, and a range of operators expressed an appetite to bid. Reservations were expressed about three aspects of the commercial model – fleet provision, timetable provision, and ownership of ticket machines – which have been considered and are subject to further analysis.

Assessment against objectives

5.9. Six commercial objectives have been established and linked to the strategic objectives. Both options have been assessed against these objectives, with the summarised result below.

Commercial objective	FS	EP
The public sector should be able to influence the bus network and the outcomes it delivers for customers.	Green	Red
Ensure that any implementation and transition phases are timely, practical, and sustainable, with limited disruption for passengers.	Yellow	Green
Competition is stimulated.	Green	Red
Arrangements should achieve best value for the public pursue while balancing risk.	Yellow	Yellow
Maintain opportunities for small-and-medium sized operators to access the North East bus market.	Yellow	Yellow
Region-wide implementation.	Green	Green

5.10. Franchising is well aligned to these six commercial objectives and performs significantly stronger than the EP on the ability of the public sector to influence the bus network as well as stimulating competition for the market. The EP, however, performs stronger on ensuring that any implementation and transition phases are timely, practical, and sustainable as it is the region's existing operational model.

Conclusion to the commercial case

5.11. Although both are commercially viable, franchising more directly facilitates achievement of the objectives defined in the strategic case as the MSA will gain increased control over the network, accepting a commensurate transfer of risk, and therefore allowing it to directly specify the network and various improvements through local service contracts.

6. Management Case

6.1. The management case considers how the MSA would make and operate the proposed scheme.

EP

6.2. The EP is the region's current operational model, with the public sector working more closely with operators to improve the network and deliver agreed interventions within the deregulated market.

6.3. Management arrangements under the EP are split between multiple public sector organisations as well as the region's bus operators. The North East Bus Partnership Board brings together these organisations, as well as other stakeholders, to provide strategic governance. This is complemented by a Bus Advisory Board for all stakeholders to discuss direction and priorities, and Local Bus Boards in each local authority areas that provide a forum for discussion between elected members, officers, operators, and other stakeholders.

6.4. There is capacity in the region's four public sector transport bodies (the MSA, Nexus, DCC, and NCC) to deliver their existing functions – such as preparing strategic documents, negotiating and managing interventions introduced through the EP, procuring and managing secured services and providing some passenger information.

6.5. As described in the commercial case, risk primarily sits with operators under the EP, but there are a number of risks that could impact on the public sector and which therefore require management and mitigation. Risks, potential impacts and mitigations are listed in greater detail in the management case, but include:

- A decline in commercial patronage and profitability requires a significant increase in secured service provision.
- A secured service is not provided by the operator and/or the service contract is terminated.
- There is a macroeconomic shock affecting passenger demand (such as a recession, change in fuel prices, or changes in working patterns).

Franchising

6.6. Franchising will involve a significant transfer of responsibility from operators to the public sector. The MSA is the franchising authority for the region, but operational management would be the responsibility of a Delivery Body (DB), which is assumed to be a PTE operating across the MSA's geography.

6.7. Successful delivery of franchising will require a significant expansion of the region's existing competencies and capacity. The FSA estimates that a total of 160 FTE would be required to deliver franchising across functions such as operational management, commercial development and customer experience. This represents an increase of 47 FTE roles compared to the status quo, with salaries and on-costs totalling £2.34 million. These roles

are additional to the MSA, Nexus, DCC and NCC's current establishment as well as current operator staff.

- 6.8. A mayoral decision to make the franchising scheme will commence a mobilisation and transition period, in which the MSA and DB will further develop the detailed operational arrangements for the scheme, recruit the required personnel and run procurement exercises for local service contracts.
- 6.9. Franchised services are expected to commence in September 2029, with two subsequent tranches franchised in September 2030 and 2031. The MSA/DB will develop plans to provide operational continuity and sustain customer confidence during the transition to franchising, including managing the risk that an operator withdraws services before franchising is fully implemented.
- 6.10. The MSA and DB will both accept greater reputational, operational and financial risks under franchising, requiring scaled-up risk management processes. Some of the key risks that the MSA and DB will be required to manage to operationally deliver franchising include:
- The DB is unable to successfully acquire or construct depot facilities to support the medium-sized packages in a timely manner and / or at the budgeted cost.
 - An inefficient packaging strategy results in a sub-optimal franchising model (e.g. operational inefficiency).
 - Heightened public expectations of the MSA and transport network are not met.
- 6.11. While the DB will be responsible for developing the network specification for operators ahead of the introduction of franchising, and for conducting network reviews, it is Cabinet that is ultimately responsible for network changes, alongside other key commercial decisions such as determining fare levels.
- 6.12. Cabinet brings together the MSA's seven constituent authorities – the region's local authorities – to make collective decisions for the region. Local authorities will therefore have a significant decision-making influence under franchising. They will also have opportunities for strategic and tactical input to the MSA and DB, including influencing strategy development and network changes. These responsibilities are in addition to their continued ownership of bus shelters and interchanges and their roles in delivering bus priority infrastructure as the region's highways authorities.

Conclusion to the management case

- 6.13. Franchising and the EP are both deliverable operational models. No significant changes to the EP's current management arrangements are required to continue its delivery. Franchising involves a significant transfer of responsibility and risk to the public sector, with the management case setting out feasible arrangements for the MSA and DB to make and operate the proposed scheme.

7. Recommendation

- 7.1. The FSA has considered the strategic, economic, financial, commercial and management cases for bus regulatory reform, comparing making the proposed franchising scheme to continuing with the current EP. Franchising is assessed to be affordable, feasible and deliverable – and offers benefits including significantly greater value for money, increased public influence, and greater fulfilment of the MSA’s strategic objectives as discussed above.
- 7.2. Franchising will make the greatest contribution to achieving the LTP’s aim of creating a green and integrated transport network that works for all – facilitating the creation of the Angel Network.
- 7.3. In line with the conclusions of the five cases, and subject to independent audit and statutory consultation, the FSA accordingly recommends that the North East Mayor makes the proposed franchising scheme.

Franchising Scheme Assessment:
Strategic Case

March 2026

1. Introduction

1.1. Preface

- 1.1.1. Devolution is a once-in-a-generation opportunity for the North East, unlocking new powers, funding and convening authority to create better outcomes for communities, businesses and places across the North East.
- 1.1.2. The North East Mayoral Strategic Authority (the MSA) has transformational ambitions for the region, seeking to increase opportunity, create more well-paid employment, improve transport connections, build a greener North East, and reduce child poverty.
- 1.1.3. Transport has a crucial enabling role in achieving these transformational ambitions and making the North East the home of real opportunity. Transport is essential to access work, education, healthcare and leisure destinations; a lack of transport is a barrier to opportunity. 28% of North East households have no access to a car or van, the size of the public transport network determines the limit of their opportunity.
- 1.1.4. Buses are the region's most used form of public transport and the only form of public transport available in many parts of the region. Decisions about the shape and size of the bus network – often made without adequate public engagement – have a direct impact on whether people can get to work to provide for themselves and their family, access the education and training courses needed to begin and advance their careers, attend important medical appointments to stay in good health, or boost the local economy by shopping in town and city centres.
- 1.1.5. Although the North East sees strong bus use – with the average resident taking 57 bus journeys in 2024/25, significantly above the average for England outside of London - there has also been a significant decline to the network and ridership, with both decreasing by 32% and 31% respectively between 2009/10 and 2024/25 – a sharper decline than the rest of the country. There are consequently fewer early morning and late evening services, services often now run at lower frequencies than historically, and some connections have been entirely lost.
- 1.1.6. Fares have also increased significantly – across England outside of London, fares increased by 21% above inflation between 2005 and 2022, when national and regional fare caps were introduced that limited the cost of bus travel for passengers (by paying operators the difference from public funds). Motoring costs, however, have remained stagnant in real-terms – making bus travel comparatively less attractive.
- 1.1.7. There are a number of challenges to the bus network fulfilling its important enabling role in achieving the MSA's transformational ambitions and making the North East the home of real opportunity. These include the long-term decline seen in the bus network, fragmented ticketing and journey planning information, commercial arrangements that make it difficult to determine whether public sector interventions offer value for money, and a lack of competition for the bus market.

- 1.1.8. Network decline and ridership will continue without intervention to address these challenges, ultimately resulting in a skeleton network in the region's urban centres with little-to-no provision in rural and coastal communities.
- 1.1.9. Six other MSAs across England – each facing a similar long-term decline to the network and ridership – have determined that bus franchising better enables them to achieve their strategic aspirations for their areas and consequently decided to make franchising schemes. The strategic case assesses whether franchising is the right intervention to respond to the long-term decline, address the challenges described above, and allow transport to play its enabling role in achieving the MSA's transformational aspirations.

1.2. Purpose of the strategic case

- 1.2.1. The strategic case outlines the bus reform options available to the North East MSA (the MSA) and goes on to assess the desirability of implementing the proposed franchising scheme across the North East MSA area compared to continuing with the current EP. This analysis is informed by reference to key regional and local strategic documents, the demography and geography of the area, insights from recent public engagement as well as current bus operations in the region.
- 1.2.2. Section 123B(3) of the Transport Act 2000 as amended by the Bus Services Act 2017 (TA2000) requires an assessment to consider whether a proposed franchising scheme will contribute to the implementation of the Local Transport Plan (LTP) and "*other policies affecting local services*" of the authority as well as the effects on its neighbouring authorities and their policies. Statutory franchising guidance replicates this. These requirements are satisfied through the strategic case.
- 1.2.3. Appendix B outlines how the strategic case addresses the specific requirements set out in the statutory guidance.

1.3. Structure of the strategic case

- 1.3.1. The strategic case takes the below structure – including the summarised key messages from each of its sections.
- 1.3.2. **Section 1 – Introduction** outlines the purpose and structure of this strategic case.
- 1.3.3. **Section 2 – Strategic context** describes the ambitions for the region set in key regional and local strategic documents. These include:
 - Devolution deals agreed with HM Government
 - The North East Local Transport Plan (LTP)
 - The Bus Service Improvement Plan (BSIP)
 - The MSA's Corporate Plan
 - The MSA's Local Growth Plan (LGP)
 - The MSA's employment and skills strategy: New Deal for North East Workers

- The North East Child Poverty Action Plan
- The North East Spatial Development Strategy
- Fit for the Future: NHS England's 10 Year Health Plan
- The corporate plans of the MSA's constituent local authorities
- It also lists the North East's five neighbouring local transport authorities (LTAs) and discusses their priorities.

- 1.3.4. **Section 3 – Geography and economy of the North East MSA** demonstrates the importance of buses to the North East by presenting statistics that show the North East has an ageing population, higher rates of deprivation and child poverty, and a significant challenge around transport-related social exclusion.
- 1.3.5. **Section 4 – Current bus operations in the North East** provides contextual information about the existing operational arrangements for local bus services and introduces some of the legal and practical barriers to further intervention in the existing model. It also shares key insights from recent public engagement and consultation activity that shows poor public perceptions of existing services.
- 1.3.6. **Section 5 – Case for change** develops the argument for change, including the decline of the bus service since deregulation; the fragmented ticketing and journey planning offer; how current arrangements make it difficult to ascertain value for money; and a lack of competition for the market.
- 1.3.7. **Section 6 – Bus reform objectives** establishes six bus reform objectives to assess the options against, linked to the North East LTP and, through this, the region's other strategic priorities.
- 1.3.8. **Section 7 – Geographic area considered in this assessment** establishes the need for intervention to cover the same geography as the MSA, reflecting that the North East is an interconnected geography covered by an established transport footprint with a single LTP.
- 1.3.9. **Section 8 – Outline and short-listing of delivery options available to the North East MSA** confirms that the assessment compares the proposed franchising scheme to the current Enhanced Partnership, as required by statutory guidance.
- 1.3.10. **Section 9 – Franchising** presents the strategic aspects of the proposed franchising model and describes how it will contribute to delivery of the BSIP and LTP; this includes information on how buses would integrate with other modes, the network identity and branding and the customer experience. Further detail on the commercial arrangements is described in the commercial case.
- 1.3.11. **Section 10 – Enhanced Partnership** specifies how the EP comparator for the assessment has been selected and the assumptions made for assessment purposes about how the EP will operate.

- 1.3.12. **Section 11 – Assessment of options against bus reform objectives** evaluates each option's ability to deliver against the bus reform objectives set in section 6. Options are evaluated against each objective and rated red, amber, or green in a summary table.
- 1.3.13. **Section 12 – Conclusion** concludes the strategic analysis.
- 1.3.14. Overall, the strategic case finds that current bus services do not meet the region's needs and bus reform is required to deliver on the aspirations for the region. Continuation of the current EP and making the proposed franchising scheme are the most feasible bus reform options and, after careful evaluation against the strategic objectives, the proposed franchising scheme is identified as having the greatest potential to fulfil these objectives.

2. Strategic context

This section will:

- Summarise key strategic documents relevant to the MSA, including the LTP, BSIP, Corporate Plan, Local Growth Plan, and Child Poverty Action Plan.
- Acknowledge the visions of the MSA's constituent local authorities and their other relevant policies, including those on climate change and air quality.
- List the MSA's five neighbouring transport authorities, summarising their BSIPs and engagement between these authorities and the MSA.

2.1. North East devolution deals and corporate plan

- 2.1.1. Seven local authorities¹ (the LA7) agreed a devolution deal with government in December 2022, leading to the creation of the North East Combined Authority (now termed the North East Mayoral Strategic Authority) and election of the North East Mayor in May 2024. A further 'trailblazer' deal transferred additional powers and funding to the region was agreed in March 2024.
- 2.1.2. Devolution has transferred significant powers and funding streams across key policy areas, including transport, skills and housing to the mayoral strategic authority, alongside a 30-year investment fund worth £1.4bn. These powers included making the MSA the LTA for the region, therefore giving it automatic access to bus franchising powers, subject to the process in the TA2000.
- 2.1.3. The MSA has delegated certain powers to Durham and Northumberland County Councils who deliver transport functions on the MSA's behalf in their respective areas. Nexus delivers such transport functions in Tyne and Wear as the Passenger Transport Executive (PTE) for the area. As part of the devolution deal agreed in 2022, the North East committed to reviewing transport function delivery and whether to amend public transport delivery and other responsibilities to a single organisation across the MSA area.
- 2.1.4. The MSA's Corporate Plan ties together the region's devolution deals, and the Mayor's manifesto to set the overarching strategic direction for the North East. The Corporate Plan is built around five missions that reflect the MSA's aspirations for the region.
- 2.1.5. The overall aim of these five missions is to increase opportunity, create more well-paid employment, improve transport connections, build a greener North East, and reduce child poverty. Table 1 below lists each mission and its description in the Corporate Plan.

Table 1: Corporate Plan's five missions²

Mission	Description

¹ Durham County Council, Gateshead Council, Newcastle City Council, North Tyneside Council, Northumberland County Council, South Tyneside Council, Sunderland City Council

² Please note that this Franchising Scheme Assessment was drafted when the North East MSA was still a Combined Authority and so the missions referred to in the following table are drafted from the perspective of a Combined Authority.

Home of real opportunity	<i>“This Mayoral Combined Authority will work to create opportunity for all, ensuring inclusive growth and good public services are spread across the North East. Our region is a great place to live and work, but too many people face challenges to success. We will implement policies which help to overcome those challenges – from skills training to child support.”</i>
A North East we are proud to call home	<i>“Where we live matters. The people of the North East are rightly proud of their local identity and want services and policies that support them to live here. The North East Combined Authority delivers the strategies and programmes that help make this happen. From better transport to more social housing, from a thriving creative economy to sustainable rural communities, this Mayoral Combined Authority will deliver in a way that aligns to the priorities of local people.”</i>
Home to a growing and vibrant economy for all	<i>“This Mayoral Combined Authority will support businesses to create jobs across the North East. We will ensure people have the skills to access work and provide the right conditions for economic growth. We will ensure support and investment in a wide range of economic drivers: from advanced manufacturing to the cultural sector, from skills training to good transport.”</i>
Home of the green energy revolution	<i>“We will grasp the opportunity that net zero presents to the North East. Not only will we transition to a green economy, creating thousands of jobs and reducing carbon emissions, we’ll build the new technologies and solutions needed for the UK to decarbonise too.”</i>
A welcoming home to global trade	<i>“The North East is an exporting powerhouse, and the Mayoral Combined Authority will build on that global reputation to maximise international opportunity. We will secure more global inward investment and increase our export output, including a focus on our cultural exports.”</i>

2.1.6. Short-term objectives are attached to each mission, describing how the MSA will focus on delivery and make a real impact. Implementing the North East LTP to improve transport for all users is part of making the North East ‘a place that people are proud to call home’, while an increase in zero emission buses is targeted as part of making the North East the home of the green energy revolution.

2.1.7. Transport is also an important enabler to achieve the MSA’s broader mission objectives; the LTP articulates how transport supports and enables each of the five missions.

2.2. Local Growth Plan

2.2.1. The North East LGP was approved by Cabinet in December 2025. It outlines how the North East can make the most of the region’s sectoral strengths and strategic location

to power UK growth and energy security, creating an economy that works for the whole region and delivers sustainable growth.

2.2.2. The LGP is built around the same five missions as the Corporate Plan, setting out how it contributes to achieving each mission. It also acknowledges that over the 10-year duration of the LGP, there will be major changes at the national and global level. Some of the major trends that will impact the region have been identified and analysed. The insights from this analysis have informed the development of the LGP with the plan positioning the North East to respond to these trends and thrive. The LGP identifies six sectors where the North East has unique economic assets and opportunities: offshore wind and energy transition; advanced manufacturing including electric vehicles; creative industries and content; life sciences, pharmaceuticals and process industries; tech, digital and AI; and defence, security and space.

2.2.3. The LGP acknowledges transport's important enabling role in supporting growth across the region by connecting communities to jobs, skills, and culture. It outlines how existing transport challenges can often hinder productivity and limit growth, while acknowledging the significant outcomes that will be brought through the implementation of the LTP. The plan also highlights the role that investment in major transport projects such as the reopening of the Leamside Line and the reopened Northumberland Line will have on the North East's economy.

2.2.4. The Spatial Development Strategy, that is currently being developed by the MSA, will provide a spatial articulation of the LGP. It will also help integrate and align long-term economic growth priorities with wider transport, environmental and social objectives.

2.3. Local Transport Plan: Delivering Green Transport

2.3.1. The Mayor's Local Transport Plan (LTP), and accompanying delivery plan, was approved by Cabinet in March 2025, following extensive public and stakeholder consultation conducted in winter 2024³. Over 16,000 consultation responses were received from across the region, with over 80% supporting the ambition of the transport plan for a green, integrated transport network that works for everyone. The LTP is aligned to the MSA's overarching missions in the Corporate Plan and it sets the strategic direction for transport in the region from 2025–2040.

2.3.2. The LTP recognises that transport is an enabler to meeting all five missions and aims to deliver a green, integrated regional transport network that works for all. Three cross-cutting strategic themes for transport underpin the delivery of the MSA's missions:

- **A more inclusive economy** – the LTP will enable inclusive economic growth across the North East, helping to attract investment, boost job creation and overcome inequality by enabling access to opportunity.

³ The Local Transport Plan consultation took place from 4 November 2024 to 26 January 2025 and asked the public to shape the Mayor's plan to ensure it's right for them. To ensure a broad and inclusive approach to the consultation process, a number of methodologies were employed, including: an online survey, online events, community in-person events, meetings with partners, and written submissions.

- **A better environment** – the LTP will help to protect the environment and tackle climate change by providing an attractive, seamless and sustainable transport network for people and freight across the region.
- **A healthier North East** – the LTP will help achieve delivery of better health outcomes for people in the North East by encouraging active and sustainable travel and facilitating better transport access to healthcare and social networks.

2.3.3. Transport allows people to travel to education, to work, to shops, to care for others, and to socialise with friends and family and it is key for tackling inequality and deprivation. The LTP accordingly recognises that people making journeys is good as transport stimulates the local economy and improves the physical and mental wellbeing of our people. Transport is key to tackling inequality and deprivation by providing access to jobs, education, and healthcare and can also reduce social isolation, enhancing independence, opportunity, and wellbeing. The LTP recognises that sustainable travel is even better due to the extensive benefits it brings for individuals' health and the environment.

2.3.4. The LTP aims to make transport across the North East more environmentally friendly, safer and more reliable while ensuring it is physically and financially accessible to everybody.

2.3.5. The LTP was developed to reflect the uniquely mixed urban, rural and coastal geography of the region. It acknowledges that people's transport needs and challenges vary across the region.

2.3.6. 28 policy ambitions set out in the LTP further describe how an integrated North East transport network would work across five key areas of focus:

- Planning journeys / informing users / supporting customers.
- Ticketing and fares.
- Reach and resilience of infrastructure.
- Safety, especially of women and girls, and other improvements in service quality.
- Connections between different transport types.

2.3.7. The role of bus within these five areas of focus are detailed below, highlighting the importance of bus in achieving the LTP's aim.

Planning journeys / informing users / supporting customers

2.3.8. Information, help, or assistance should be easily available and accessible to everyone before, during and after a journey.

2.3.9. Live journey information should be accurate and consistent wherever and however it is being accessed. It should be presented in a way which is understandable and trusted by people.

- 2.3.10. The integrated network should have a strong identity to give confidence in the network and encourage people to make greener journeys.

Ticketing and fares

- 2.3.11. Fares and tickets should be as simple and easy to use as possible, with a focus on offering great value ticketing and affordability.
- 2.3.12. People should be able to travel across the whole region, between rural and urban areas, by incorporating bus, Metro, rail and the Shields Ferry without needing to buy multiple tickets and with payment methods that enable seamless travel.

Reach and resilience of infrastructure

- 2.3.13. The geographical reach of the integrated transport network should extend into every community of the North East, including our rural and coastal areas.
- 2.3.14. Transport services should meet the demands of people, accommodating shift patterns for work and late evening social activities, enhancing the reach of the network.
- 2.3.15. Infrastructure that enables people to walk, wheel or cycle should be central to the transport network and should link to public transport for longer journeys.
- 2.3.16. The network should be able to deal with disruptions, accidents and extreme weather more effectively.

Safety, especially of women and girls, and other improvements in service quality

- 2.3.17. There should be clear and effective channels through which to report violence against women and girls on the network.
- 2.3.18. Targeted action should be taken, and resources assigned to prevent violence against women and girls on the region's transport network. This should include preventing offences from happening but should also look to tackle the root causes of violence and prevent it from developing.
- 2.3.19. Women and girls should have increased trust, confidence, and perceptions of safety on the transport network.
- 2.3.20. Integrated public transport services on the network must comply with legal and policy accessibility requirements, including ensuring services are accessible for all. Drivers and staff should ensure that everyone feels welcome and safe at stations and on services, strengthening confidence in the network.
- 2.3.21. The network should have consistent and cohesive branding, such as colour schemes, signage, design standards and quality of service so that there is a clear 'look and feel' of the network on routes, stops, and stations.
- 2.3.22. The customer experience should be transformed setting the highest service standards, where users can expect the provision of safe, reliable, clean and efficient transport infrastructure.

2.3.23. The North East should set the highest standards for a fleet of green vehicles.

2.3.24. People should feel a sense of pride in the network and be keen to use it again.

Connections between different transport types

2.3.25. The region should no longer consider different forms of transport as separate networks and move to one integrated and highly interconnected network where people can make seamless door to door journeys.

2.3.26. The integrated network should be based around making it easier to switch between different types of transport, active travel, taxis and other transport options, such as Park and Ride, micromobility and community transport.

2.3.27. There should be well co-ordinated public transport timetables and services which complement each other and enable seamless and smooth transfer from one type of transport to the next.

2.3.28. Park and ride provision should be comprehensive, enabling people to seamlessly switch onto fast and frequent onward journeys.

2.3.29. Improvements are required across these five key focus areas to deliver the LTP's vision and tackle the challenges present in the current network. A detailed delivery plan accompanies the LTP and sets out the interventions that the region aims to achieve up to 2040. The delivery plan is maintained as a live document which evolves over time as delivery is progressed, schemes are developed, and new funding priorities are identified and explored⁴.

2.3.30. Investigating options for bus reform, and then implementing its findings, are both listed as schemes in the delivery plan, alongside linked interventions, such as standards for green buses, enhanced fares, ticketing and customer information and improvements to safety for women and girls.

2.3.31. The Spatial Development Strategy, which is currently being developed by the MSA, will provide the spatial articulation of the LTP. It will also help integrate and align long-term transport priorities with wider economic, environment, and social objectives.

2.3.32. As the region's most used form of public transport, buses have a vital role in fulfilling the aim to create a green, integrated regional transport network that works for all. Sections 5 and 6 of this strategic case analyse how buses are currently performing and the change necessary to achieve the region's aspirations.

2.4. Bus Service Improvement Plan

⁴ [“North East Local Transport Plan: Delivering Green Transport”](#). North East Mayoral Strategic Authority. 2025.

- 2.4.1. The first North East BSIP was approved by the region's Joint Transport Committee (JTC) in October 2021 and reflected the North East's game changing aspirations for the bus network, estimated to cost over £800 million to deliver.⁵
- 2.4.2. At the time of writing, the most recent refresh was approved by Cabinet in July 2024. This reflects what is realistically achievable within the funding awarded to the region by central government, rather than the full scale of aspiration outlined in the initial BSIP.
- 2.4.3. The 2024 BSIP outlines regionwide ambitions to make buses more attractive by making them an affordable and practical alternative to using private cars for more people and helping existing bus users to travel more frequently. The BSIP is closely aligned with the region's previous 2021-2035 Transport Plan and its long-term vision for a green, healthy, dynamic and thriving North East. This commits the region to positioning public transport as an appealing and sustainable transport choice. The 2025-2040 LTP focuses on many similar challenges, with public transport and improved bus connectivity central to its ambition to create a green, integrated network. These strategic documents remain well-aligned, and delivery of the BSIP will support the achievement of the broader 2025-2040 LTP five key focus areas.
- 2.4.4. The BSIP responds to customer feedback including public engagement campaigns in 2021, 2023 and 2024, stakeholder forums and market research⁶. The BSIP incorporates a comprehensive delivery plan of interventions for 2024/25 to help achieve the region's ambitions. These interventions are focused across four main delivery areas:
- **Customer experience**, including introduction of a single dedicated journey planner which will display time, cost and convenience of options; installation of real-time information at 400 bus stops; and other improvements such as more cleaners on buses, better information as well as closer working with employers and community engagement.
 - **Fares and ticketing**, including maintaining and evaluating both the multi-modal fares⁷ and the capped fares for under-22s and adults previously introduced with BSIP funding; introducing 'account based ticketing' as a step towards smart capping of fares; and a viability study into standardising discretionary ENCTS validity enhancements across the region.
 - **Network**, including maintaining and enhancing the scale of established bus services through improved frequencies; funding new services; and a transport needs assessment to consider how best to enhance connectivity for people without existing public transport options.

⁵ Prior to the creation of the MSA in May 2024, the North East Joint Transport Committee exercised regional transport powers. The JTC was comprised of elected members from the region's seven local authorities.

⁶ Further details can be found in p9 of the BSIP. [Bus Service Improvement Plan](#). North East MSA. 2024.

⁷ Some multi-modal fares were available in the region prior to the EP and BSIP funding, but others have been introduced or significantly reduced in price due to the EP and BSIP funding.

- **Highways and infrastructure**, including delivering bus priority infrastructure schemes; developing business cases for further improvements; upgrades to stops and stations; and working with partners to determine the viability of additional park and ride sites.

2.4.5. This delivery plan builds on improvements previously introduced with BSIP funding and works towards the wider LTP aim and the five key focus areas.

2.4.6. 11 key performance indicators (KPIs) are set out in the BSIP for the MSA to measure progress towards the objectives and the impact of its interventions. Sections 5 and 6 of the strategic case provide greater detail on the interventions previously delivered through the BSIP and to what extent current bus operations deliver against the objectives in the LTP and BSIP.

2.5. Employment and skills strategy: New Deal for North East Workers

2.5.1. Cabinet endorsed a regional employment and skills strategy: ‘New Deal for North East Workers’ in July 2025. This strategy which brought together employment and skills programmes in one five-year plan to make the region the home of real opportunity and drive delivery of the Mayor’s Manifesto, the LGP, and each of the five missions of the Corporate Plan.

2.5.2. This strategy was built with the input from skills providers, business, and trade unions, and is structured around four key priorities:

- **Build a bigger, better skilled, and more diverse workforce** – All residents and employers should benefit from the same high-quality and consistent offer around training and development underpinned by an integrated, stable, and reformed employment and skills sector.
- **Create career pathways that enable employers to recruit and retain skilled staff** – Make sure employers in our key growth sectors and the foundational economy can recruit from a diverse, stable, and productive workforce with a wide range of skills – and that employers offer good jobs with opportunities for progression to people from all backgrounds.
- **Targeted support to improve employment rates for all residents** – Support residents with health conditions and disabilities, or other barriers, to develop their skills, find rewarding work and build productive, healthy, and independent lives. Inspire and encourage young people to grow up with the skills, confidence, and aspirations to reach their full potential.
- **Tackling barriers that prevent residents getting into and getting on at work** – Give people from all backgrounds and from all parts of the North East access to the basic services and conditions they need to participate in education and training, including affordable child and social care, reliable public transport, fair wages, and secure employment terms.

2.5.3. Transport will play a key role in delivering these priorities, particularly with regards to tackling barriers that prevent residents getting into and getting on at work. Currently, too many people are excluded from education, training and employment because of structural barriers such as lack of access to affordable transport. This strategy highlights the strategic actions necessary to address this priority, with a long-term goal of improving the provision of accessible, affordable public transport services, making it easier for people to get to work and training.

2.6. Child Poverty Action Plan

2.6.1. A Child Poverty Reduction Unit has been established in the MSA which co-developed a five-year Child Poverty Action Plan for the region following extensive engagement and consultation with stakeholders – including parents, carers and young people themselves. The Child Poverty Action Plan was approved by Cabinet in July 2025, backed by an investment of £28.6 million.

2.6.2. This plan responds to the fact that 30% of babies, children and young people across the North East are growing up in poverty. Tackling child poverty and improving opportunity were central to Mayor McGuinness' election manifesto. The Child Poverty Action Plan is centred on an overarching vision that *"the North East is a place where every baby, child and young person is supported to thrive and achieve their potential – regardless of their background, or where they live"*. It specifies that *"ensuring child poverty reduction runs as a golden thread through every decision we take"*.

2.6.3. 36 projects and sub-projects that will contribute to reducing child poverty and achieving the vision have been identified in the action plan. These span the breadth of the MSA's work, with 12 relating to transport. This includes delivering the LTP and its aim of a green and integrated transport network that works for all, with specific interventions including:

- Enabling free travel for all young people aged 18 and under across the network as a longer-term priority.
- Working to retain the £1 single fare and the £3 daily cap for young people aged 21 and under as an immediate priority, as well as capping adult bus fares to support parents and carers.
- Supporting the kids-go-free offer, which is year-round on Metro and the Ferry and during the school holidays on local buses.
- Supporting 18 to 25-year-olds who have left local authority care with free travel on bus, ferry, and Metro.

2.7. North East Spatial Development Strategy

2.7.1. A Spatial Development Strategy (SDS) is a long-term, vision-led plan that sets out how land will be used and developed across a region. It integrates priorities for housing, transport, utilities, environment, and economic growth, ensuring that local needs align with national objectives such as those in the UK Infrastructure Strategy. By mapping out

spatial growth and infrastructure requirements, an SDS provides clarity for investors and strengthens decision-making on regionally significant development. It also complements local plans produced by individual planning authorities.

- 2.7.2. Cabinet has approved funding to begin development of an SDS for the region with the aim of being one of the first regions in England to adopt such a strategy. The SDS is expected to be adopted by September 2028 - well ahead of the Government's target for all regions to have an SDS in place before the end of this Parliament.
- 2.7.3. Transport will play a central role in the SDS, as connectivity underpins economic growth and environmental goals. The strategy will identify where transport investment is needed to support housing, jobs, and sustainable travel, linking infrastructure planning with climate and health objectives.

2.8. Fit for the Future: 10-year health plan for England

- 2.8.1. 'Fit for the Future', published in July 2025, is England's 10-year health plan that lays out the government's plan to create a new model of care. The plan aims to reinvent the NHS through three radical shifts in policy – hospital to community, analogue to digital, and sickness to prevention. Transport will play an important role in enabling these shifts, in particular, hospital to community and sickness to prevention.
- 2.8.2. Over the course of this ten-year period, the pattern of health spending is expected to shift from one that supports a hospital-based care model to one that supports greater investment in out-of-hospital care. This shift in healthcare spending is expected to create a healthcare system that embodies the preventative principle that care should happen as locally as it can. Buses will play a key role in facilitating this change by connecting communities to neighbourhood health centres that are expected to play an important role in local healthcare under this new operating model. A bus service that can adapt to these changing travel patterns will be essential to enable this.
- 2.8.3. Air pollution causes the equivalent of between 26,000 and 38,000 deaths per year in England alone⁸. As of 2023, road transport is the biggest source of PM_{2.5} and NO₂ emissions in the country⁹. Therefore, as the focus of the healthcare system shifts from treating sickness to preventing it, reducing air pollution from transport increases in importance. Alongside an increased focus on active travel, the plan also highlights the role that buses and public transport will play in reducing transport emissions.

2.9. Local authorities

- 2.9.1. The MSA's seven constituent authorities have set out ambitious visions for their areas in their corporate plans. These are multi-year strategic documents that define the local authority's vision and strategic priorities, and which are approved by each authority's elected members.

⁸ "[Chemical hazards and poisons report: issue 28](#)". UK Health Security Agency. 2022.

⁹ "[ENV01 – Emissions of air pollutants. Department for Environment](#)". Food & Rural Affairs. 2025.

2.9.2. Improving and maintaining public transport connectivity is directly identified in all seven corporate plans. Additionally – as recognised in the LTP and noted at section 2.3.2 – transport also has a key enabling function in achieving other policy objectives.

2.9.3. This section discusses each authority’s vision, ambitions and challenges to outline the importance of local bus services to that area. Section 4.4 subsequently discusses how local authorities can influence the bus network across the region.

Durham County Council

2.9.4. Durham County Council approved its latest council plan on 22 October 2025, which sets a vision for County Durham to be *“a place where there are more and better jobs, people live long and independent lives and our communities are well connected and supportive”*¹⁰.

2.9.5. Five ambitions provide further direction:

- *Reforming the council: Continue to make the council an effective, efficient servant of the people, ensuring taxpayers’ money is spent wisely and well.*
- *Supercharging our economy: Continue to make County Durham a great place to do business and work, driving economic growth for the benefit of all.*
- *Building better communities: Safe, connected, clean, and thriving.*
- *Caring for our people: Caring for those who need it and supporting everyone to live healthy and independent lives.*
- *A practical environmental stewardship: Delivering practical and tangible benefits.*

2.9.6. *“Improve transport and digital infrastructure for economic growth”* is identified as a key activity within the supercharging our economy ambition, while the narrative around the building better communities ambition commits to *“making buses an affordable and practical alternative to using private cars for more people and helping existing users to travel more frequently”* – this includes *“deliver[ing] practical improvements including priority measures on roads to speed up bus journeys, improved waiting facilities and lower fares”*.

2.9.7. County Durham does, however, also face significant challenges – with the Corporate Plan recognising that these include:

- Deprivation and the cost-of-living crisis: an estimated 21% of County Durham households live in relative poverty, compared to 17% across England¹¹, while the median salary in County Durham is £3,749 lower than the English average¹².

¹⁰ [“Council Plan 2025-2030”](#). Durham County Council. 2025.

¹¹ [“Poverty Action Plan 2022-2026”](#). Durham County Council. 2022.

¹² [“Earnings and hours worked, place of residence by local authority”](#). Office for National Statistics. 2025.

- A legacy of social and economic challenges from health to employment: 7.3% of County Durham residents are in bad or very bad health compared to 5.3% across England¹³. 27.9% of unemployed residents have never worked compared to 25.6% across England¹⁴.
- A medium-term financial challenge: a number of demand-led and inflationary challenges mean that the council is facing a cumulative £71 million funding gap across its 2026/27 to 2029/30 financial planning period.

2.9.8. Buses are the main public transport option across County Durham. Passengers in County Durham took 17.6 million journeys in 2024/25, equivalent to 32.7 journeys per-head.

2.9.9. Improved local bus services offers could make a significant contribution to Durham County Council's vision. This includes providing residents with reliable and affordable links to education, healthcare and employment sites that would aid in addressing its challenges and drive economic growth.

Gateshead Council

2.9.10. Gateshead Council adopted its 2025-2030 corporate plan on 22 May 2025, which describes the council's organisational vision for Gateshead to be a "*great borough, with vibrant communities, where businesses can grow, residents feel supported and live fulfilled lives, and our environmental impact is minimised*"¹⁵.

2.9.11. Five pledges follow this organisational vision:

- *People Gateshead: Putting people and families at the heart of everything we do*
- *Fair Gateshead: Tackling inequalities so people have a fair chance*
- *Communities Gateshead: Supporting our communities to support themselves and each other*
- *Prosperous Gateshead: Investing in our economy to provide sustainable opportunities for employment, innovation and growth*
- *Future Gateshead: Working together and fighting for a better future for Gateshead*

2.9.12. Challenges recognised in the narrative in the corporate plan include:

- An increasing older population: 18,411 people (9.4%) in Gateshead are aged 75 or older, compared to 8.5% of the population across England¹⁶.
- Poverty and deprivation: the majority of households in Gateshead are deprived in one or more dimension (employment, education, health and disability or

¹³ "[General health, age standardised proportions \(census 2021\)](#)". Office for National Statistics. 2021.

¹⁴ "[Employment history \(census 2021\)](#)". Office for National Statistics. 2021.

¹⁵ "[Corporate Plan 2025-2030](#)". Gateshead Council. 2025.

¹⁶ "[Age by single year \(census 2021\)](#)". Office for National Statistics. 2021.

housing). 21.8% of Gateshead's households are deprived across at least two dimensions, compared to 18.1% across England¹⁷.

2.9.13. The corporate plan also recognises that transport is interconnected with the priorities set out and enables other outcomes and pledges – stating that *“well-paid employment, affordable homes and transport, clean air and access to green spaces can all contribute to good physical and mental health”*.

2.9.14. Although parts of Gateshead have access to Metro services, the majority of the borough – including population centres such as Whickham, Low Fell and Birtley – do not, and are therefore reliant on local bus services.

2.9.15. Buses are an important enabler of the council's organisational vision for Gateshead – providing connections to workplaces that provide link workers with growing businesses, connections within and between the borough's vibrant communities and maintaining independence for its older population so they can live fulfilled lives.

Newcastle City Council

2.9.16. Newcastle City Council adopted its 2024-27 council plan on 6 March 2024, with a vision for Newcastle to be *“the capital of North East England – a thriving city where everyone can fulfil their potential, lead healthy and happy lives, and build inclusive social and economic opportunities for all. We are a welcoming, caring city, working closely together in partnership to deliver better outcomes for our communities”*¹⁸.

2.9.17. Three overarching priorities for change are set out:

- *Inclusive economy: we will be a city where opportunity flows to all, and everyone in our city can contribute and benefit from Newcastle's success.*
- *Anti-poverty: we will be a fair and inclusive city where everyone is free to live healthy, happy lives.*
- *Net zero: we will be a city of the future, providing high-quality, sustainable housing and growing an inclusive, low-carbon economy.*

2.9.18. Transport and the desire for improvements to the transport network is a recurring theme in the council plan, which states *“working closely with the combined authority [sic] and city partners, we will create a more efficient, affordable and sustainable transport network”*.

2.9.19. Climate change is recognised as the city's *“most pressing and [...] most complex challenge”*. Newcastle City Council declared a climate emergency in 2019 and seeks to reach net zero by 2030¹⁹. Transport accounts for 29% of emissions in Newcastle, second only to energy (which accounts for 64%)²⁰. Its 2030 net zero action plan identifies that

¹⁷ [“Households by deprivation dimensions \(census 2021\)”](#). Office for National Statistics. 2021.

¹⁸ [“Council Plan 2024-2027”](#). Newcastle City Council. 2024.

¹⁹ [“Newcastle's Climate Emergency”](#). Newcastle City Council. No date.

²⁰ [“Net Zero Newcastle – 2030 Action Plan”](#). Newcastle City Council. 2020.

“significant change” in transport is required to reduce transport emissions, including an integrated transport system with “co-ordinated timetabling and travel information” and “integrated fares, ticketing and promotions” – and identifies bus franchising as “an opportunity we are interested in”.

2.9.20. While parts of Newcastle have access to the Metro – and would therefore benefit from modal integration – significant parts of the city remain reliant on buses as their only form of public transport, including the West End.

2.9.21. Transport – particularly improved local bus services – therefore has significant potential to support Newcastle City Council to both reduce its climate emissions to reach its net zero target, as well as contributing to its ambitions to grow the economy and reduce poverty by providing an accessible and affordable travel option across the city.

North Tyneside Council

2.9.22. North Tyneside Council adopted its Council Plan for 2025-29 on 27 November 2025, with a vision for *“an even better North Tyneside, where everyone can live their best life – rooted in strong vibrant neighbourhoods, fair access to opportunity, and public services that work for all”*, supplemented by five ambitions:

- *Better lives for all – a healthier, fairer and better quality of life, where everyone can thrive.*
- *Best start in life – giving our children and young people what they need to achieve their full potential*
- *Places to be proud of – building neighbourhoods and town centres that are clean, green and safe and make North Tyneside a great place to live*
- *Good work for all and economic growth – helping create more good quality jobs and strong economic growth*
- *Housing and neighbourhoods that enhance lives – delivering more affordable and social housing and creating neighbourhoods we’re proud to call home*

2.9.23. The Elected Mayor of North Tyneside’s foreword to the plan acknowledges that both the council and its residents are *“working in the context of tighter finances”* with residents *“still feeling the effects of rising costs and inequality”*.

2.9.24. North Tyneside has the second-highest mean income of the LA7²¹, but 18% of households are deprived across at least two dimensions (employment, education, health and disability or housing) – in line with the English average.

2.9.25. The council plan directly identifies *“working with the North East Combined Authority [sic] to improve transport connectivity, safety and reliability in North Tyneside”* as one of its priorities to deliver on its good work for all and economic growth ambition.

²¹ [“Earnings and hours worked, place of residence by local authority”](#). Office for National Statistics. 2025.

2.9.26. As with Newcastle, many North Tyneside residents benefit from Metro connectivity, but bus remains an important transport option in North Tyneside – according to 2021 census data²², approximately 5% of North Tyneside residents travelled to work by bus – above the national average²³.

2.9.27. Achieving North Tyneside Council’s vision and ambitions for its area will require transport to play a contributory and enabling role – both supporting good work for all and economic growth as referenced in the place, but also supporting young people to travel to school to give them the best start in life, and transporting people to town centres that they can be proud of.

Northumberland County Council

2.9.28. Northumberland County Council approved its updated corporate plan in May 2023, outlining the council’s priorities for 2023 to 2026²⁴. The council’s vision is for Northumberland as the “*land of great opportunities*” – with three corporate priorities:

- *Achieving value for money – recognising we are funded by residents and businesses and are accountable to them for our spending decisions and the quality of services we deliver*
- *Tackling inequalities – ensuring people have fair access to the building blocks for a good life such as a decent income, a good quality job, safe, affordable and warm housing as well as good quality education and training opportunities.*
- *Driving economic growth – so that everyone can benefit from a strong and sustainable economy. There are significant opportunities for growth right across our diverse and rich county and harnessing these opportunities will support our communities to thrive.*

2.9.29. Inequality is a challenge in Northumberland, with the county among the most deprived 20% local authorities for employment, and 12% of the population living in the most deprived decile in England. There are stark differences between the most and least deprived areas:

- Average life expectancy is 12 years longer in the least deprived areas (87 compared to 75), while healthy life expectancy is 17 years longer (70 compared to 53).
- Unemployment is 10.9% in the most deprived areas, compared to just 0.7% in the least deprived, while there is a £46,000 difference in average household incomes.

²² The ONS acknowledges that the 2021 census took place during “a period of unparalleled and rapid change; the national lockdown, associated guidance and furlough measures will have affected the travel to work topic”

²³ “[Method of travel to workplace \(census 2021\)](#)”. Office for National Statistics. 2025.

²⁴ “[Corporate Plan 2023-2026](#)”. Northumberland County Council. 2023.

- 87.6% of young people in the least deprived areas met the expected standard for reading, writing and maths in key stage 2, compared to 58% in the most deprived areas.

2.9.30. Transport is mentioned several times in the corporate plan. This includes acknowledgement that access to public transport is a “*building block of a good life*” as part of the priority to tackle inequalities, stating that “*improving connectivity, both transport and digitally, will support growth opportunities and better link residents to jobs and learning opportunities*”, and an objective to “*increase public transport use*”.

2.9.31. Many towns in Northumberland have access to heavy rail connections via the East Coast main line, Tyne Valley line, and recently opened Northumberland line, but buses remain the only transport option for many other towns and villages in Northumberland. 7.5 million bus journeys were taken in Northumberland in 2023/24.

2.9.32. Residents across Northumberland could benefit from an improved bus and wider public transport network – improving connections within the area, and to other parts of the region, to support people into work as well as travel to healthcare facilities – contributing to addressing the challenge of inequality and driving economic growth.

South Tyneside Council

2.9.33. South Tyneside Council approved its latest council strategy on 24 November 2022²⁵, which sets out a three-year plan for 2023-26 to contribute to the achievement of South Tyneside’s 20-year vision and ambitions.

2.9.34. The 20-year vision is “*Our South Tyneside – a place where people live healthy, happy, and fulfilled lives*” – with five ambitions that guide the council to deliver the vision:

- *Financially secure – residents will be financially secure. They will have what they need for a good standard of living.*
- *Healthy and well – residents will enjoy good mental wellbeing and physical health throughout their lives. They will have the best start in life and be able to live and age well.*
- *Connected to jobs – residents will have access to good quality jobs, skills, and learning. They will have the skills and confidence to apply for a wide range of quality local jobs. These jobs will be in key and growing areas of employment and benefit all of our borough.*
- *Part of strong communities – residents will live in clean, green, and connected communities where they feel safe.*

²⁵ “[The South Tyneside Vision and Council Strategy](#)”. South Tyneside Council. 2022.

- *Targeting support to make things fairer – we will target support at the residents and parts of our borough that need it the most, reducing inequalities and making things fairer.*

2.9.35. The council strategy sets out why each of these ambitions are important in South Tyneside; including acknowledging that almost 45% of South Tyneside’s population live in the most deprived 20% of England, consistently high rates of young people who are unemployed or not looking for work and considerable inequality between the most and least affluent communities.

2.9.36. *“Push for continued regional and national investment which ... helps to make public transport, including buses and the metro, more affordable, accessible and reliable”* is one of the actions identified to help achieve the connected to jobs ambition, while *“promot[ing] a shift towards sustainable and active modes of transport”* is one for its stronger communities ambition.

2.9.37. Transport also has an enabling role across South Tyneside’s 20-year ambitions – and with strong Metro connections across the borough, an integrated transport network offers the potential to make seamless journeys. Affordable public transport reduces financial pressure on households to make them financially secure, it connects people to both preventative activities and medical appointments that keep them healthy and allows those in the poorest areas (who are significantly less likely to have a car) to travel to training and work – aiding a reduction in inequality.

Sunderland City Council

2.9.38. The Sunderland City Plan is the overarching strategic plan for Sunderland for 2025 to 2035, approved by Sunderland City Council on 19 February 2025 and centred around a vision that *“Sunderland will be a connected, international city with opportunities for all”* and the following ambitions²⁶:

- *Everyone’s talent is nurtured – our children and young people are achieving the best outcomes, everyone is connected to opportunities, and whatever your aspiration, you can achieve it Sunderland*
- *Inward investment, job creation and high performing businesses and employers create opportunities for all residents of the city, with Sunderland making a significant contribution to the UK’s economic growth*
- *People live healthier, longer lives - health and wellbeing outcomes are significantly improved and life is better because we live in Sunderland, rather than any other place*
- *Sunderland is a place recognised for its natural assets; the city has an accessible, strong and growing offer for residents and visitors - it’s easy to find something that captures the imagination in Sunderland*

²⁶ [“City Plan 2025-2035”](#). Sunderland City Council. 2025.

- *Our people and communities thrive and feel proud, and are stronger together; everyone is playing their part*
- *Sunderland will play its role in tackling the global challenge of climate change, working together across the city to be carbon neutral by 2040*

2.9.39. Sunderland City Council's corporate plan sets the direction for the local authority and how it will deliver the city plan²⁷. "*Developing and promoting sustainable travel options*" is a priority under the second ambition around creating opportunities and contributing to economic growth.

2.9.40. An evidence base supports each of the ambitions – this includes, for example, that 24.7% of children are in low-income families, that Sunderland is the 20th most deprived local authority in England (out of 317), and nearly nine million people visit Sunderland annually.

2.9.41. Transport can also enable each of the other ambitions – buses have a particularly important role as much of Sunderland (including the town of Washington) does not have access to Metro services – and with 6.7% (as of the 2021 census) of Sunderland residents travelling to work by bus²⁸.

2.9.42. An integrated public transport system with improved bus services supports residents and visitors to move around the city – offering connections to education to allow all to achieve their aspirations, visit cultural destinations and tourist spots, and reduce carbon emissions to tackle the global challenge of climate change.

2.10. Neighbouring authorities

2.10.1. The MSA borders five other transport authorities and has a duty under the franchising guidance to consider how the proposals in this assessment will impact on delivery of their BSIPs. These authorities are:

- Cumberland Council, BSIP published in 2024.
- York and North Yorkshire Combined Authority,²⁹ North Yorkshire Council BSIP refresh for 2024 published.³⁰
- Scottish Borders Council.³¹
- Tees Valley Combined Authority, BSIP refresh for 2024 published.³²
- Westmorland and Furness Council, BSIP published in 2024.

Figure 1: LTAs neighbouring the North East CA

²⁷ "[Corporate Plan 2025-2028](#)". Sunderland City Council. 2025.

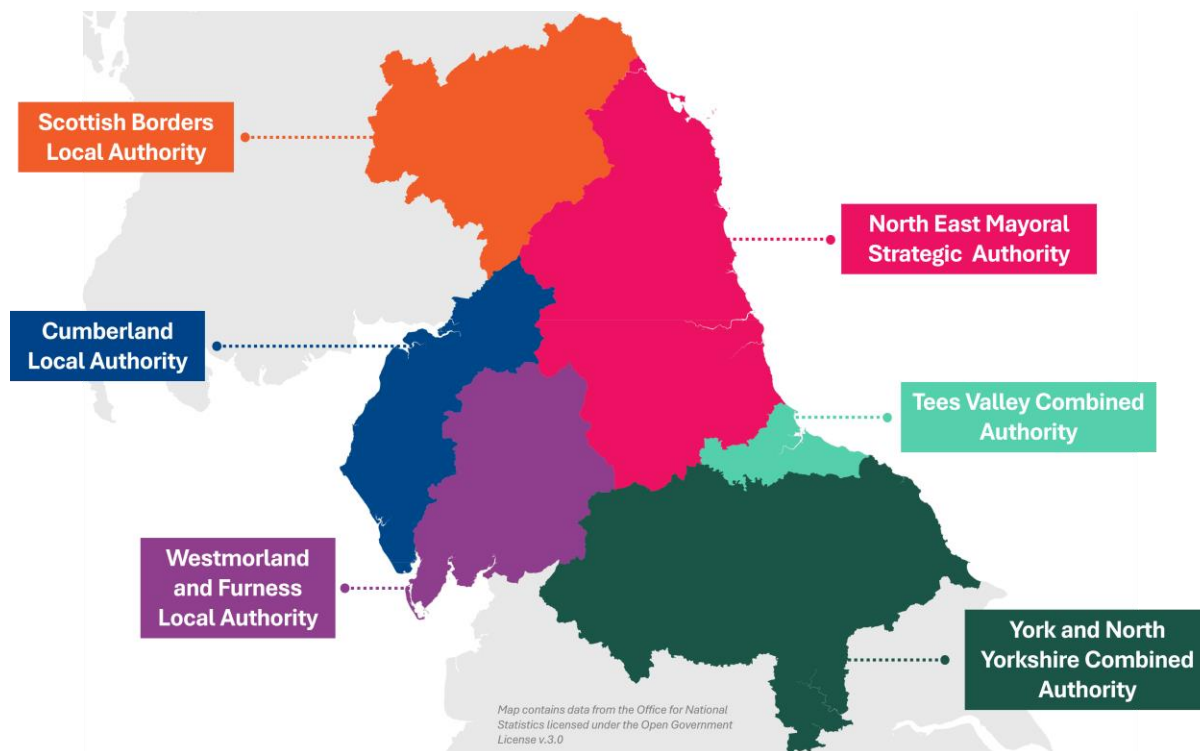
²⁸ "[Method of travel to workplace \(census 2021\)](#)". Office for National Statistics. 2021.

²⁹ *The York and North Yorkshire Combined Authority is the Local Transport Authority for its area, but separate BSIPs are in place for its two constituent councils.*

³⁰ "[Bus Service Improvement Plan 2024 Update](#)". North Yorkshire Council. 2024.

³¹ *Bus Service Improvement Plans only exist in England.*

³² "[Bus Service Improvement Plan 2024](#)". Tees Valley Combined Authority. 2024.



2.10.2. Table 2 summarises the overarching vision of each of the neighbouring authorities' BSIP and key aims. At the time of writing, the following BSIPs were the most recently published.

Table 2: Neighbouring authorities' BSIP aims

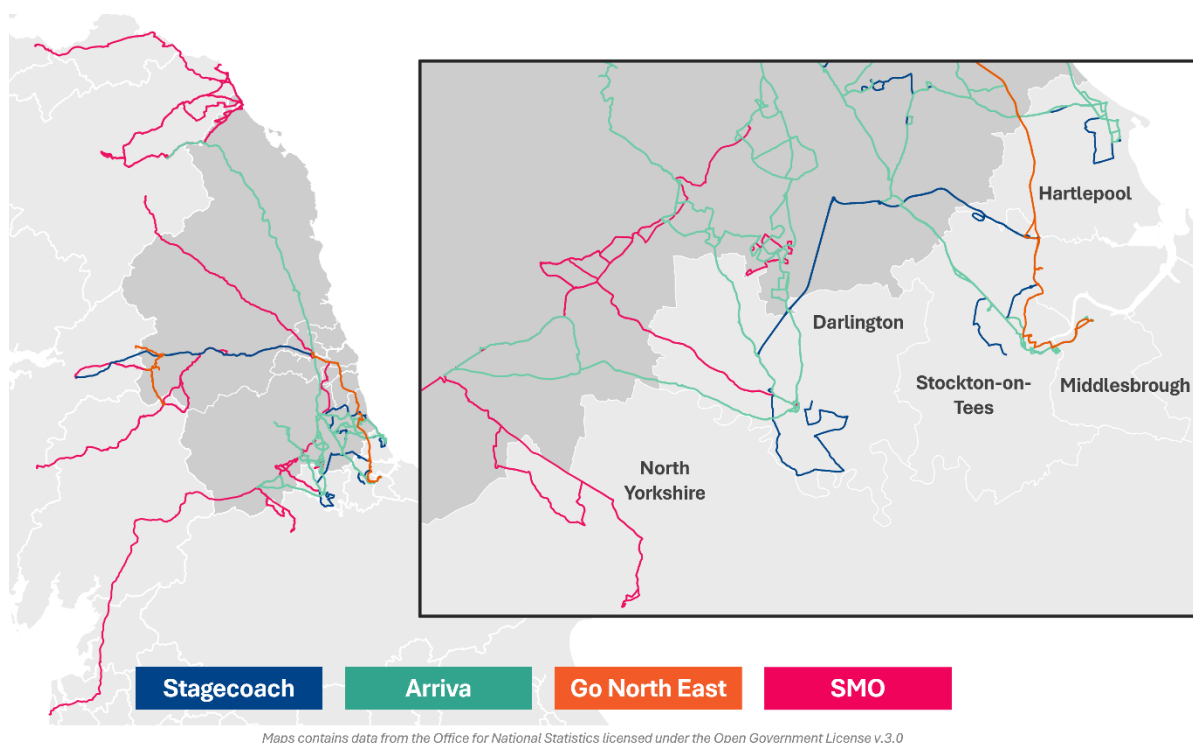
Authority	Overarching vision	Key aims of BSIPs/ other relevant policies
Cumberland Council	<i>"The Council, bus operators and other stakeholders are committed to building on this solid base to improve and expand services, making them more attractive to more residents and visitors, for more journeys."</i>	- Promote commercially viable routes while exploring sustainable options like on-demand transport and fleet reviews. - Address rural connectivity and improve service integration to better serve residents and visitors across Cumberland. - Reduce age profile of bus fleet and move to electric bus fleet
York and North Yorkshire Combined Authority	<i>"An efficient and accessible bus network in North Yorkshire that meets the needs of our local communities, enables people to be active and independent and businesses to flourish, provides excellent customer service and is easy to use and offers simple payment and fares."</i>	- Early priority for the new Mayor's office to bring the North Yorkshire and City of York BSIPs together in a new, ambitious joint plan to define bus travel for the coming decades. - A high quality coordinated and integrated bus network, simple payment and ticketing options, simple, convenient fares for young people, simple, clear and freely available information and excellent customer service. - A significant step-change towards a '7-day' bus network by strengthening bus routes through higher frequency and improvements to evening and weekend services
Tees Valley Combined Authority	<i>"Recognising the social value that buses provide, the Tees Valley ambition is to support a sustainable bus network tailored to the needs of different communities, offering reliable services and coverage so everyone can access opportunity and essential services."</i>	5-point plan to improve bus travel: - Sustainable network for the future (protection of the network and restoring coverage) - Bus priority improvements (delivery of digital infrastructure, improved integration with other modes)

		• Improved fare offer (simpler fare structure and consistency across operators, implement consistent ENCTS across region) • Enhanced customer experience (improved branding, marketing and communications) • Decarbonising the bus fleet
Westmorland and Furness Council	<i>“Through the provision of more frequent, enhanced commercial and community-based services we aim to enable residents and visitors to choose the bus as their preferred way to travel and create more enjoyable, sustainable journeys for all.”</i>	• Significant improvement in bus connectivity, such as the provision of frequent, six day a week services, and providing for journeys to work, education and health services. • Provide people with more choice for how they travel and encourage mode shift from the car.
Scottish Borders Council	Scottish Borders Council has conducted a bus network review that has made a number of recommendations which could improve the network in relation to better meeting potential outcomes and/or improving service efficiency	Primary objectives for change: • Reduce inequalities: provide fair and equitable access to key services, easy to use for all and affordable for all. • Take climate action: contribute to net zero targets by reducing net carbon emissions from transport, promoting greener and cleaner choices. • Maximise the efficiency and effectiveness of the publicly subsidised bus services in the Scottish Borders ensuring integration, removing overlap with other bus services. Supporting Objectives for Change: • Help deliver inclusive economic growth and community wealth building by linking people to jobs and customers to businesses.

		• Improve health and wellbeing by connecting people to communities and enabling healthy transport choices. • Enhancing links between modes of transport, supporting the NTS2 transport hierarchy
South East of Scotland Transport Partnership (SEStran)	<i>“A fully integrated transport system that will be efficient, connected and safe; create inclusive, prosperous and sustainable places to live, work and visit; be affordable and accessible to all, enabling people to be healthier; and delivering the region’s contribution to net zero emissions targets.”</i>	• The Regional Transport Strategy (RTS) strategic objective is to transform public transport connectivity and access across the region. • The RTS sets out a foundation that seeks to rebuild demand for buses in the wake of the pandemic and firmly places the role of buses at the centre of the strategy

- 2.10.3. In addition to the strategic priorities described above, the Department for Transport has awarded funding to the York and North Yorkshire Combined Authority as well as jointly to Cumberland and Westmorland and Furness Council as part of the rural bus franchising pilot, with these areas taking forward a study on potential franchising models in their areas.
- 2.10.4. Section 5 further details how buses in the North East intersect with those in neighbouring authorities. Figure 2 illustrates the 35 registered local bus services that originate in the North East and terminate in another authority, or vice-versa (as of the network baseline date, 23 March 2025). Most cross-boundary services (21) cross into Tees Valley, with seven, five, three, and one³³ into the Scottish Borders, Westmorland and Furness, Cumberland and North Yorkshire respectively. One seasonal service also terminates in Blackpool after travelling through Lancashire and Westmorland and Furness.

Figure 2: North East cross-boundary services³⁴



- 2.10.5. The MSA has engaged with these five neighbouring authorities during the development of this assessment to inform them of the MSA's franchising proposals and understand the potential implications these proposals will have on the achievement of their strategic priorities and local bus services in each area. This engagement is detailed further in section 9.9.

³³ Some cross-boundary services pass through more than one neighbouring authority.

³⁴ Accurate as of March 2025

2.10.6. All neighbouring authorities' BSIPs and other strategic documents focus on bus connectivity and demand. To ensure that bus reform proposals contribute to neighbouring authorities' objectives these priorities will have to be considered. This is particularly relevant to cross boundary services. Further detail on how the proposed franchising scheme will contribute to the achievement of neighbouring plans objectives can be found in section 5.4 of the commercial case.

Key insights from this section:	
- Devolution deals agreed with government have transferred significant powers and funding streams across key policy areas to the North East. This includes making the MSA the region's LTA and allowing the North East Mayor to make a bus franchising scheme, subject to the required statutory process. - The MSA has delegated certain operational transport functions to DCC, NCC in their respective areas. Nexus deliver transport functions in Tyne and Wear as the area's PTE.	The MSA's Corporate Plan sets the overarching strategic direction for the North East, with transformational ambitions for the region to increase opportunity, create more well-paid employment, improve transport connections, build a greener North East, and reduce child poverty.
	The LGP recognises transport's important role in supporting growth across the region, specifically in the sectors targeted by the LGP.
- The LTP is centred around an aim to create a green, integrated transport network that works for all. Five key areas of focus are set out in the LTP – planning journeys/informing users/supporting customers, ticketing and fares, reach and resilience of infrastructure, safety (especially of women and girls) and other service quality improvements, and connections between different transport types. - The LTP describes how transport underpins the delivery of the MSA's wider missions through supporting a more inclusive economy, a better environment and a healthier North East.	The North East BSIP is refreshed regularly; it is the key strategic document for the MSA's aims to improve the current bus network by setting out 11 KPIs and outlining the interventions required, focused on four main delivery areas - customer experience, fares and ticketing, network, and highways and infrastructure.
	'New Deal for North East Workers' is the MSA's five-year employment and skills strategy that aims to make the North East the home of real opportunity. - It is structured around four key priorities: building a bigger, better skilled, and more diverse workforce; creating career pathways that enable employers to recruit and retain skilled staff; providing targeted support to improve employment rates for all residents; tackling barriers that prevent residents getting into and getting on at work. - Transport will play a key role in delivering on these priorities, particularly with regards to tackling barriers that prevent residents getting into and getting on at work such as those created by poor access to affordable transport.
- The North East Child Poverty Action Plan responds to the fact that 30% of babies, children, and young people grow up in poverty. 12 transport-related projects and sub-projects are identified in the plan to reduce child poverty, including the delivery of the LTP.	The North East Spatial Development Strategy, currently under development, is a long-term, vision-led plan will set out how land will be used and developed across the North

East. The SDS will play a crucial role in identifying locations where transport investment is required to support economic growth and delivery on the MSA's social, health, and climate objectives.
• 'Fit for the Future', published in July 2025, is England's 10 Year Health Plan that lays out the government's plan to create a new model of care. This new model recognises the importance of sustainable and active travel in preventing sickness.
• Each of the MSA's constituent authorities have adopted their own corporate plans, describing their visions and ambitions for their areas. Improved transport connectivity is directly identified in each, and transport – including local bus services – is an important enabler of their wider aspirations.
• Table 2 outlines the BSIP vision and aims of the authorities neighbouring the MSA.

3. Geography and economy of the North East MSA

This section will:

- Describe the geography of the North East in relation to bus services, including the mixed urban and rural population – and acknowledge the significant variety within rural areas.
- Highlight the interconnected relationship between regional geography and the economy with regard to bus services and Transport Related Social Exclusion (TRSE).
- Highlight the role played by buses in the economy, the environment, public health and in mitigating child poverty.

3.1.1. The North East is home to around two million people and is the second largest mayoral strategic authority by geographic size in England³⁵. The region's geography is diverse including both dense cities and urban areas as well as some of the most remote areas in England.

3.1.2. Figure 3 shows the population density across the North East, as reported by the 2021 census. The North East has a slightly larger proportion of residents living in rural areas (21.1%) than the rest of England (20.9%), excluding London³⁶. The areas with the highest percentage of people living in rural areas are Northumberland (45%) and County Durham (44%). The North East also has a particularly high percentage of people living in rural towns and fringe areas (14.6% compared to 10.4% in England as a whole).

³⁵ "[Combined authorities](#)". Local Government Association. No date.

³⁶ As defined by the Office for National Statistics (ONS) rural and urban clarification

Figure 3: North East population density

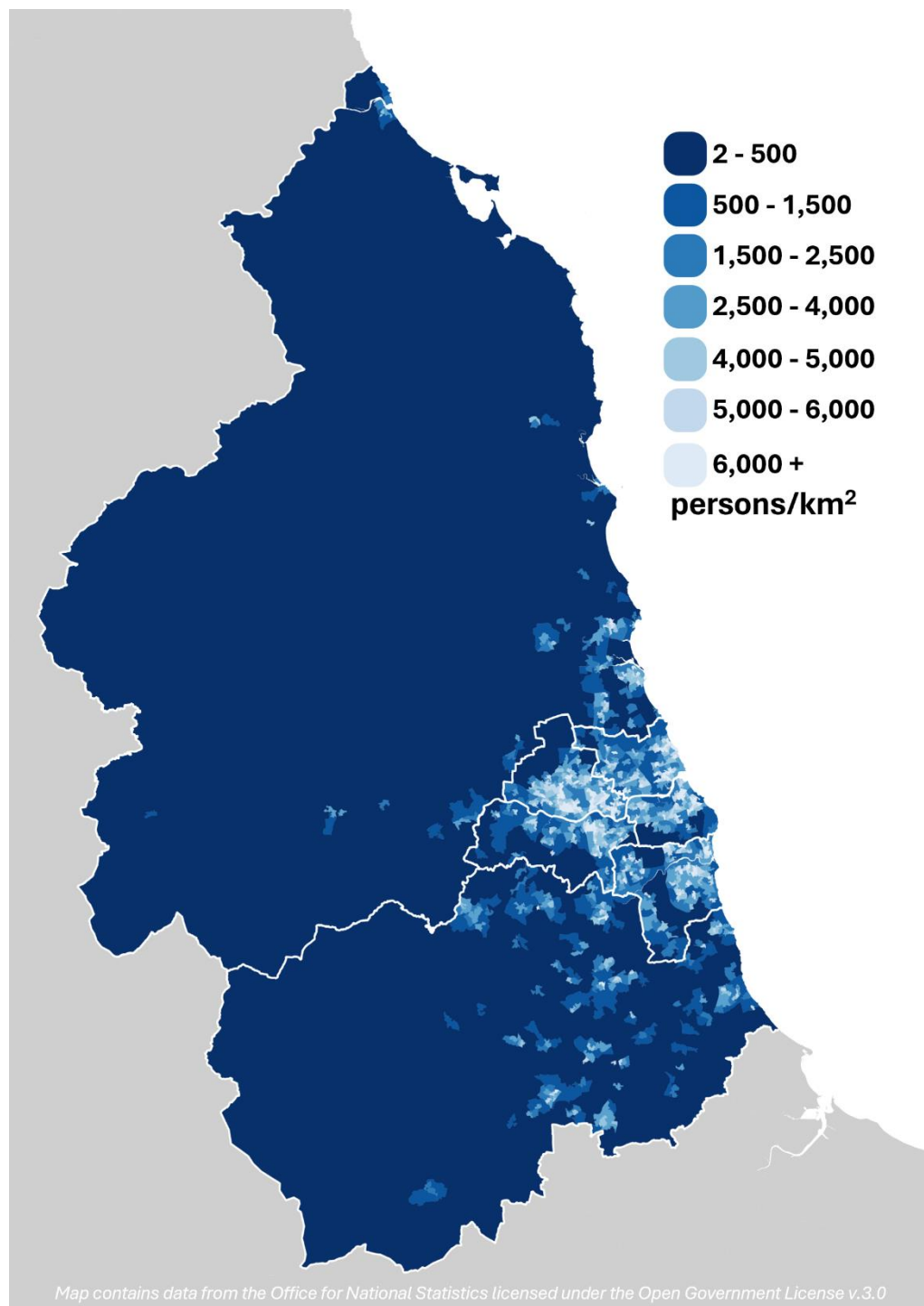


Table 3: Where people live, rural and urban split, and bus use per head

Local authority	Population ³⁷	% Rural ³⁸	% Urban	Bus use per head ³⁹
County Durham	538,011	43%	57%	32.7
Northumberland	331,420	45%	55%	23.4
Tyne and Wear	1,178,389	3%	97%	76.8
England outside of London	49,530,365	20%	80%	37.1
NE total	2,047,820	21%	79%	56.6

- 3.1.3. The local authority areas of Northumberland and County Durham have a significant rural population while the majority of Tyne and Wear is urban. Bus use is also far higher in Tyne and Wear than in Durham and Northumberland. This is to be expected as higher bus use in urban areas is a common trend found nationally⁴⁰.
- 3.1.4. Besides geography, the economy of an area is also a key marker of how important buses are to communities. Those on lower incomes, who tend to have lower levels of car ownership, use buses more regularly. According to the National Travel Survey (NTS), non-London buses make up six times the journey share for those in the lowest income quintile compared to the highest⁴¹.
- 3.1.5. Nearly 35% of North East residents live in LSOAs that are in the top 20% most deprived LSOAs nationally. This rate of deprivation is reflected in regional travel patterns with 28% of households in the region having no access to a car or van⁴² compared to 20% in England outside of London. Annual bus use per head is also much higher in the North East (52.3) compared to England outside of London (35.95)⁴³.
- 3.1.6. Figure 4 shows the regional bus network compared to the most deprived areas in the North East using the first index of multiple deprivation (IMD) quintile⁴⁴. This comparison demonstrates that bus density roughly aligns with areas of high deprivation, with a particular concentration in the region's urban areas⁴⁵.

³⁷ [“Population estimates for England and Wales: mid-2024”](#). Office for National Statistics. 2025.

³⁸ [“Rural and Urban Classifications”](#). North East Evidence Hub. 2025.

³⁹ [“Bus statistics data tables: BUS01”](#). Department for Transport. 2025.

⁴⁰ [“Bus statistics data tables: BUS01”](#). Department for Transport. 2025.

⁴¹ [“National Travel Survey 2024”](#). Department for Transport. 2025.

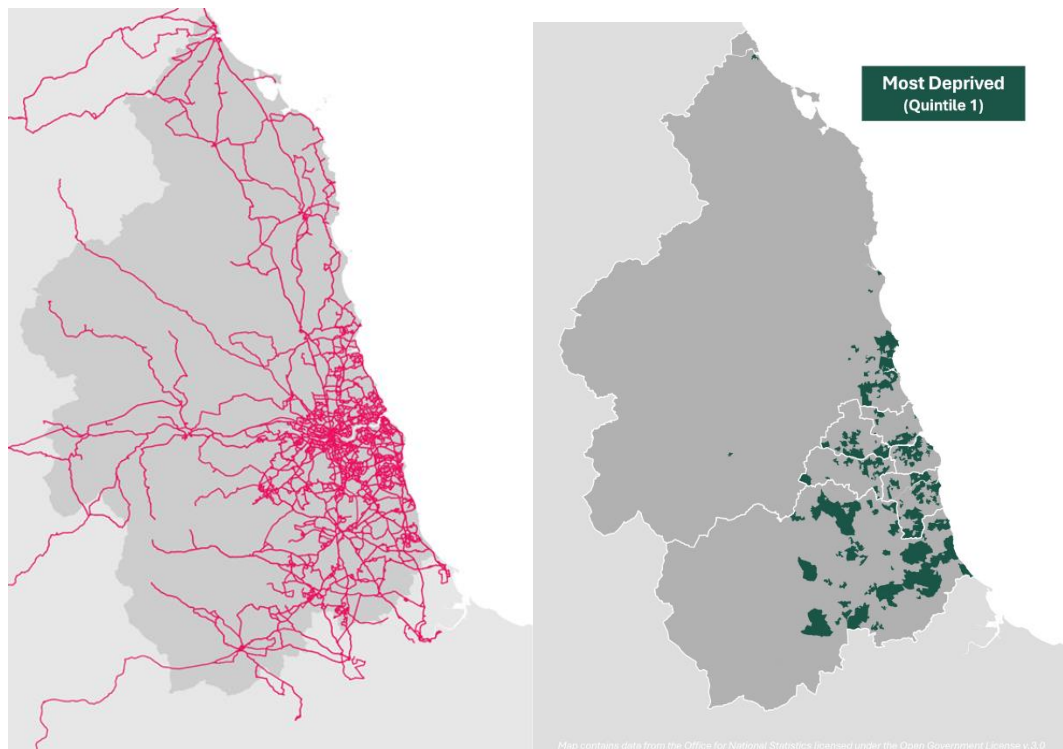
⁴² [“Car or van availability \(census 2021\)”](#). Office for National Statistics. 2023.

⁴³ [“Bus statistics data tables: BUS01”](#). Department for Transport. 2025.

⁴⁴ [“Index of Multiple Deprivation 2025”](#). Office for National Statistics Published October 2025.

⁴⁵ To note that the IMD map shows the most deprived 20% of Lower Layer Super Output Areas (LSOAs) in the region. LSOAs usually comprise between 400 and 1,200 households and have a usual resident population between 1,000 and 3,000 persons. The lower population density of rural areas means that these LSOAs are larger and therefore more prominent than their urban counterparts.

Figure 4: North East bus network compared to IMD Quintile 1 (2025)



3.1.7. Figure 4 also demonstrates that in the region, deprivation tends to be clustered around urban and coastal areas⁴⁶. The North East is unusual however in the levels of rural deprivation as seven of the ten most deprived rural areas in England could be found in County Durham in 2025⁴⁷.

3.1.8. The manner in which the economy and geography influences an individual's or community's transport needs, or bus use, is highly complex. The impact of poor transport provision in different settings is an essential consideration for policy makers, especially when considering where to focus investment. Transport for the North has therefore developed a data tool to measure the risk of Transport Related Social Exclusion (TRSE) across England. TRSE is defined as the exclusion that occurs when people are unable to access key services, opportunities, and community life owing to either issues with their transportation system or due to their limited access to transport.

3.1.9. Figure 5 shows the distribution of high and low risk areas of TRSE across the region⁴⁸. 31% of residents in the North East (602,395 residents) are at risk of transport related

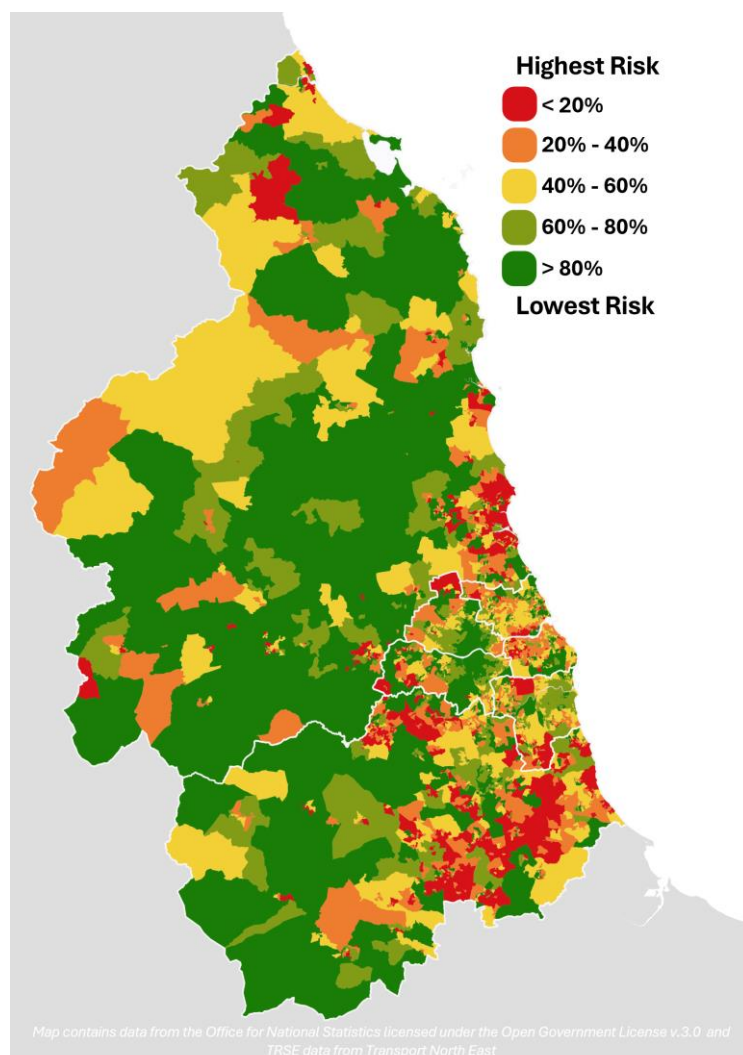
⁴⁶ Rural areas with high levels of deprivation may be highlighted compared to urban areas in Figure 7 due to their larger geographic size.

⁴⁷ "English Indices of Deprivation 2025". Ministry of Housing, Communities and Local Government. 2025.

⁴⁸ To note that while a significant portion of the region is coloured in as green to indicate a lower risk of TRSE, this figure is not suggesting that TRSE is not an issue in these areas, this is purely to indicate that a given area has a relatively lower number of people at a high risk.

social exclusion⁴⁹; considerably higher than both Northern England (18.97%) and England as a whole (19.8%)⁵⁰.

Figure 5: Transport-related social exclusion in the North East (2024)⁵¹



3.1.10. Areas with a high risk of TRSE are concentrated in:

- manufacturing and mining legacy areas
- rural-urban fringes
- smaller cities and towns
- coastal communities.

⁴⁹ “[TRSE in England Visualiser](#)”. Transport for the North. 2025.

⁵⁰ To note that the data sources used to arrive at these figures are inconsistent. Only the **number** of people at high risk of TRSE in the north of England, and England as a whole, was included in Transport for the North’s May 2025 report: [Transport and social exclusion in England in 2024/25](#). Consequently, Census data from 2021 was used to calculate the rate based on those figures, however they are broadly comparable.

⁵¹ “[TRSE in England Visualiser](#)”. Transport for the North. 2025.

- 3.1.11. These are all areas that are present throughout the North East region. Urban fringe areas in Tyne and Wear, coastal areas around the south east of Northumberland and County Durham, and rural areas in eastern County Durham are particularly at risk.
- 3.1.12. Areas with a low risk of TRSE include remote rural areas with relatively high car ownership and densely populated areas such as central Newcastle, Gateshead, Sunderland and Durham City. These densely populated areas can have high rates of deprivation and high bus dependency while not being at high risk of TRSE.
- 3.1.13. Not investing in these areas can also have disproportionate economic impacts as most of the gross value added (GVA) in the North East is produced in urban areas. These areas accounted for 85% of total output in 2021, with a further 15% being produced in rural areas which contrasts with the rural/urban population split of 79% to 21%. 21% of output was produced in coastal towns, which overlaps with the urban and rural classifications used above.
- 3.1.14. The North East economy at large experiences lower productivity when compared to national averages in total and per head. In 2023, GVA per hour worked in the North East was £37.97, 8.6% below the equivalent in the rest of the UK (excluding London)⁵².
- 3.1.15. A well-functioning transport network contributes to economic and productivity growth as good connectivity boosts productivity by improving access to employment opportunities for workers⁵³. It is estimated that every return bus trip generates as much as £8.17⁵⁴ in monetised social value⁵⁵.
- 3.1.16. Bus services support the development of many aspects of the regional economy. For example, the visitor economy; increasingly important to support the wider economic development of the region. A key employment sector, the North East welcomed over 68 million visitors in 2024, supporting more than 60,000 jobs and worth £6.6 billion to the regional economy⁵⁶. The bus network is able to provide a sustainable form of transport for visitors in the region which in turn will help the North East to grow its visitor economy.
- 3.1.17. Buses enable people to access economic and educational opportunities such as higher skilled and better paid jobs. Nationally, bus users create more than £64 billion worth of goods and services⁵⁷. Buses help connect people who live in areas with a low density of employment opportunities to employment. This is especially important in areas with high deprivation levels and rural areas which in turn helps to promote economic development in these areas.

⁵² “[Labour productivity \(GVA per hour worked\)](#)”. North East Evidence Hub. 2025.

⁵³ “[Fare outcomes: Understanding transport in Wales’s cities](#)”. Centre for Cities. 2023

⁵⁴ *Calculated in 2010 prices and produced to inform business case appraisals. Concessionary return journeys are estimated to have a social benefit of £3.84 while other bus users are estimated to have a social benefit of £8.17.*

⁵⁵ “[Valuing the social impacts of transport](#)”. Department for Transport. 2013.

⁵⁶ “[Quarterly Research Report](#)”. Destination North East England. 2025.

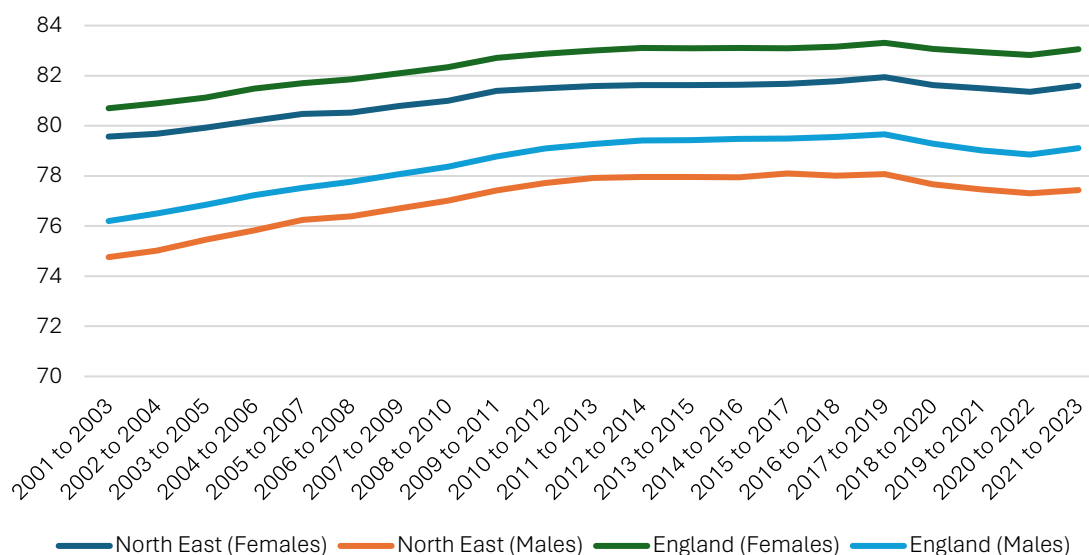
⁵⁷ “[The Value of Bus to Society](#)”. Greener Journeys. 2016.

- 3.1.18. Nationally, around 40% of jobseekers report that a lack of personal transport or inadequate public transport is a major barrier to finding work. When bus connections are poor—or perceived to be—jobseekers often face very limited options. Many employment opportunities are located in out-of-town industrial or trading estates that are difficult to reach without a car. This is especially true for lower-skilled roles; research by the Centre for Cities shows these jobs tend to be more dispersed and frequently remote from deprived communities that might seek them. A study by the Joseph Rowntree Foundation, which examined three contrasting urban labour markets and candidates for low-skilled vacancies, found that while 70–90% of unfilled roles were easily accessible by car, only 35–55% could be reached within 30 minutes by public transport. Further research among 912 jobseekers in British cities outside London revealed that over 60% believed they would have less chance of finding work without bus services, and more than a third felt their prospects would improve if bus services were enhanced.
- 3.1.19. High deprivation and low productivity rates in the region highlight the importance for bus in the region. Preserving and strengthening the bus network is vital to achieving our objectives and addressing the region’s challenges.
- 3.1.20. One of the most concerning impacts of high deprivation rates is child poverty and, currently, 30% of babies, children and young people across the North East are growing up in poverty. Ultimately the consequences that are driven from child poverty – the inability of families to meet their basic needs and participate fully in society, is what matters – and these consequences include poor health, mental health, and nutrition; exclusion from social activities; reduced educational attainment and constrained life chances at a crucial and formative early age. Affordable public transport for young people and children can make an important contribution towards mitigating child poverty and its related impacts on social and physical development.
- 3.1.21. Bus use also has implications for improved public health. People who travel by bus are more likely to have increased physical activity levels which is important for good health and wellbeing. For example, evidence suggests that travelling by bus leads to an extra 0.5 days of walking per month with an average of 1.5km walked per day, representing a substantial public health benefit⁵⁸.
- 3.1.22. Buses in the region help to limit car journeys. In conjunction with ZEBs, this has a powerful impact to help reduce noise pollution, and to improve air quality, protecting the health of the entire population.
- 3.1.23. Life expectancy at birth in the North East has been consistently lower than the English average over the last 20 years for both men and women. For men, life expectancy in the 2021 to 2023 period at birth was 77.4 years in the North East and 79.1 in England. For women, it was 81.6 years in the North East and 83 in England. The gap in life

⁵⁸ “[Evaluation of Concessionary Bus Travel](#)”. Department for Transport. 2017.

expectancy between North East men and the English average is currently at the highest it has been since the first period of the ONS' dataset from 2001 to 2003.

Figure 6: Life expectancy of men and women in the North East and England



3.1.24. Life expectancy in the last few years has decreased because of Covid-19, to the point where life expectancy is now lower than it was in 2012/14 for women, and 2010/12 for men. This is in contrast to a period of strong increases in life expectancy between 2001/03 to 2011/13.

3.1.25. Life expectancy varies between local authorities in the North East too for both men and women, at birth and aged 65. South Tyneside, Sunderland and Gateshead are in the 10% of local authorities with the lowest male life expectancy in England, Wales and Northern Ireland. Despite buses not having a direct role in increasing life expectancy, both increased physical activity and improved air quality bring health benefits, contributing to longer, healthier lives.

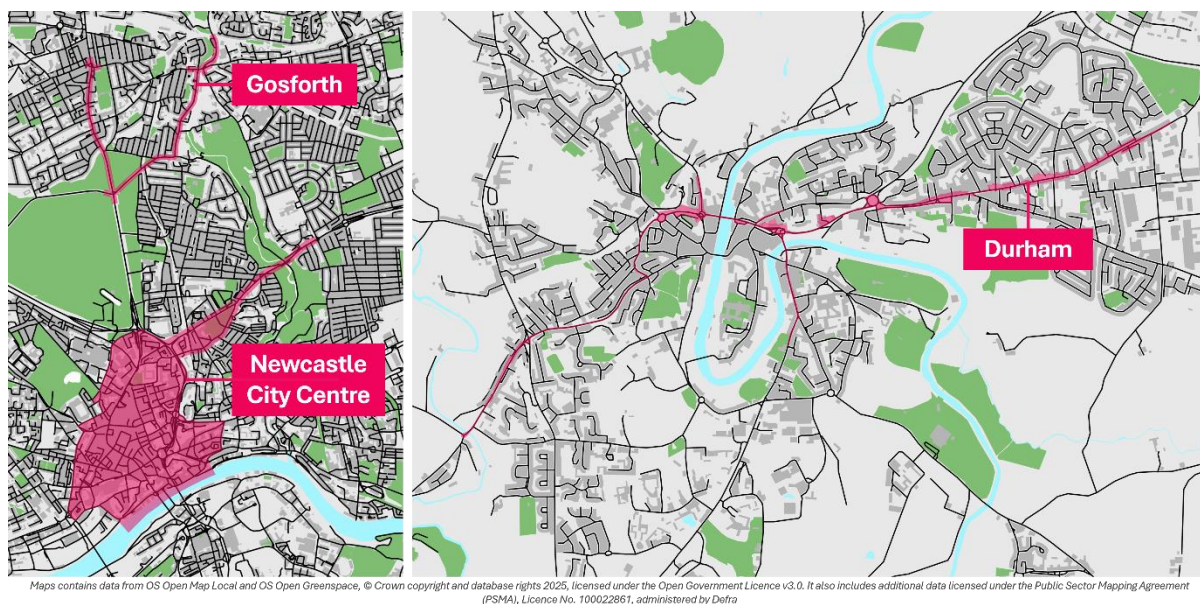
3.1.26. Two of the region's local authorities, Newcastle City Council and Durham County Council, have declared Air Quality Management Areas (AQMA). These declarations mean that the national air quality objectives are unlikely to be achieved in the relevant areas without intervention.

3.1.27. Three separate areas have been declared as AQMAs⁵⁹. These are:

- Durham City AQMA
- Newcastle City Centre AQMA
- Gosforth AQMA

⁵⁹ A fourth AQMA, covering Gateshead town centre was declared in 2005 but revoked in December 2024 after emission levels had decreased and were consistently measured below the threshold.

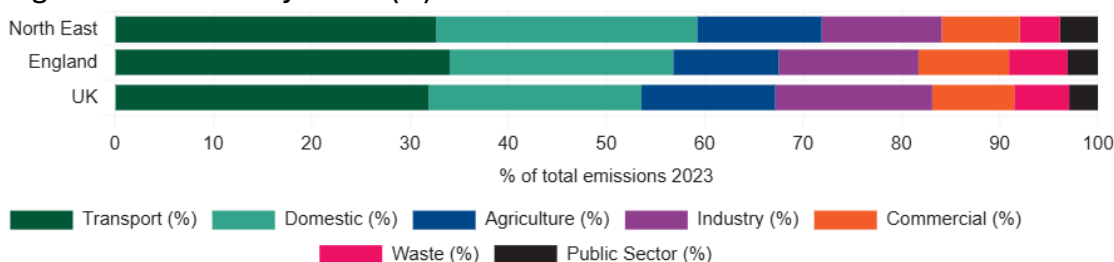
Figure 7: North East Air Quality Management Areas



3.1.28. Both local authorities attribute the poor air quality in its AQMAs to road transport, particularly nitrogen dioxide emissions (NO₂). NO₂ is often emitted from internal combustion engine (ICE) vehicles; diesel vehicles typically have higher emissions than petrol vehicles. Improvements to road transport that reduce NO₂ emissions will be particularly important to support local authorities to achieve the aims of their AQMAs.

3.1.29. More broadly on an environmental basis, buses play an essential part in reducing the environmental impact of transport in the region. Transport is the largest single contributor to greenhouse gas emissions by sector in both the North East, and England more broadly, responsible for over 30% of total emissions.

Figure 8: Emissions by sector (%) within the North East



3.1.30. The bus network reduces car dependency and enables people to make sustainable choices as buses are less polluting than private vehicle journeys when considered on a per journey basis. On average, taking a journey by bus emits one-third fewer emissions

as making the same journey by car, making buses one of the least carbon intensive forms of road vehicle transport per passenger, per mile⁶⁰.

Key insights from this section

- The North East is home to around two million people living across urban, rural and coastal communities (with significant differences within each of these broad categories). Around half of Northumberland and County Durham residents live in rural areas; it is important that region's rural communities have access to reliable bus connections.
- The North East faces significant challenges including high rates of TRSE, low productivity, and high rates of deprivation – including in rural communities.
- Buses have an important role to play in the North East, particularly given the lower rates of car ownership and average incomes. Bus usage in the region is significantly above the national average. Buses provide access to employment, education, healthcare and leisure destinations across the region.
- Buses can also play a key role in achieving wider regional objectives such as alleviating child poverty, strengthening the visitor economy, improving public health outcomes and lowering air pollution across the region.

⁶⁰ “[Decarbonising transport: The role of buses](#)”. Local Government Association. 2020.

4. Current bus operations in the North East

This section will:

- Describe the current regulatory environment for local bus services, including the roles of the public and private sector and the arrangements for partnership working through the EP.
- Share key statistics to contextualise the scale of the region's current network, including that 48 million miles are operated each year, carrying a total of 116 million passengers.
- Introduce the current financial landscape of the bus network, including the significant public sector funding required.
- Provide insight into public perceptions of the bus network gathered from the MSA's Moving Buses Forward consultation, LTP consultation and Transport Focus research.
- Outline the various mechanisms through which communities and local authorities can influence the local bus network

4.1. Existing operational arrangements

Market structure

- 4.1.1. Bus services across Great Britain outside of London were deregulated by the Transport Act 1985. Operators provide most services on a commercial basis - independently setting routes, fares, timetables and service standards, as well as producing their own marketing and publicity.
- 4.1.2. Deregulation was intended to benefit passengers by introducing competition to the bus market, with operators seeking to compete with each other by providing a bus service that is more attractive and desirable than a competitor's services⁶¹. Operators can run any service they desire, provided they meet basic notice and licensing requirements – theoretically supporting market entry and expansion.
- 4.1.3. Although there was some initial on-street competition between bus services provided by different operators, predominantly in urban areas, the deregulated market has evolved to a position where many parts of the North East are served by a single large operator – competition is generally limited to key corridors into and out of urban areas. Three large operators – Go-Ahead, Stagecoach and Arriva – now have a combined market share of around 98%⁶².
- 4.1.4. LTAs plan and subsidise services where these are socially necessary but commercially unviable. In the North East, this function is fulfilled by Durham and Northumberland county councils through delegations from the MSA and Nexus as the PTE for Tyne and Wear. A range of operators provide these services under contract, with most contracts awarded through a competitive tendering process (as described further in the commercial case). Secured services account for approximately 13% of the region's network – as shown in Table 4 below.

⁶¹ "[Buses in the 1980s](#)". House of Commons Library. 2010.

⁶² Market share has been calculated based on patronage data provided by operators.

Table 4: Commercial and secured mileage, by authority⁶³

Area	Commercial network		Secured network	
	%	Miles	%	Miles
County Durham	86.0%	8.6 million	14.0%	1.4 million
Northumberland	78.7%	4.8 million	21.3%	1.3 million
Tyne and Wear	89.0%	31.5 million	11.0%	3.9 million
North East (total)	87.2%	44.8 million	12.8%	6.6 million

4.1.5. Deregulation is now a well-established delivery model in Great Britain (outside of London and more recently Greater Manchester), but Great Britain is an international outlier among developed economies in having deregulated local bus networks⁶⁴. Franchising (sometimes known locally as contracting or tendering)⁶⁵ and municipal ownership are the two most well-established practices in Europe, though there is substantial country-by-country and region-by-region variation in the specific operational detail⁶⁶

4.1.6. Sections 3.2 and 3.3 of the commercial case provide further information on both the operational arrangements and the size and scale of the region's commercial and secured networks – including advantages and disadvantages of the approach and how trends in the commercial and secured networks compare to the rest of England outside London.

4.1.7. A small number of municipal operators were not privatised following deregulation and remain active – with five municipal operators currently operating in England. Section 8.3 further describes municipal ownership and explains why the MSA does not consider it further in this assessment.

Enhanced Partnership

4.1.8. The Bus Services Act 2017 introduced various new regulatory options for LTAs, including franchising powers and Enhanced Partnerships (EPs). The 2021 National Bus Strategy⁶⁷ subsequently required LTAs to enter into an EP to access DfT funding, unless already in the franchising process.

4.1.9. An EP is a statutory partnership between one or more LTAs and local bus operators that sets out how they will work together to deliver agreed improvements, while retaining the deregulated market structure.

⁶³ “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

⁶⁴ “[Partnership or franchising to improve bus services in two major English urban regions? An institutional analysis](#)”. Rye et al. in Transport Policy. 2021.

⁶⁵ Some areas use contracting or tendering to refer to substantively similar systems to franchising, but these terms can also describe separate practices that occur in a deregulated market in the UK – such as secured services. This paragraph refers to alternate local names for franchised networks.

⁶⁶ “[Contracting in urban public transport](#)”. European Commission. 2008.

⁶⁷ The National Bus Strategy (NBS) 2021 required an EP to be made between bus operators and local authorities (unless an authority was pursuing bus franchising). Funding was also provided for Bus Service Improvement Plans.

- 4.1.10. EPs are based on negotiation and partnership working between the relevant LTA(s) and operators – and rely on agreement. Statutory objection thresholds allow multiple operators to oppose the inclusion of any commitment in the EP that is not acceptable to them.
- 4.1.11. In practice, the scope of an EP is largely determined by negotiations between LTAs and operators rather than invocation of the statutory objection thresholds.
- 4.1.12. Once agreed and made, compliance with the EP is a condition of service registration for bus operators. If bus operators fail to comply with the requirements imposed on them under the EP Scheme, the Traffic Commissioner (TC) can take enforcement action, including the cancellation of local bus service registrations. Relevant authorities are also obliged to introduce the facilities⁶⁸ and measures⁶⁹ in accordance with the EP.
- 4.1.13. The North East made an EP Plan and EP Scheme⁷⁰ in March 2023 following negotiation and consultation with bus operators. Most local bus services⁷¹ are required to comply with the standards in the EP Scheme. Facilities and measures which are provided by local authorities and bus operators are also included within the EP Scheme.
- 4.1.14. Section 10 of the strategic case describes the network under the EP as considered in this assessment.
- 4.1.15. Section 3.6 of the commercial case and section 9.5 of the management case provide further information about the North East EP, including the statutory objection thresholds, governance arrangements and variation mechanisms.

Public sector interventions

- 4.1.16. There are various important public sector interventions that widen the reach of the network and make bus travel more attractive to passengers. Some of these interventions were introduced through the EP and funded via the region's Bus Service Improvement Plan allocation, while others pre-date the EP and are funded separately.
- 4.1.17. Public sector responsibilities and interventions include:
- Planning and contracting secured services, including setting contractual standards for such services.

⁶⁸ Facilities include assets that are provided at specific locations along particular routes (or parts of routes) within the mayoral strategic authority area or new and improved bus priority measures which are made within the mayoral strategic authority area.

⁶⁹ Measures include improvements which have the aim of increasing the use of local services serving the routes to which the measures relate or ending or reducing a decline in their use; or improving the quality of local services.

⁷⁰ EP Plan – a clear vision of the improvements to bus services that the EP is aiming to deliver, mirroring a BSIP.
EP Scheme – one or more statutory documents produced alongside or following the EP that sets out how the EP Plan will be delivered, including specific commitments by the authority and bus operators.

⁷¹ Services which are exempt from the EP include private hire and secured services.

- Administering the English National Concessionary Travel Scheme (ENCTS) and determining any local enhancements to the national minimum (which differ across the region).
- Delivering the regional Capped Fares Scheme i.e. the package of ‘The Mayor’s Fares’ – namely the £1 single fare for under-22s, the £2.50 adult single and the all-day multi-operator tickets. This includes negotiation and operation of the reimbursement mechanism to operators, and promotion of the fares range.
- Paying grants to operators of eligible services and community transport organisations that partially reimburse fuel costs.
- Providing infrastructure that supports services – including priority infrastructure described above as well as (in most instances) bus stations, stops and shelters.
- Providing some passenger information, such as paper and/or digital timetable information at bus stops.
- Determining the strategy and roadmap for the decarbonisation of buses and depots in the North East.
- Financially supporting the introduction of ZEBs by partially subsidising the cost difference between a ZEB and equivalent diesel vehicle as well as supporting the transition of depot sites to facilitate ZEB operation.
- Cooperation over safety on the network, including commissioning a study into the safety concerns and barriers experienced by women and girls on the network.

4.1.18. Section 3.7 of the commercial case provides further detail around many of these interventions.

Public sector funding

4.1.19. Significant public sector funding is required to provide these interventions. Funding for this comes from a range of streams from central government, the mayoral strategic authority and local authorities.

4.1.20. As explained in the financial case, this public sector funding equates to £123m – or approximately 51% of all operator revenue received in 2024/25.

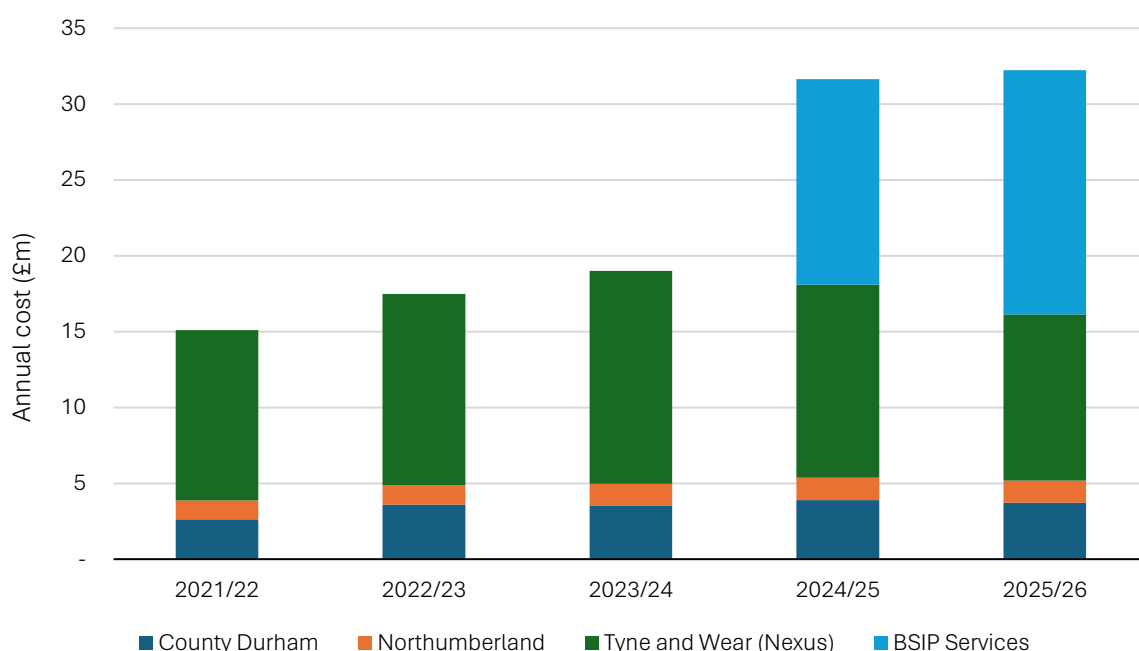
4.1.21. BSIP funding⁷² was first introduced in 2022 to support LTAs to deliver the ambitions set out in their BSIPs. The North East received the largest initial BSIP allocation in England - £163.5 million – with additional subsequent awards. This initial award comprised £90 million of revenue funding and £73 million of capital funding.

⁷² References to BSIP funding in this assessment should be read as including Local Authority Bus Grant funding which replaces BSIP funding from 2026 onwards.

4.1.22. BSIP funding has become an important part of the funding landscape for local bus services in the North East, sustaining some secured services and allowing others to be introduced, as well as enabling many of the interventions introduced through the EP and outlined above.

4.1.23. Figure 9 shows how the amount that local authorities and Nexus spend on secured services has varied over the last five years, and the scale of BSIP investment, demonstrating the scale of public sector investment required to maintain the current network. These costs do include services considered out of scope of the proposed franchising scheme, such as some school services⁷³, however they are indicative of the overall scale of secured service expenditure in the region.

Figure 9: Secured service outturn by authority, and BSIP spend, for the past five years



4.1.24. BSIP revenue funding is now being replaced by the Local Authority Bus Grant (LABG), with capital revenue now part of the Transport for City Regions settlements. The North East will receive these allocations as part of its Integrated Settlement from financial year 2026-27; future bus funding will therefore be drawn from this integrated settlement.

Bus priority infrastructure

⁷³ For detail on services considered to be in and outside-of-scope, see section 5 of the commercial case

- 4.1.25. Bus priority infrastructure has an important role in the delivery of local bus services, particularly the punctuality and reliability of services as well as the on-road speed of services.
- 4.1.26. As described in greater detail in section 4.3, each of these are significant drivers of public satisfaction with local bus services (or lack thereof). *“Faster and more reliable services”* was the North East public’s second-highest priority improvement for local buses when surveyed in 2024.
- 4.1.27. Priority infrastructure can therefore position buses as an attractive travel choice – both to retain existing bus users and make their journeys faster and more reliable, as well as to attract new passengers from private car.
- 4.1.28. The BSIP states that *“our region continues to be committed to investment in highways infrastructure, which could include road space reallocation, junction redesign, traffic signal re-prioritisation, bus gates, and other measures designed to improve bus services”*. Although some initially conceived schemes have suffered from *“deliverability concerns ... which has resulted in some plans being reprofiled or removed from the programme.”*
- 4.1.29. While the EP aims for local authorities and operators to work together to deliver bus priority infrastructure there is currently a disconnect between highway authority and bus operators. It is possible for operators to choose not to serve a road that has been heavily invested in for example and while the EP includes a commitment that any operational savings brought about by priority infrastructure will be reinvested in the network, this has not taken place at the time of writing.

4.2. Bus network data and trends

Current network

- 4.2.1. The bus network in the North East represents a significant element of the public transport system, both in terms of scale and usage. In the most recent year for which data is available (2024/25), the network carried approximately 116.1⁷⁴ million passenger journeys. Bus journeys represented 72% of all public transport journeys in the North East (including Tees Valley)⁷⁵ in 2024.
- 4.2.2. Services are delivered across over 500⁷⁶ registered bus routes, covering an estimated 48.6 million vehicle miles which equates to around 54 trips per head of population annually. Around 35 services are cross-boundary with North Yorkshire and Tees Valley to the south, Cumbria to the west, or Scotland to the north.

⁷⁴ [“Bus statistics data tables: BUS01”](#). Department for Transport. 2025.

⁷⁵ [“National Travel Survey”](#). Department for Transport. 2026.

⁷⁶ *Accurate as of March 2025.*

- 4.2.3. The market is currently served by around 22 operators, though the market is concentrated with the region's three large operators holding around 98% market share, and the remainder split among 19 smaller operators.

Table 5: Large operators in the North East

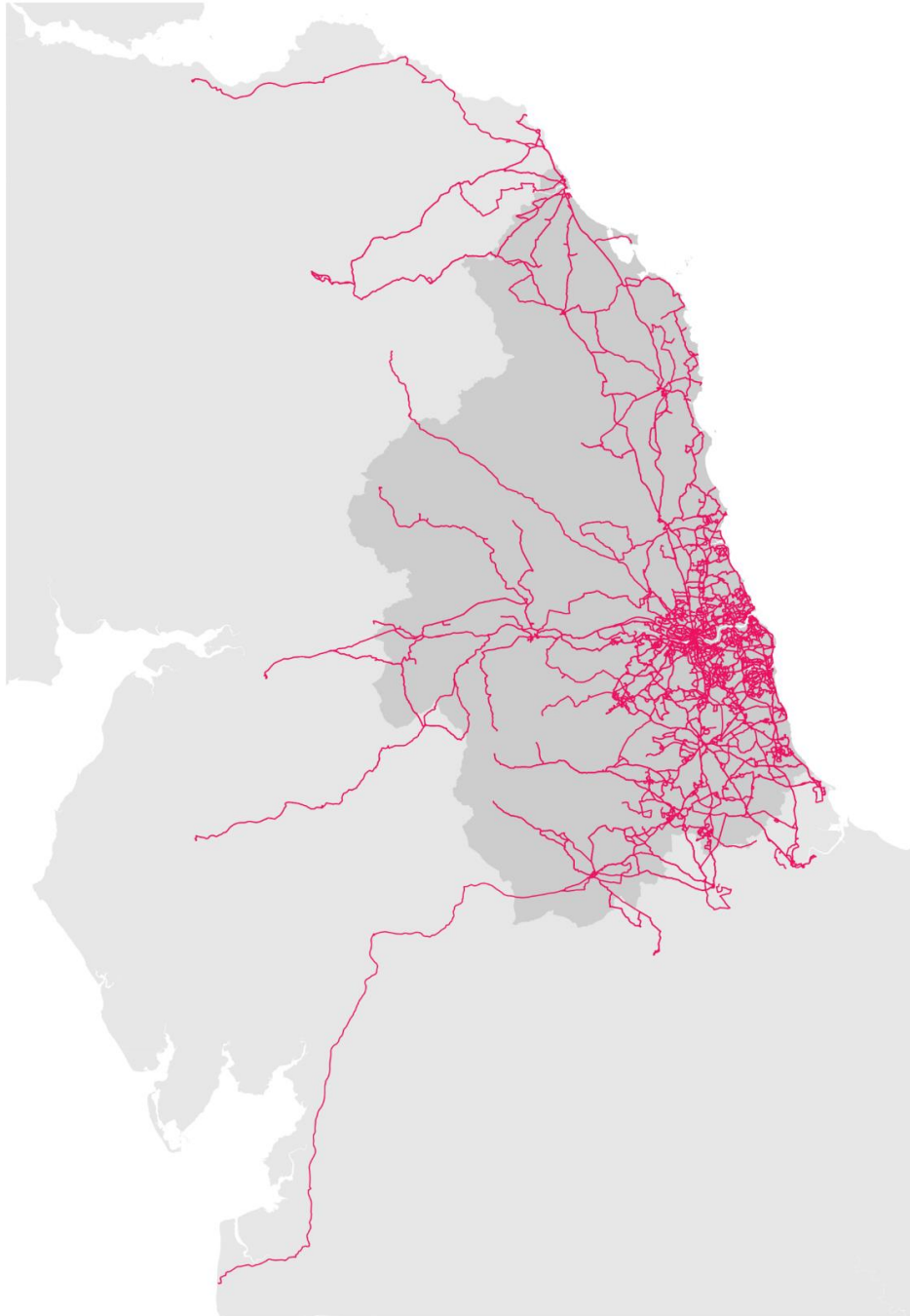
Group	Operators	Market share
Go-Ahead	Go North East	40%
Stagecoach	Stagecoach North East	28%
	Cleveland Transit	
	Stagecoach North West	
Arriva	Arriva Northumbria	20%
	Arriva Durham	

- 4.2.4. Section 3.1 of the commercial case provides further information about the operator landscape in the North East, including the nature of the SMO market, such as the division between commercial and secured services and the areas where each SMO operates services.
- 4.2.5. The network provides a broad range of services. A significant proportion of activity is focused on high-frequency urban corridors, while secured services (accounting for 13% of total mileage) play a critical role in maintaining coverage in less commercially viable areas and times.
- 4.2.6. Operators provide these services with a fleet of approximately 1,220 buses. Most buses in the North East fleet are owned by the respective operator. This reflects the traditional approach throughout England, except for London where leasing is more prevalent. The current commercial delivery model also results in investment being focused on the routes with highest levels of demand. High frequency core routes will typically see investment in new buses every five years with older buses then cascaded to secondary and tertiary routes.
- 4.2.7. Operators are also major employers in the region. Across the North East there are around 4,000⁷⁷ people working for bus operators of varying sizes engaged in roles that include drivers, engineers, and back-office support staff.
- 4.2.8. Overall, the scale of the bus network in the North East demonstrates both its critical role in the transport system and the degree to which service provision is shaped by the current deregulated market framework.
- 4.2.9. A map of all bus routes in the North East can be found below in Figure 10. It shows how the network is clustered around the region's urban centres, with significantly fewer routes reaching into rural communities. Sections 3.2 and 3.3 of the commercial case

⁷⁷ Information drawn from the publicly available accounts for the largest three operators which amount to 3893 employees. No data available for small operators.

provide further analysis of how the commercial network differs from the secured network.

Figure 10: All bus routes in the North East



Historic trends

4.2.10. There has been a decades-long decline to both bus ridership and the size of the network in the North East. There are many factors leading to this, including growing car

ownership, but bus use in the North East has seen a sharper decline compared to England outside of London – as shown in Figure 11 below.

- 4.2.11. Decline was significantly exacerbated during the Covid pandemic, with patronage across the North East falling to a low of 51 million in 2020/21 (compared to 142.3 million in 2018/19) – and still remains considerably below pre-pandemic levels, likely to be in part driven by post-pandemic changes in travel and working habits.

Figure 11: Indexed passenger journeys on local bus services, 1985/86 to 2024/25
 (1985/86 = 100)⁷⁸



- 4.2.12. Figure 12 below shows the trajectory of bus use per head since 2010. Bus use per head in Northumberland has declined 34%, County Durham has declined by 37% and Tyne and Wear has declined by 35%. Tyne and Wear's decline is greater than the average for English metropolitan areas (34%) while County Durham and Northumberland's decline is also greater than the average for English non-metropolitan areas (28%).

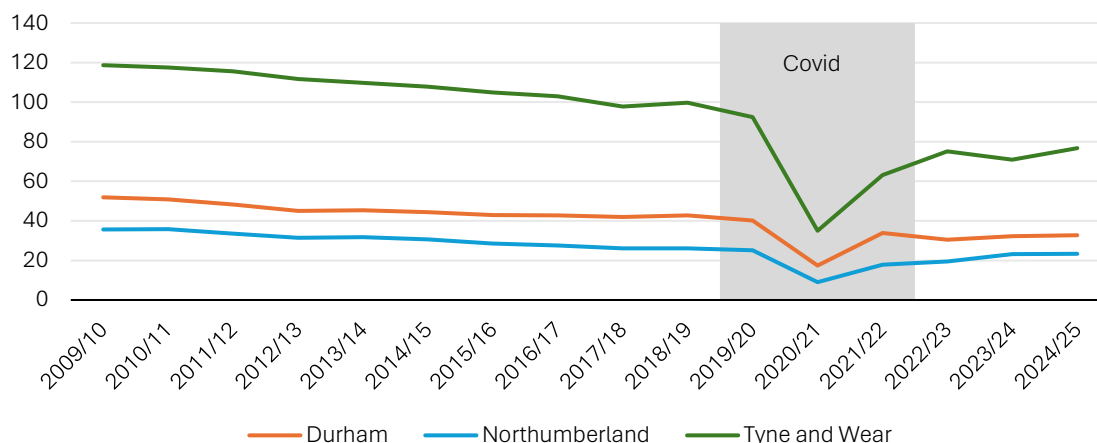
- 4.2.13. Patronage in the North East increased from 107 million in 2023/24 to 115.9 million in 2024/25 – an 8% year-on-year increase. Excepting recovery in the immediate aftermath of the pandemic, this is the first increase in annual bus patronage since a modest 2% rise in 2018/19.

- 4.2.14. This is a significant and positive increase, likely driven by a range of factors including the capped The Mayor's Fares offering and other investment in the bus network through the EP and BSIP funding, recovery from major strike action in the preceding year, and residual Covid recovery. Patronage, however, remains below pre-pandemic levels and the long-term trend remains one of decline, partly as a resulting effect of how post-

⁷⁸ “[Bus statistics data tables: BUS01hist and BUS01](#)”. Department for Transport. 2025.

pandemic commuter habits have significantly influenced how people now use public transport⁷⁹.

Figure 12: Bus use per head by North East transport authority, 2009/10 to 2024/25⁸⁰



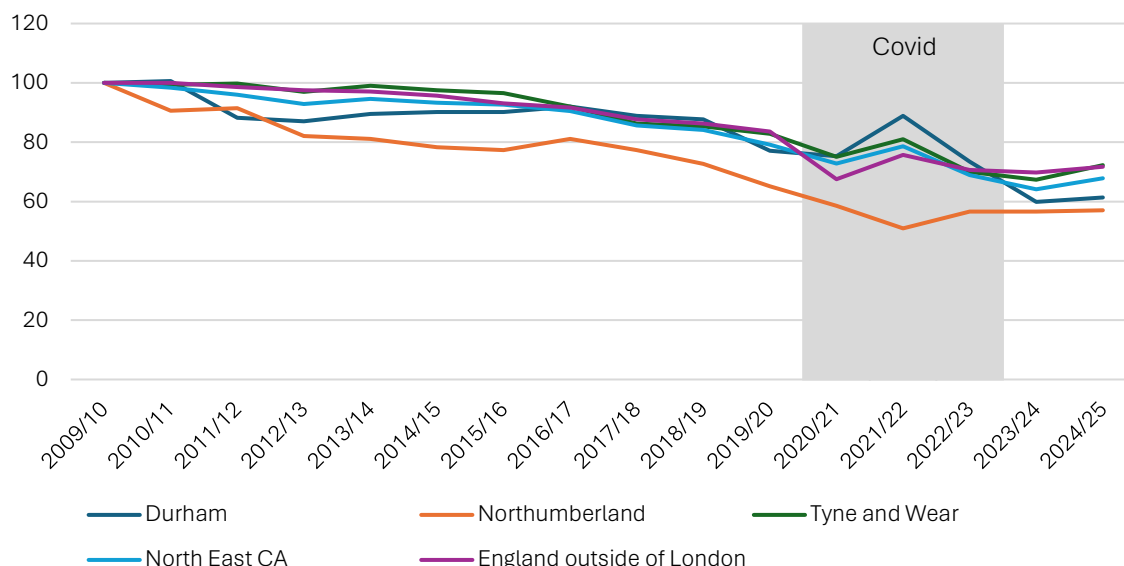
4.2.15. There has been similar decline to the size of the network. Since 2009/10, mileage in the North East has declined by 32% although there is significant variation across the region. Mileage in County Durham and Northumberland in particular has declined by 39% and 43% respectively, with Tyne and Wear facing a lower but still substantial decline in mileage of 28%. Figure 13 below shows this decline compared to the average for England outside of London.

4.2.16. This decline represents a radical change in the provision of bus services in the region with some communities losing the service altogether or the attractiveness of the services being substantially reduced by the cutting of frequency, evening and Sunday services. As it will be explored further in the case for change and economic case, if this decline continues, the North East will not be able to meet its strategic objectives and there will be social, economic and environmental consequences.

⁷⁹ “[The longer-term impacts of the Covid-19 pandemic on Transport and Land Use in Britain, pg. 57](#)”. Kendall et al. for the Independent Transport Commission. 2024.

⁸⁰ “[Bus statistics data tables: BUS01](#)”. Department for Transport. 2025.

Figure 13: Indexed vehicle mileage change over time, by North East transport authority compared to the average for England outside of London, 2009/10 to 2024/25 (2009/10 = 100)⁸¹



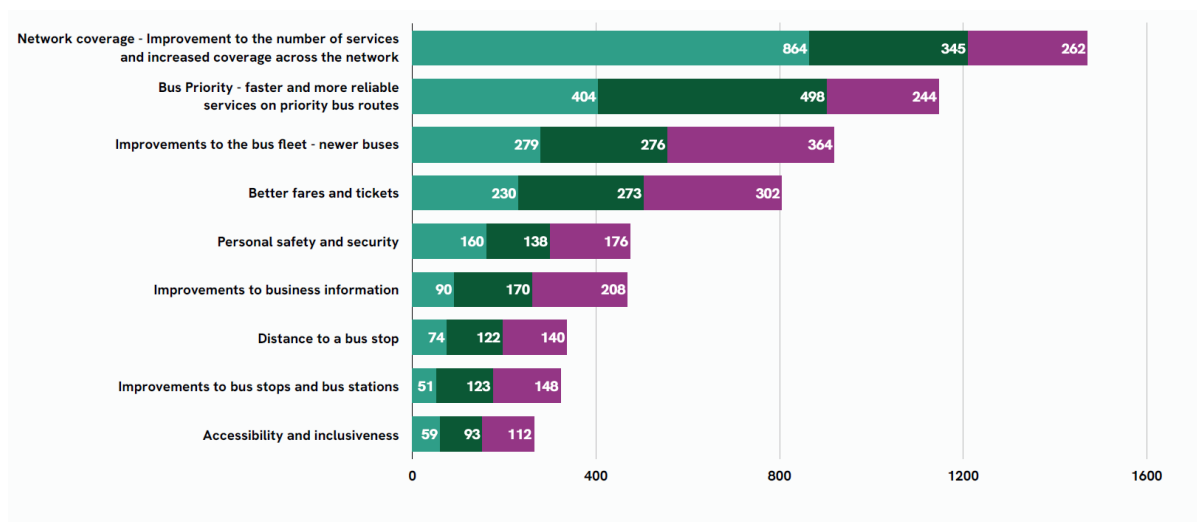
4.3. Perceptions of the bus network

Moving buses forward

- 4.3.1. In Spring 2024, Transport North East (one of the MSA's predecessor organisations) held its Moving Buses Forward campaign, enabling it to gather further information into the priorities that bus users wanted the MSA to focus on in terms of service provision. A survey question asked the respondents to list the top three priorities from a list. Figure 14 details what were perceived to be the highest priorities of respondents (ranked 1-3 from left to right by colour).
- 4.3.2. The top three priorities for bus users (across County Durham, Tyne and Wear, and Northumberland) were found to be network coverage, bus priority and improvements to bus fleet.
- 4.3.3. It should be noted that at the time of data collection, the national £2 fare cap was in effect, alongside the regional £1 single- and £3-day tickets for those under 22, which may have impacted the responses in regard to 'better fares and tickets'.

⁸¹ "[Bus statistics data tables: BUS02](#)". Department for Transport. 2025.

Figure 14: Views on the top three priorities for local bus services (Moving Buses Forward, 2024)



LTP Consultation

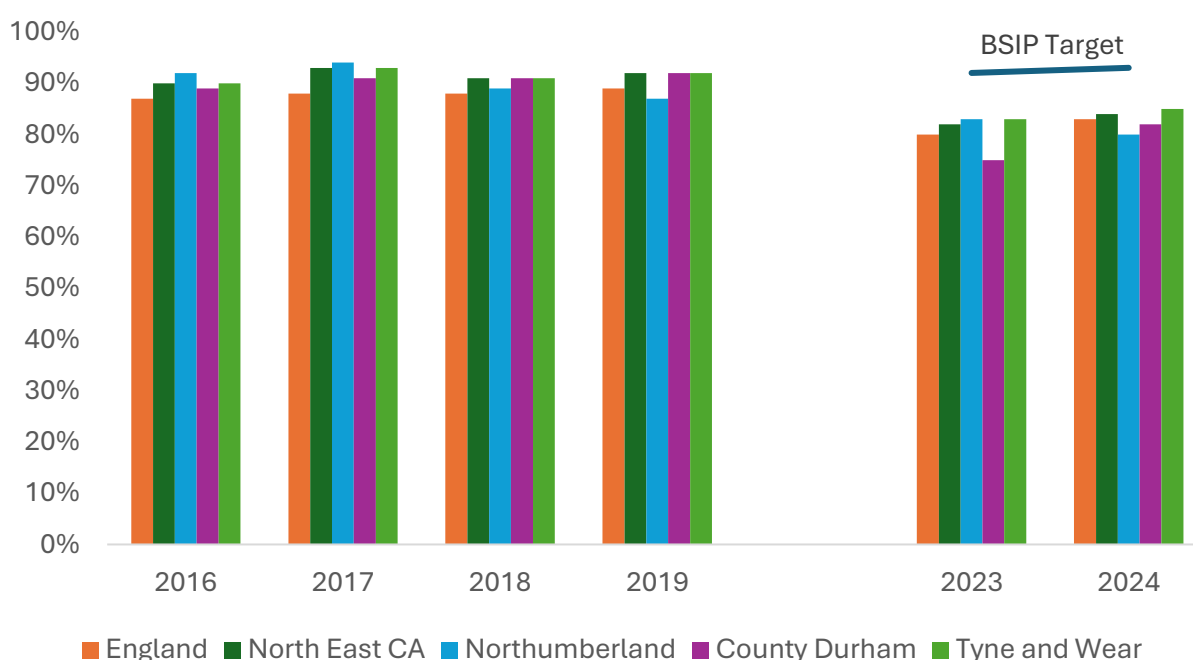
- 4.3.4. The North East Local Transport Plan outlines the Mayor's blueprint for a connected network that is simple, affordable, and built to last. This plan underwent a statutory consultation from 4 November 2024 until 26 January 2025 where the public were asked to help shape the Mayor's plan to ensure it was right for them.
- 4.3.5. Besides finding that 81% of the public supported the Mayor's ambition for transport, the consultation also found that buses were the big issue. 40% of respondents specifically mentioned buses across all questions, and nearly 5000 responses to questions said they currently had a problem travelling on the bus, with journey times and punctuality/reliability stated as the main issues. Journey times are not only viewed as too long but are heavily impacted by delays which make respondents feel that car travel is their only reliable way to get to work. Almost one-in-five respondents that said buses should be improved specifically mentioned ticketing, with a desire for integrated ticketing for a smoother, easier journey.
- 4.3.6. Consultation responses were awarded a 'sentiment score' from 0-100 which determined how positively or negatively respondents felt about a given issue. The sentiment score for bus was rated at 40, the lowest score out of all currently available modes of public transport in the North East and lower than the overall sentiment score for the whole consultation (45).

Transport Focus

- 4.3.7. Transport Focus publishes the results of their bus-specific survey, Your Bus Journey, annually. From 2022 the survey changed methodology with more online participation, this means caution must be applied when comparing years.
- 4.3.8. Bus satisfaction in the North East stood at 91% pre-pandemic in 2019. As can be seen in Figure 15 below, this is in line with previous results in the North East.

4.3.9. 84% of passengers reported satisfaction with the bus service in 2024. This is an improvement on the lowest recorded satisfaction in 2023, which Transport Focus attribute nationally to “*improvements across all aspects of the bus service*” with particularly significant improvements to bus reliability and value for money – with perceptions of value for money particularly important in rural areas. This is likely to reflect the (then) £2 national fare cap in effect at the time of the survey, which significantly reduced the cost of bus travel.

Figure 15: Overall bus customer satisfaction in the North East



4.3.10. Across the three surveys examined in this section, respondents dissatisfied with their local bus service have either expressed their general dissatisfaction with their bus service (LTP consultation/Transport Focus) or identified issues with specific aspects of their bus service (Moving Buses Forward).

4.3.11. This level of customer dissatisfaction with local bus services has been an important motivating factor driving the MSA’s programme for bus reform. Improving perceptions of buses are a key feature of the bus reform objective to cultivate regional pride in buses which will be explored in section 6.7.

4.4. Local authority and community influence

4.4.1. Section 2.9 describes the visions and ambitions each of the LA7 have for their area, and the important role of local bus services in enabling and delivering those ambitions.

4.4.2. As described in section 4.1, operators are primarily and ultimately responsible for the shape and size of the commercial network, although opportunities for local authorities and communities to exert some degree of influence in operator decisions are present.

- 4.4.3. The North East Bus Partnership Board has been established through the EP, bringing together private, public and third sector organisations with an independent chairperson to provide a forum for discussions around the EP and the region's bus network.
- 4.4.4. In addition to the region-wide Partnership Board, Local Bus Boards have been established for each local authority area which are forums for discussion and localised partnership working between representatives of local areas, for example, elected members, local authority officers, with bus operators and other stakeholders.
- 4.4.5. Local Bus Boards have a consultative role in network change decisions under the Code of Conduct agreed through the EP. This Code of Conduct goes beyond the legal requirements for network change decisions, seeking to *"introduce a consistent standard to ensure network changes can be made in an orderly manner and communities and bus users are adequately consulted with"*.
- 4.4.6. Operators provide advance notice of network change proposals to the MSA, Nexus and relevant local authorities. Engagement with key stakeholder bodies and the general public also takes place at this point – including publicising the proposed changes and holding drop-in sessions as appropriate.
- 4.4.7. Depending on the significance of the changes, the relevant Local Bus Board chair(s) may also decide to hold a meeting to provide feedback, typically around 11 weeks before any changes are intended to go live.
- 4.4.8. Changes can be made to the proposals as a result of community or local authority influence but, beyond the ethos of partnership working, there is no requirement for operators to amend their proposals based on this feedback and, ultimately, the decision on whether to proceed with the change rests with operators.
- 4.4.9. Local bus boards also function as forums where the public, their representatives, and operators can raise concerns regarding other elements of the bus service besides network changes. This includes concerns regarding passenger safety and amenities like bus shelters and stations.
- 4.4.10. As discussed elsewhere in the assessment (particularly section 4.1 of the strategic case and 3.3 of the commercial case), Durham County Council, Northumberland County Council and Nexus (acting on behalf of the Tyne and Wear local authorities) can and do procure secured services in response to network change decisions by operators to maintain transport links for communities.
- 4.4.11. Section 5.6 provides analysis of how these arrangements are working in practice, including the extent to which operators comply with the Code of Conduct.

4.5. Child Poverty Action Plan - engagement

- 4.5.1. As discussed in section 2.5, the MSA has established a Child Poverty Reduction Unit which co-developed a five-year Child Poverty Action Plan for the region following extensive engagement and consultation with stakeholders. Transport was one of the

main issues raised during engagement around the plan, with many young people and parents / carers dependent on public transport. Transport was seen as both an enabler and a barrier; interventions such as cheaper fares were highly valued but challenges around the extent of the network, limited integration, and safety were also acknowledged. Reliability came out as a particularly significant challenge, with many of those affected unable to trust the network due to previous experiences of poor reliability.

Key insights from this section

- Bus services in the North East have been operated in a deregulated market since 1985 – with bus operators having to compete in this market for customers.
- Although there was some initial on-street competition between bus services, the market has evolved to a position where competition is generally limited to key corridors into and out of urban areas with many parts of the North East served by a single large operator.
- Socially necessary but commercially unviable services (secured services) are delivered by operators under contract to NCC, DCC and Nexus. In most instances, secured service contracts are awarded through a competitive open tender process. Approximately 13% of the current network by mileage is secured.
- The North East introduced an EP in March 2023 – a statutory partnership based on cooperation between operators and public authorities to deliver agreed improvements within a deregulated market structure.
- Various public sector interventions widen the reach of the network and make bus travel more attractive – these include administering free travel for older and disabled passengers, reimbursing operators for accepting the popular package of The Mayor's Fares, installing bus priority infrastructure, and providing the road and passenger waiting infrastructure that supports bus services.
- Significant public sector funding is required to provide these interventions – approximately £123 million (51% of all operator income) in 2024/25.
- In 2024/25, the network carried 116 million passenger journeys along on over 600 registered local services, with buses holding a modal share of 6.8%.
- The market is currently served by 22 operators (3 large operators with 98% market share by PVR and the rest being served 19 SMOs) using a fleet of approximately 1,220 buses.
- There has been significant long-term decline to the bus ridership and the size of the network in the North East; these trends are worse in the North East than the rest of England outside London.
- Surveys for the MSA's Moving Buses Forward campaign identified 'network coverage', 'bus priority', and 'improvements to the bus fleet' as the top three priorities for regional bus users.
- Participants in the LTP's public consultation also highlighted concerns related to bus travel, with journey times and punctuality/reliability being the main issues raised by consultees. Buses also received the lowest sentiment score out of all currently available modes of transport in the North East.
- Bus satisfaction stood at 91% pre-pandemic in 2019 but has since fallen to 84% in 2024. While satisfaction has increased in recent years, the relative satisfaction in buses in the North East when compared to other regions in the country has declined.

- Communities, local authorities and other public, private, and third sector stakeholders can influence bus services to varying degrees through the Boards (Local Bus Boards and Partnership Board) created by the EP.
- The EP has also introduced a Code of Conduct to ensure network changes can be made in an orderly manner and with input from communities. However, operators are not required to amend their network change proposal in response to the feedback emerging from this process.

5. Case for change

This section will:

- Set out the argument for changing the status quo by describing a variety of challenges across various categories that need to be addressed better than they are under the present status quo. The challenges discussed in this section are:
 - Decline of the bus service since deregulation
 - Fragmented ticketing and journey planning information
 - Value for money received from public investment
 - Lack of competition
 - Accountability to communities
 - Punctuality
 - Passenger safety (particularly, preventing violence against women and girls),
 - Child poverty
 - Achievement of the BSIP KPIs

5.1. Introduction

5.1.1. A high-quality and well-connected local bus network can play an important role in facilitating economic growth across the North East. However, the region's current local bus network is falling short of delivering this high-quality and well-connected service as evidenced by the fact that the EP is currently missing nearly every BSIP KPI (section 5.10). The present scenario is the product of a long-term decline (both mileage and patronage) in local bus services (see section 5.2). These long-term trends form the basis of demand and revenue forecasting undertaken in the Economic Case. Factors that have contributed to this decline include, but are not limited to, a fragmented ticketing and journey planning information offer for passengers (see section 5.3), a stable but lower than expected level of punctuality and reliability (see section 5.7), a low perception of safety on public transport (see section 5.8), and limited competition for the local bus market that has led to few competition-induced quality or cost benefits for passengers (see section 5.5). The local bus network benefits from a significant level of public investment but this investment neither provides the public sector with sufficient value for money (see section 5.4 and section 5.9) nor does it provide local communities with a strong enough ability to influence their local bus network (see section 5.6).

5.2. Decline of the bus service since deregulation

5.2.1. As discussed in section 4 above, there has been significant decline to bus services since deregulation – a continuation of pre-deregulation trends. The North East has seen a more significant decline than England outside London. The North East network now carries 60 million fewer passengers and covers 27 million fewer miles annually than it did in 2009/10⁸².

⁸² “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

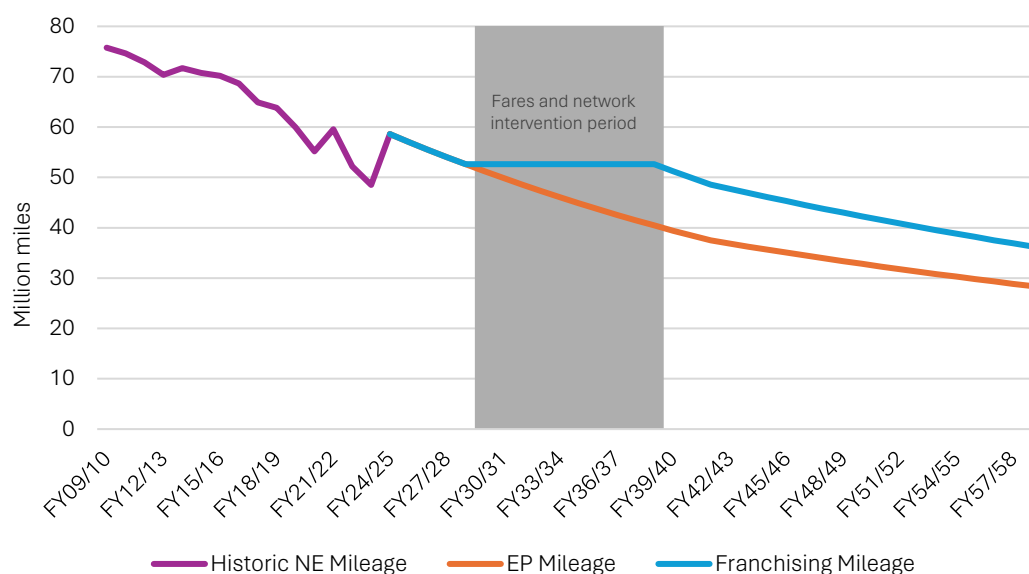
5.2.2. Network decline has resulted in reduced frequencies, fewer early morning or late evening services, and routes being lost entirely. Such decline makes it harder for people to use the bus to travel and reduces the attractiveness of buses as a travel option – introducing additional pressure to shoulder the considerable costs of owning and maintaining a private car.

“If there was [sic] more buses running on an evening I would be able to go out more. This affects my social life.”

LTP consultation – verbatim response

5.2.3. Without intervention, the decline in both patronage and network mileage will continue, as shown in Figure 16 and Figure 17⁸³. This will pose several key challenges to the region as authorities will be forced to either subsidise the network, which would become increasingly costly, or allow the mileage to shrink. This will run counter to the vision set out in the LTP of delivering a green and integrated transport network as it would decrease public transport accessibility which could lead to an increase of transport related social exclusion, child poverty, and could also impact the wider regional economy.

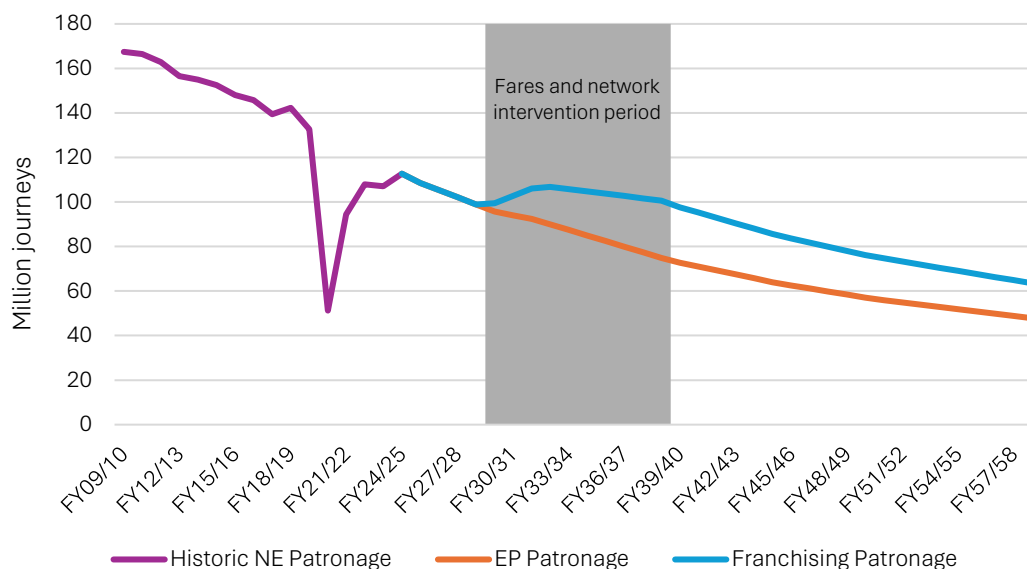
Figure 16: Historic and forecast North East bus network decline (2009/10 - 2058/59)⁸⁴



⁸³ Further detail on demand forecasts can be found in the economic case of this assessment.

⁸⁴ To note that the significant jump in mileage between FY23/24 and FY24/25 can be attributed to the differences in collection methodology between DfT-provided historic data, and data received from operators.

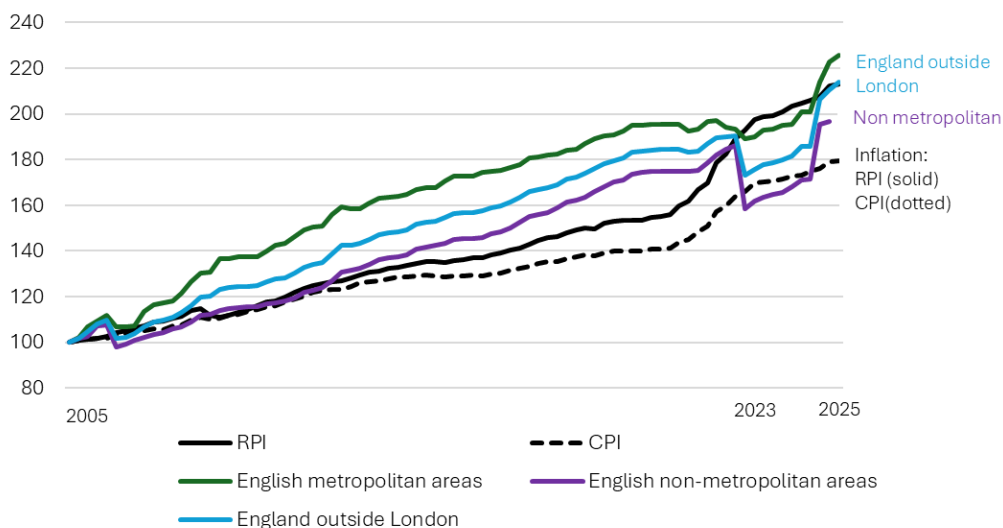
Figure 17: Historic and forecast North East bus patronage decline (2009/10 - 2058/59)



- 5.2.4. As discussed in the economic case, network cuts are assumed continue in the EP as operators work to maintain profitability. In contrast, the MSA intends to maintain the size of the network for an initial ten years under franchising (as noted for the appraised franchising scenario in section 9.4). The absence of such investment under the EP would result in 12 million fewer operated miles by the end of the ten-year intervention period.
- 5.2.5. Subsequent commitments to the network size would be considered by Cabinet towards the end of this initial intervention period, based on their objectives, the performance of the network and available subsidy. There is not a basis to make a further modelling assumption on such decisions at this stage, hence the continued decline in patronage at the end of the ten-year period in Figure 16.
- 5.2.6. Currently, the main levers to drive revenue and patronage growth sit outside of the control of public authorities. For example, as shown in Figure 18, prior to the introduction of the central government fare cap in January 2023, fares in England have risen significantly above inflation⁸⁵.

⁸⁵ “[Bus statistics data tables: BUS04](#)”. Department for Transport. 2025.

Figure 18: English bus fares index (2005 = 100)



5.2.7. Even small fare increases can have serious consequences for the ability of bus passengers to access employment opportunities, education and essential services. This can be especially true for those in rural areas where longer journeys tend to be taken⁸⁶. As these journeys are longer, their fares tend to be higher⁸⁷, and as a result the impact of increasing fares is greater⁸⁸.

“The cost of transport makes it almost inaccessible to me as a student.”

LTP consultation – verbatim response

5.2.8. In comparison, the cost of motoring has largely increased in line with inflation⁸⁹ – meaning that car ownership has not increased in cost in real-terms, while riding the bus has.

5.2.9. The MSA has recently intervened to discount fares and make bus travel more affordable for passengers through The Mayor’s Fares range of products – which include £1 single tickets for under-22s, £2.50 singles for adults and multi-operator and multi-modal day tickets. This intervention, alongside the national fare cap, has made bus travel more affordable – with 75 million journeys taken using The Mayor’s Fares⁹⁰. This intervention, however, has a significant financial cost for the MSA and it is difficult to achieve value for money as described further in section 5.4.

⁸⁶ “[Statistical Digest of Rural England: 5 – Connectivity and Accessibility, p.49](#)”. Department for Environment, Food & Rural Affairs. 2025.

⁸⁷ “[Written evidence submitted by Systra UK \(BCC0048\)](#)”. House of Commons. 2025.

⁸⁸ “[Written evidence submitted by West Yorkshire Combined Authority \(BCC0063\)](#)”. House of Commons. 2025.

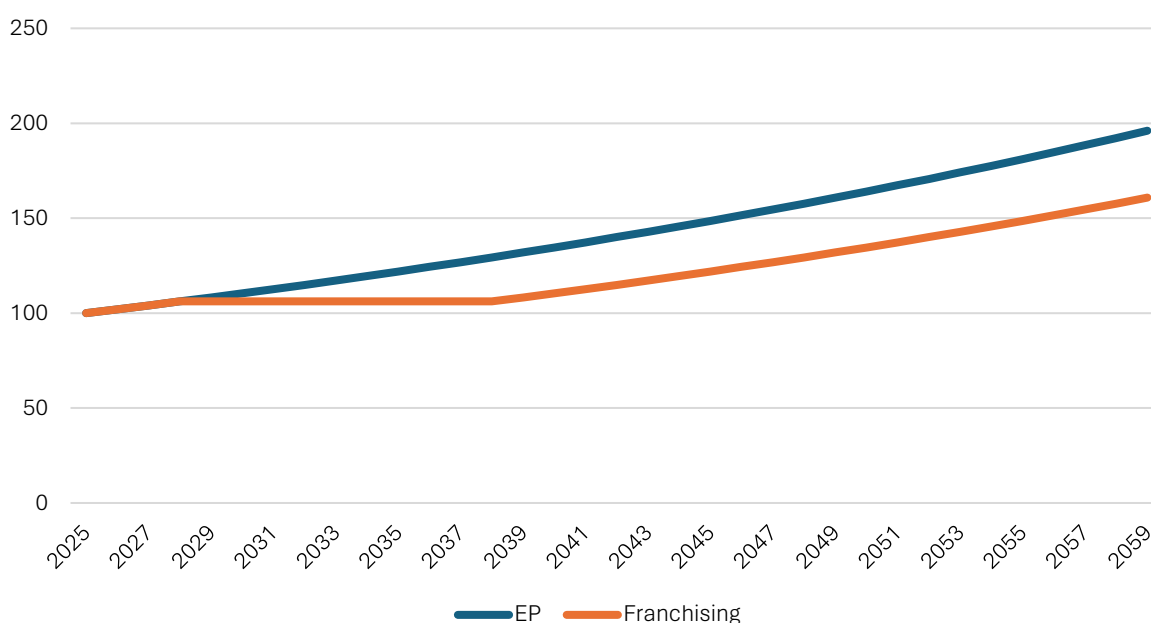
⁸⁹ “[Motoring price index](#)”. RAC Foundation. 2025.

⁹⁰ As of December 2025.

5.2.10. Reimbursement arrangements with operators assume that the undiscounted ‘shadow fare’ increases by RPI+2% annually. This agreement is reflected in the modelled scenario for the EP under franchising, with an assumption that fares for passengers need to rise above the rate of inflation (as described further in the economic case). In contrast, the MSA’s modelled franchising scenario assumes that fare increases will not increase above the rate of inflation for an initial ten years. Fares would be 22% higher under the EP compared to franchising at the end of the ten-year intervention period.

5.2.11. As with the network intervention described at 5.2.5, the assessment assumes that this policy expires at the end of the intervention period – but a further decision would be necessary towards the end of this ten-year period on future fares policy – informed by the MSA’s objectives and the financial subsidy available. No further intervention is assumed for the purposes of this assessment

Figure 19: North East bus fares assumptions, 2025/26 – 2058/59 (2025=100)



5.2.12. In conjunction with other factors – such as the lack of investment in network mileage discussed above – modelling has found that there will be 15.6 million fewer journeys under EP by 2059 than would have been the case under franchising.

5.2.13. Network size and fare levels are primarily determined by commercial decisions, with limited control and levers available to the public sector beyond costly fare subsidies (as described above) and securing withdrawn services (a process which is often reactive with limited opportunity for strategic planning). It is not, for example, possible to cross-subsidise between more and less profitable routes across the whole network and reinvest profit where there is the greatest potential benefit as operators function independently of each other.

- 5.2.14. Decisions must respond to demand – whether by operators under the EP or the public sector under franchising, but a purely commercial lens can be limiting and risk decisions that lead to further decline in the network (for example, fare increases can have a long-term negative impact on both demand and revenue⁹¹, while network cuts limit the viability and attractiveness of buses as a travel choice). The ten-year fares and network intervention period is an opportunity to avoid continued decline, maintain important bus links across the region, ensure buses remain affordable, and ultimately position buses as an attractive travel choice
- 5.2.15. Improvements to buses that respond to changes in land use or travel patterns are also subject to operators’ appetite to take commercial risk. It can also be true that a new route takes time to become profitable, stretching the ability or appetite of a commercial operator to introduce a route.
- 5.2.16. Public or external private sector funding has been used to enable changed services where operators are not prepared to take the commercial risk – with the Q3 service linking Great Park to Newcastle City Centre subsidised by developer contributions and Nexus funding a number of routes to Cobalt Business Park. These types of services are largely limited in number due to the restrictions to public intervention in place as a result of the current model. Additionally, section 106 contributions from developers, which can be used to support bus services in new developments, are not indefinite. This makes it difficult for passengers to reliably switch to the bus as their preferred mode of transport as there is no certainty that the service will continue.
- 5.2.17. Similarly, time-limited funding windows mean that these contracts are often limited to short terms of one-or-two years. This means that passengers are unable to have long-term confidence in the service and offers worse value-for-money for the contracting authority than a longer-term contract.

5.3. Fragmented ticketing and journey planning information

- 5.3.1. Under deregulation there are multiple commercial offerings. This can mean that there can be inconsistent standards and a frustrating lack of integration for passengers.
- 5.3.2. For example, there are multiple apps, websites, and other sources of passenger information which can make it difficult for passengers to navigate the bus network with confidence. Each of the largest three operators in the North East have their own dedicated website and app, with Nexus (NCC’s journey planning webpage directs the user to Nexus’ journey planning service), and DCC adding to the offer by providing transport planning websites for their respective areas. Different operators will promote their own digital tools, each with varying levels of detail, accuracy, and usability. As a result, passengers may struggle to identify the most direct or cost-effective options, or to piece together information for multi-operator or multi-modal journeys. This inconsistency can be particularly challenging for infrequent travellers, tourists, and

⁹¹ [“The demand for public transport: The effects of fares, quality of service, income and car ownership”](#). Paulley et al. in Transport Policy. 2006.

those less confident with digital technology, who may find the process confusing or overwhelming.

- 5.3.3. For regular passengers, the lack of a single, reliable source of information can add friction to everyday travel. Real-time updates, ticketing information, and service changes might only be available on certain platforms, requiring users to switch between apps or check multiple websites to feel assured about their journey. This not only increases inconvenience but also undermines trust in the network, as customers are left uncertain about the reliability of the information they are accessing. In contrast, integrated and user-friendly journey planning systems are often associated with greater ease of use, making public transport more accessible and attractive. Transport Focus found that customers want access to reliable, real-time information, and a central source for pre-journey information on fares and ticket types⁹²

“The cost, if I want to get to work via public transport it involves a metro journey and a bus but it so expensive and disjointed. It would be great to have a ticket system like TFL in London with caps on fares.”

LTP consultation – verbatim response

- 5.3.4. The ticketing offer is also highly complex with a huge variety of options, many of which overlap in what they provide. There are currently 370+ different types of tickets available in the region, this is despite the introduction of the national fare cap and The Mayor’s Fares which are intended to simplify the ticketing offer. While the intent of these tickets is to simplify the customer offer, they do not necessarily replace existing fares initiatives and must be layered over the existing range. This creates an additional layer of complexity and inconsistency for passengers.
- 5.3.5. Complex ticketing arrangements can create significant barriers for bus passengers. When fares vary between operators, routes, or ticket types, passengers may face confusion over which ticket offers the best value, or whether a single ticket will cover their whole journey. Commercial ticket prices are also not widely publicised which makes it harder for new users to identify the right ticket for their journey. This can lead to inconvenience, increased costs, and in some cases deter people from using buses altogether. For those unfamiliar with the network – such as new users, occasional travellers, or visitors – complex ticketing can be particularly off-putting, reducing the accessibility and attractiveness of the bus system compared to more integrated, straightforward alternatives.

“Have to check each bus company/metro app for live bus times. It would be very helpful to have this real time information at bus stops.”

LTP consultation – verbatim response

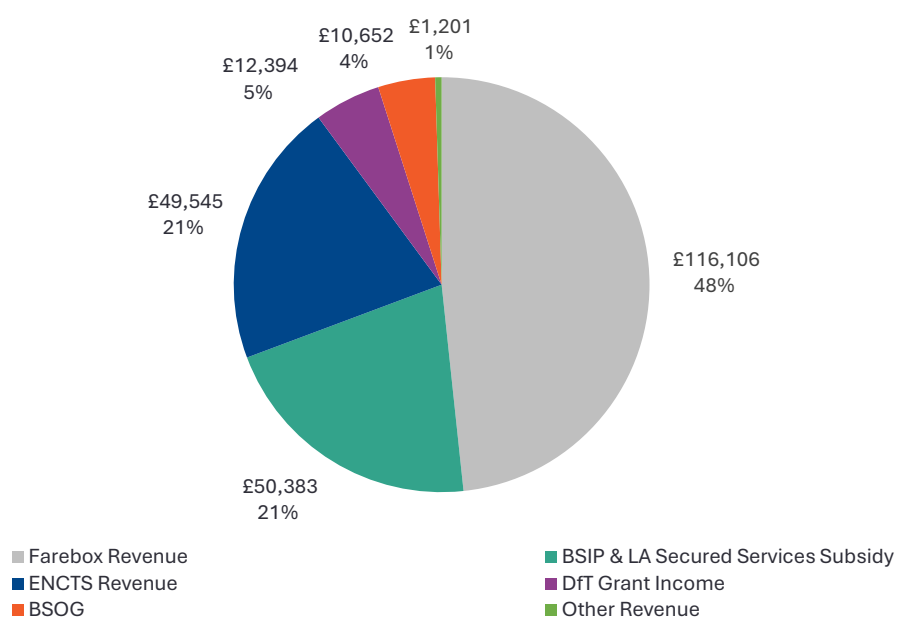
⁹² [“Bus Service Improvement Plans: what passengers want”](#). Transport Focus. 2021.

5.3.6. This is a particularly significant challenge in the North East, given the presence of Metro and strategic aspiration to create an integrated transport network that allows passengers to move seamlessly across modes, as passengers have to navigate both the ticketing arrangements for their respective bus company and Metro. Passengers who purchase a day ticket from The Mayor's Fares range, while accessing multi-modal travel, also experience a degree of friction as tickets issued on the buses do not automatically open the Metro gate line, requiring passengers to seek assistance despite travelling with a valid ticket.

5.4. Public investment value for money

5.4.1. As it will be explored further in the financial case, an increasing amount of public money is invested in the bus network. Figure 20 shows how 51% of bus operator income in the North East was in some way taxpayer funded in the financial year 2024/25. This represents a considerable investment for unclear and uncontracted outcomes.

Figure 20: Total revenue into the bus network that would be franchised for FY24/25



5.4.2. It is, however, difficult to determine whether interventions requiring public subsidy offer value for money due to the complex commercial arrangements required and limited transparency.

5.4.3. Fares interventions, including ENCTS, have become a significant and popular part of the passenger offer under the EP, as discussed further at section 10.2. Their popularity is such that 70% of bus journeys in the North East are taken with a subsidised fare. These interventions limit the impact that the fare increases described at section 5.2.1 have on passengers as well as offering simpler ticketing options – particularly for multi-modal or multi-operator journeys. For example, a single bus journey from Alnwick to Newcastle in 2022 would have cost over £6. At the time of writing, this ticket is £2.50.

The introduction of The Mayor's Fares and national fare cap has seen customer perceptions of value for money increase from 73% in 2023 to 81% in 2024⁹³.

- 5.4.4. Introducing and maintaining these fares interventions requires the public sector to negotiate and agree mutually acceptable reimbursement mechanisms with operators. These reimburse operators for the difference between the commercial fare (the 'shadow fare') and the fares set by the public sector – accounting for abstraction from existing operator products to MSA-backed products⁹⁴. These arrangements operate on a “*no better, no worse*” principle – but it is challenging to achieve or demonstrate value for money under these arrangements.
- 5.4.5. Principal challenges to achieving value for money through the commercial arrangements for existing fares interventions are:
- **Imbalanced negotiating positions.** Some fares interventions that require commercial negotiations to be implemented may be public commitments made by the MSA's political leadership. Operators can therefore judge that it is unlikely the MSA will withdraw from negotiations given the political implications of doing so, removing potential negotiating leverage from the MSA.
 - **Limited data-sharing.** Operators continue to hold all fares and ticketing data and, while some is shared with the MSA under the existing arrangements, there is not full transparency or open-book accounting to judge whether these are truly offering “*no better, no worse*” reimbursement.
 - **Additional administrative burden.** Negotiating fares interventions places a significant administrative burden on the MSA – including at a senior level given the financial implications – as well as taking significant time.
 - **Absence of competition.** There is no competition between operators for participation in fares schemes – in practice, the MSA has to reach agreement with all operators. There is no competition involved in the commercial negotiations that could incentivise operators to limit the reimbursement sought and/or accept additional risk (as occurs with competitive bidding).
- 5.4.6. Existing reimbursement mechanisms assume that absent intervention, commercial fares – and therefore the baseline for reimbursement – would have increased by RPI+2% annually for some fares. This system of reimbursement permits operators to increase shadow fares in a manner that does not adversely affect their patronage as the public sector funds the difference between the capped fare and the shadow fare.
- 5.4.7. Funding that supports these arrangements is assumed to increase with inflation. Above-inflation increases to this shadow fare (as baked into the existing arrangements) mean that either the capped fares themselves need to become more expensive for

⁹³ “[Your Bus Journey – the independent bus user survey – 2024 results](#)”. Transport Focus. 2025.

⁹⁴ For example, passengers changing from an operator-owned period ticketing product to one of the MSA's all-day tickets.

passengers (as assumed in the EP) or additional funding is identified and allocated – despite the potentially poor value for money.

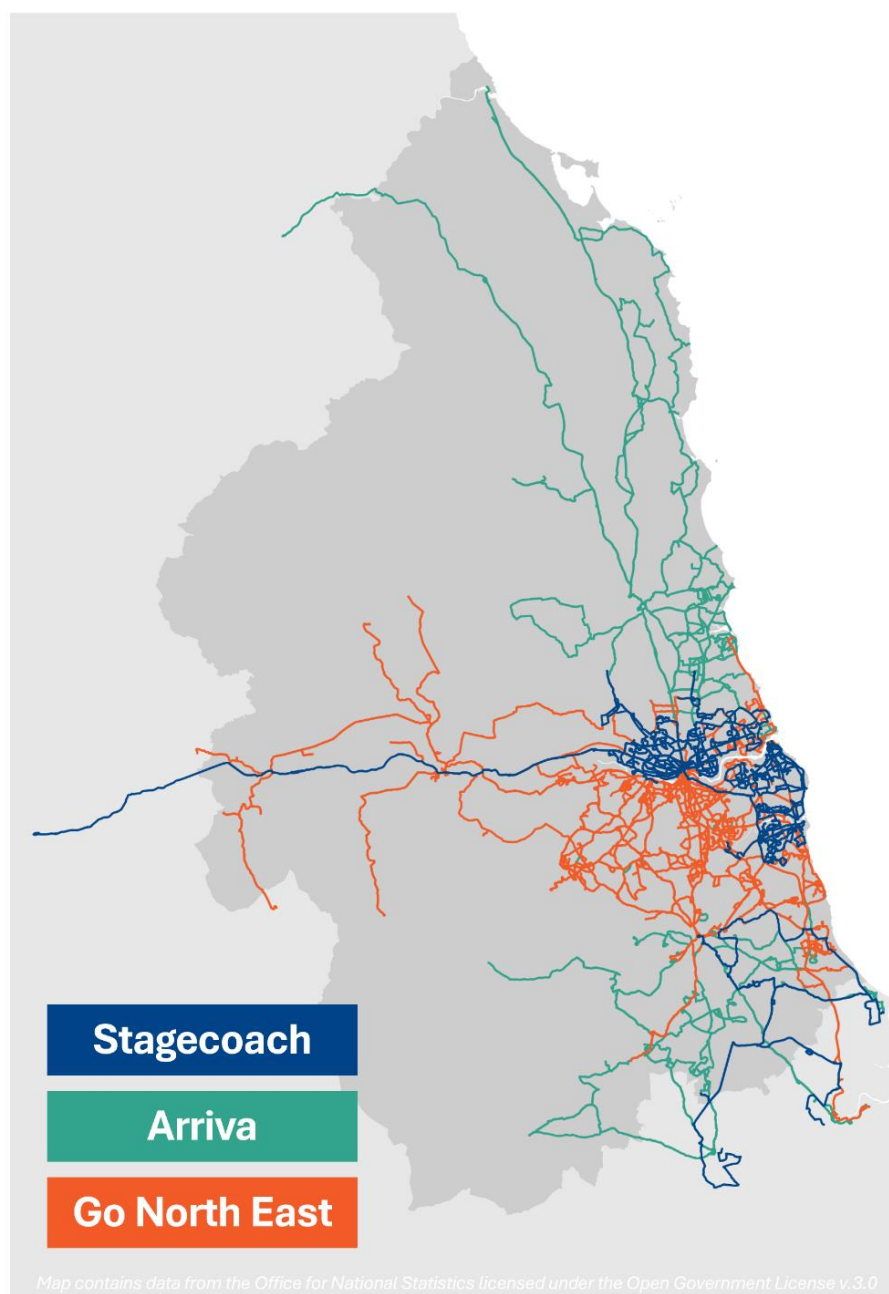
- 5.4.8. These arrangements mean that the public sector contributes very significant sums of money to the maintenance and improvement of the region’s bus network, with potentially poor value for money and limited influence over the network as a whole. Current arrangements require the public sector to provide £123 million per annum through various funding streams for individual *outputs* (e.g. providing a secured service, reimbursement for accepting ticketing products) – with little contractualisation of the *outcomes* the MSA wishes to achieve.

5.5. Lack of competition for the market

- 5.5.1. Deregulation was intended to foster competition between operators for passengers. Passengers were assumed to choose the best operator for their journey. In practice however on-road competition is limited and the deregulated market has evolved to reach a position where many parts of the North East are served by a single large operator – competition is generally limited to key corridors into and out of urban areas. As shown in Figure 21, passengers in many rural and coastal areas are only served by a single large commercial operator, representing a functional monopoly⁹⁵.

⁹⁵ *This figure does not distinguish between services operated commercially by a large operator without on-road competition, and those contracted by DCC, NCC and Nexus which generally have some level of competition during the tender process. See section 3 of the commercial case for discussion of the secured and commercial networks*

Figure 21: North East bus routes by large operator



5.5.2. The Competition and Markets Authority (CMA) has previously investigated the bus market and found that competition is uncommon within the deregulated environment⁹⁶. The absence of competition removes the ordinary pressure in a market environment to increase standards and limit prices to attract customers, as most bus passengers cannot choose an alternative operator for their journey. This allows for higher fares and lower service standards than would ordinarily be the case, increasing

⁹⁶ "[Local bus services market investigation](#)". Competition Commission. 2011.

revenues and decreasing costs, thereby increasing profit margins – with one local operator recently reporting a profit margin of 13%⁹⁷.

- 5.5.3. As described in section 4, three large operating groups dominate the North East bus market – Stagecoach, Go-Ahead and Arriva – collectively holding a 98% market share. These are, however, not the only large operators present in the UK who may be willing to operate services in the North East – but the market structure means that it is challenging for new entrants to challenge these groups, even where those entrants run successful bus businesses elsewhere in the country.
- 5.5.4. If a new operator wished to expand its commercial operations into the North East, it would need to acquire depot site(s), vehicles and recruit staff and identify potential routes – which are likely to involve competition with existing operators for market share. This is likely to be a risky process requiring a substantial investment with little prospect of success – meaning that competition for the market is unlikely to grow.
- 5.5.5. Even if on road competition could be encouraged in the region this may not be desirable for a customer experience point of view. Not only would this lead to duplicative mileage where roads are ‘over-bused’, the lack of integration between operators means that a passenger wanting to understand the best way to get from A to B is faced with having to navigate a myriad of ticketing structures, timetables, websites, and apps.

5.6. Accountability to communities

- 5.6.1. As detailed in section 9.4, operators are broadly able to dictate the pace, frequency, and nature of any service changes. While these changes may ultimately be necessary, they are highly disruptive for passengers who may have planned employment or education commitments assuming that they would be able to rely on the bus as their mode of transport.
- 5.6.2. Section 4.4 describes the process for engagement with communities (through both public engagement and opportunities for politicians to input through Local Bus Boards) when an operator is seeking to make a network change.
- 5.6.3. While there are regulatory requirements to give notice of intended changes to local authorities prior to submitting the application for such a change to the Traffic Commissioner, the EP goes further with timetables and engagement requirements set out in the Code of Conduct. These are intended to allow communities and bus users to be “adequately consulted” prior to changes.
- 5.6.4. These arrangements do allow for a level of accountability and input from communities and their elected representatives not present prior to the EP, but influence remains limited with examples of limited consultation and/or the Code of Conduct not being followed – such as Local Bus Boards not being used for active engagement in advance

⁹⁷ “[Busways Travel Services Limited – Financial statements for the 52 week period ended 27 April 2024](#)”. Companies House. 2025.

of changes and engagement seldom taking place at the correct point in the timeline, if at all.

- 5.6.5. A significant example of poor Code of Conduct adherence relates to service changes in South Tyneside in spring 2025, where – although information was communicated to Nexus and MSA officers – the Code of Conduct was not followed in relation to the engagement of passengers and elected members, despite the importance of both having a voice in shaping service changes under the EP.
- 5.6.6. The MSA has sought to improve opportunities for Code of Conduct adherence – for example, creating a bus engagement portal to host all online engagement activity and seeking that operators re-commit to the Code of Conduct through Bus Partnership Board. Operators now generally comply with the Code of Conduct allowing for beneficial community engagement. There remains a risk however that such engagement may cease in the future – eliminating an important avenue for community input.
- 5.6.7. Despite the scale of public funding invested in the network and the importance of the bus network to the region, local politicians and communities themselves can only exert limited influence on outcomes – particularly if adherence to the Code of Conduct decreased again. Despite this limited ability to influence outcomes and commercial decisions, the MSA has received nearly 300 email enquiries related to bus services in the last year.
- 5.6.8. The limitations on available data to monitor the bus network compounds this lack of accountability. In areas such as bus performance (punctuality, reliability and speeds), data made available to authorities can lack the detail or accuracy than the equivalent data held at operator level. While significant progress on data transparency has been made through the EP this can be inconsistent between operators or data area. This can mean for example that a local politician or resident cannot access detailed performance data that is available in other sectors, for example in rail.

“More buses from my area. The service has been cut from 4 an hour to 2 an hour and 1 an hour on Sundays.”

LTP consultation – verbatim response

5.7. Punctuality

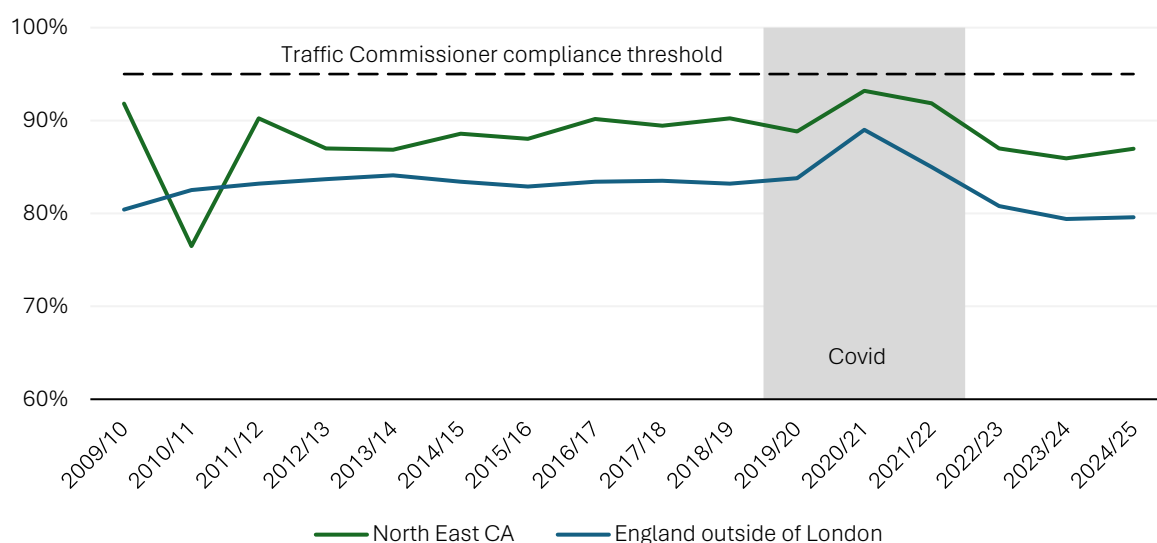
- 5.7.1. Section 4.3 describes the importance of punctuality to public perceptions of the bus network (and therefore its attractiveness as an alternative travel choice). Punctuality of commercial services is, however, largely outside the direct influence of public authorities. Expected standards for punctuality have been set by the Traffic Commissioner – 95% of services are expected to be no more than one minute early and

no more than five minutes late⁹⁸. As the expected regulatory standard, this is replicated in the BSIP KPIs (see section 5.10).

5.7.2. The Traffic Commissioner is responsible for enforcing the expected level of punctuality where there is not a “*reasonable excuse*”, including the power to impose financial penalties. Statutory guidance from the Senior Traffic Commissioner, however, states financial penalties are “*most appropriate where an operator makes little or no effort to run reliable and punctual services*”. Enforcement activity where punctuality sits below the expected standard for other reasons is uncommon.

5.7.3. Punctuality performance has remained relatively steady in the North East as shown in Figure 22 and above the performance of the average for England outside of London, although consistently remaining below the Traffic Commissioner 95% compliance threshold. Punctuality was highest in 2020/21 and 2021/22, due to reduced road traffic during the pandemic.

Figure 22: Punctuality in the North East and England outside of London, 2009/10 to 2024/25⁹⁹



5.7.4. Punctuality in the North East has generally been higher than England outside of London, although this could partially be attributed to the relative lack of general traffic congestion compared to other urban areas. ‘Newcastle-Sunderland’ is the least congested of 35 UK conurbations (including significantly less populated areas), with the average driver losing an estimated 26 hours a year to congestion. In contrast, the average driver in London would lose 113 hours driving the same distance¹⁰⁰.

⁹⁸ “[Statutory Document No. 14](#)”. Senior Traffic Commissioner. 2024.

⁹⁹ Some years have unavailable data for one authority. Tyne and Wear data is not available for 2009/10, County Durham for 2010/11 and 2021/22, and Northumberland for 2019/20 and 2023/24.

¹⁰⁰ “[Traffic Index Ranking](#)”. TomTom. 2024.

- 5.7.5. Punctuality in the North East is generally higher than the three most congested areas in England – London, Leicester and Kingston-upon-Hull – indicating that while lower congestion can improve punctuality, it is not the only determinant.

Table 6: Comparison of congestion and bus punctuality in the most congested urban areas

Urban area ¹⁰¹	Punctuality	Time lost to congestion
London	79%	113 hours
Leicester	71%	97 hours
Kingston-upon-Hull	86%	96 hours

- 5.7.6. While punctuality in the North East is higher than England outside of London, it is still below the level required by the Traffic Commissioner. Low punctuality and reliability undermine passenger confidence in the bus network. When services are frequently late, cancelled, or subject to unpredictable delays, journeys become less convenient and harder to plan, especially for people relying on buses to reach work, education, or appointments on time. For regular users, persistent unreliability can increase stress and travel costs, as they may need to leave earlier, build in extra time, or seek alternative transport.

- 5.7.7. Poor punctuality also limits buses' ability to compete with the private car as an attractive travel choice – as would-be passengers cannot have confidence the bus will get them to their destination on-time, in turn meaning fewer people chose the bus and increased congestion.

“Buses turning up on time not being cancelled constantly.”

LTP consultation – verbatim response

5.8. Passenger safety, particularly preventing violence against women and girls

- 5.8.1. In August 2023, the Northumbria Police and Crime Commissioner conducted a Safer Streets survey¹⁰² which showed that issues around safety and security remain a significant concern. Locations relating to public transport had a high percentage of respondents who felt unsafe at these locations (30% on the Metro and 26% at bus interchanges/transport hubs). Public transport ranked joint third alongside bars/clubs/pubs in the ranking of areas where women and girls avoid going to for fear of sexual harassment. More respondents felt that anti-social behaviour had increased rather than decreased on public transport in the previous 12 months, and similarly more respondents felt less safe, rather than safer.

¹⁰¹ Punctuality data is sourced from the DfT bus data tables which use local authority boundaries, while time lost to congestion uses TomTom's own definition of these urban areas which are unlikely to exactly align with local authority boundaries. These figures should be read with this caveat but nonetheless provide an insight into the relationship between punctuality and reliability.

¹⁰² “Safer Streets Survey”. Northumbria Police and Crime Commissioner. 2023.

5.8.2. There is currently no transport safety scheme in the region which spans all seven local authority areas and focuses solely on the safety (and perceptions thereof) of passengers when using the bus network, partly because bus service delivery arrangements pose a challenge to implementation. As with any initiative, operator participation would be optional, and its long-term success would be dependent on their ongoing support. There would also be a significant bureaucratic burden associated with implementation as a result of the required negotiation with operators, potentially resulting in a scheme that does not achieve all that the MSA would wish to. With a greater degree of control of the network, the MSA would be able to be more prescriptive as to the extent of the scheme; both in terms of the geographic scope and the scale of any interventions.

“Feeling unsafe, including when waiting for transport on metro stations or bus interchanges.”

LTP consultation – verbatim response

5.9. Child poverty

5.9.1. The lack of a joined-up approach to bus services undermines the effectiveness of wider public sector initiatives aimed at tackling poverty, improving health outcomes, and boosting employment. As was discussed in section 3, the North East is a relatively poor area, and bus represents a strong economic lever to incentivise economic growth, in turn helping to reduce child poverty.

5.9.2. Public investment in training, welfare-to-work programmes, or preventative healthcare is weakened when the transport system cannot reliably connect people to those opportunities. Fragmentation between operators, inconsistent coverage, and service planning driven largely by commercial priorities limit the ability of local and regional authorities to align transport provision with social and economic policy objectives. Without a coherent, integrated bus network, public sector efforts risk being less efficient and less impactful, with resources diluted by the simple barrier of poor accessibility.

“Connectivity from where people live to where people need to work, go to hospital appointments and shop.”

LTP consultation – verbatim response

5.9.3. A proposed intervention that could help to address the rates of child poverty in the region is free travel for all those 18 and under. However, this would be unfeasible to deliver under the EP as a consequence of the significant bureaucratic burden associated with the complex negotiations required to reach agreement with operators on compensation arrangements. These negotiations would very likely result in low value for money for the public sector (as described in section 5.4), further reducing the

proposal's viability under EP. Control over fares and ticketing products – and associated acceptance of revenue risk – is likely to better facilitate the introduction of free travel for under-18s in a franchised environment, with this identified as a further investment opportunity in section 9.8.

5.10. BSIP KPIs

5.10.1. As is made clear in the following table, the existing network has proved incapable of meeting the targets set in the North East BSIP, with the notable exception of KPI 4. These KPIs reflect similar aspirations as the bus-related outcomes agreed with government to access funding to the integrated settlement. BSIP KPI 4 is the only outlier, setting targets for patronage growth in the under-22 age demographic which has seen growth well above target. However, this increase can almost entirely be attributed to public sector investment through the targeted fare offer of £1 singles and £3 day tickets for under-22s.

Figure 23: Performance against BSIP KPIs

BSIP KPI	KPI description	Is the current network achieving its target?
KPI 1: Modal Share	Modal share of buses to grow by 1 percentage point in 2023/24 and a further 1 percentage point in 2024/25	Target not hit.
KPI 2: Modal Share Work & Education	Modal share of bus use for journeys to work and education to grow by 1 percentage point in 2023/24, and a further 1 percentage point in 2024/25.	Target not hit.
KPI 3: Patronage	Bus patronage to grow by 10% in 2024/25, and then by a further 10% in 2025/26.	Target not hit.
KPI 4: Patronage Young People	Bus patronage from people under the age of 22 to grow by 10% in 2023/24 and then by a further 10% in 2024/25.	Target exceeded.
KPI 5: Patronage Rural	Bus boarding at rural bus stops to grow by 10% in 2023/24, and then by a further 10% in 2024/25.	Target not hit.
KPI 6: Customer Satisfaction	Overall bus passenger satisfaction to grow from a	Target not hit.

	baseline of 81% to 85% in 2024 and to 90% in 2025.	
KPI 7: Speed	Average speed of buses to grow, relative to the average speed of general traffic, each year starting in 2024/25.	Target not hit.
KPI 8: Reliability	Bus reliability to be 99.5% throughout the period of the BSIP.	Target not hit.
KPI 9: Punctuality Origin	Bus punctuality at point of origin to be 95% in 2023/24, 96% in 2024/25 and 97% in 2025/26.	Target not hit.
KPI 10: Punctuality Timing points	Bus punctuality at all timing points to be 90% in 2023/24, 95% in 2024/25 and 95% in 2025/26.	Target not hit.
KPI 11: Emission standards	Bus fleet emission standard to Euro 6 or better to be 63.2% in 2022/23, 80.8% in 2023/24, 91.1% in 2024/25 and to be 100% at the start of 2025/26.	Target not hit.

Key insights from this section

- The bus network has seen long-term decline, with significant reductions in both mileage and patronage.
- Fares have risen significantly above inflation, with serious consequences for the ability of bus passengers to access employment opportunities, education, and essential services.
- Under deregulation the public sector has limited scope to intervene in commercial decisions such as network cuts and fare levels; able only to respond reactively to operator decisions by subsidising fares or securing services.
- The long-term view is equally stark. Without intervention, by 2059 the bus network is expected to contract with 7.9 million fewer miles, 35% higher fares, and 15.6 million fewer journeys than if the public sector were to intervene now.
- Under deregulation, customers are faced with a barrage of fragmented ticketing and journey planning information, with multiple apps and websites across both the public and private sectors making it difficult for passengers to navigate the network with confidence. For regular passengers the lack of a single reliable source of information can add unnecessary friction to everyday travel.
- The ticketing offer in the North East is highly complex with over 370 different types of bus tickets, despite the introduction of a fare cap and The Mayor's Fares. These complex ticketing arrangements create significant barriers for bus passengers both

past and present, increase costs for passengers through purchasing worse value tickets, and may put people off using the bus altogether. • The complexity of these arrangements falls well short of what passengers both expect and deserve.
• The network is becoming increasingly funded through the taxpayer with the public sector now supporting 51% of bus operator income in 2024/2025. • Fare interventions require negotiations with operators to agree mutually acceptable reimbursement mechanisms. These arrangements result in challenges achieving or demonstrating value for money for the public sector. • The principal challenges to achieving value for money through these commercial arrangements are imbalanced negotiating positions, limited data-sharing, the administrative burden of undertaking fare negotiations, and the absence of competition. • These challenges pose an unacceptable risk of achieving low value for money, particularly in the context of the scale of public investment.
• Deregulation has not had the desired effect of fostering competition between operators. The North East has limited on-road competition for passengers as many parts of the region are served by a single large operator, representing a functional monopoly. The lack of effective competition has led to higher profit margins than would otherwise be possible, facilitating increasing fares without driving up standards. • The largest three operators in the North East collectively possess a market share of 98%. • Greater competition in the North East bus market is required so that the region may benefit from the associated lower costs
• Operators are not sufficiently accountable to the communities that they serve. The EP goes further than the Traffic Commissioner regarding notice of intended changes, which does allow for a level of accountability, however influence remains limited as operators have been known to limit the extent of their consultation and/or not follow the Code of Conduct. • Despite work to improve opportunities for Code of Conduct adherence on the part of both the MSA and operators, there remains a risk that such engagement ceases in the future. • Despite having very little influence over the network, the MSA receives frequent bus-related enquiries, with nearly 300 received in the last year. • The public sector has disproportionately low influence over the network when compared to the level of investment provided.
• Operators are continuing to fail to meet the Traffic Commissioner's 95% reliability threshold despite significantly lower congestion compared to similar areas. • When services are frequently late, cancelled, or subject to unpredictable delays, journeys become less convenient and harder to plan, especially for people relying on buses to reach work, education, or appointments on time.
• As a consequence of the current arrangements, the public sector is only able to use the bus network to contribute to the achievement of wider public sector initiatives (such as child poverty, and passenger safety, particularly preventing violence against women and girls) with the agreement of bus operators.

• This agreement may not be forthcoming, or to the extent that would be ideal, as operators are incentivised to be as efficient as possible with their resources to maintain their profitability.
• The existing network has proven incapable of meeting most of the targets set out in the North East BSIP. • The only exception to this trend, that regarding under-22 patronage, has only been achieved as a result of the significant investment of public money in further subsidising single and day tickets for that demographic.
• Furthermore, this section has demonstrated a compelling case for change in the way buses are run in the North East as the current arrangements fall short of what is needed if the region wishes to achieve its strategic objectives and address the issues outlined above. Intervention is required.

6. Bus reform objectives

This section will:

- Set six objectives – with a further 13 intended outcomes – that both options for bus reform of the regional bus network will be assessed against in section 11.
- Describe how these objectives link to the LTP and BSIP and, through these documents, the MSA's wider strategic priorities.

6.1. Introduction

- 6.1.1. Objectives for the reform of the regional bus network have been developed based on the aims and objectives of the LTP and the BSIP. As discussed further in section 2, the LTP aims to create a green, integrated transport network that works for all, and – although developed based on the region's previous LTP – the BSIP remains well-aligned to the aims and objectives of the new LTP.
- 6.1.2. The LTP is also part of the MSA's wider strategic framework, alongside the Corporate Plan and the LGP. Section 2 further contextualises how the LTP supports the delivery of the MSA's wider priorities – including its five missions. A green, integrated transport network that works for all is essential to deliver on the MSA's priorities and missions.
- 6.1.3. Key performance indicators (KPIs) of the LTP include increasing the percentage of journeys made by sustainable modes, increasing public transport accessibility, reducing CO₂ emissions and improving air quality. Key challenges identified by the LTP which are most relevant to the bus network include confusing journey planning, connections and tickets as well as cost of tickets, access to the network, disruption and safety. The FSA responds to this call to increase the use of sustainable transport, and the MSA's bus reform objectives are informed by the LTP's overall vision. In particular, the outcomes that the MSA would like to see for the bus network are drawn from the LTP's service standards.
- 6.1.4. A reliable and integrated regional transport network provides individuals (especially those at risk of transport related social exclusion) with better connectivity to social and economic opportunities. This is essential to make the region a home of real opportunity. Better connectivity across the region will also boost the region's economic growth by increasing the labour catchment areas of regional employers, improving access to education, and by making it easier for visitors to navigate the region with confidence.
- 6.1.5. Six strategic objectives have been set:
- Buses at the heart of an integrated transport network: 'The Angel Network'
 - Improve bus punctuality and reliability
 - Make the bus network resilient
 - Make the bus network accessible and inclusive to all
 - Ensure that everyone feels safe when travelling, especially women and girls
 - Create regional pride in its buses

- 6.1.6. These objectives have been developed with close reference to the region's strategic and policy framework described in section 2, particularly to the LTP as the statutory plan setting out the region's transport priorities. Input on draft objectives was sought from partners – NCC, DCC and Nexus – to ensure that the delivery perspective was fully considered and that the objectives reflected priorities across the region. Input was also received from the MSA's transport senior leadership to ensure that the objectives reflected and aligned with the MSA's transport and wider activity. This process developed objectives that could impartially reflect the role of local bus services in achieving the region's priorities.
- 6.1.7. These objectives will be used to assess the suitability of the shortlisted delivery options – the proposed franchising scheme or continuing with the EP - in section 11. Sections 9 and 10 will set out the key details of both shortlisted delivery options.
- 6.1.8. Reflecting the requirement in the statutory guidance, each objective is specific, measurable, realistic, time-bound and applies to bus services in the region. The achievement of each bus reform objective is linked to the successful delivery of all measurable outcomes associated with it. The remainder of this section examines each bus reform objective in detail, also setting out indicative measures that may be used to gauge progress made towards achieving each objective.

6.2. Buses at the heart of an integrated transport network: 'The Angel Network'

- 6.2.1. As the region's most used form of public transport, improved local bus services will be the heart of this 'Angel Network', and will be integrated with Metro and other modes to provide a seamless passenger experience.
- 6.2.2. The LTP highlights the region's drive to create this 'Angel Network' and sets out how this network will enable the MSA to make progress towards achieving its five missions.
- 6.2.3. The LTP sets out a clear vision for how passengers will experience this integrated network. The network should have consistent and cohesive branding such as colour schemes, signage, design standards, and quality of service, so that there is a clear 'look and feel' of the network on routes, stops, and stations. This will provide a strong transport identity uniting rural and urban areas which will be instantly recognisable and trusted.
- 6.2.4. Passengers should also have access to comprehensive information about service and facility availability across the entire integrated network from a single source – including both bus services and Metro. Ticketing products and payment methods should enable customers to travel seamlessly throughout the region's diverse geographical expanse and across different modes of transportation without needing to purchase separate tickets for different parts of their journey.
- 6.2.5. The following table outlines the various outcomes that need to be delivered to achieve the strategic objective of placing buses at the heart of an integrated transport network. Each listed outcome has an indicative measure associated with it which can enable the

MSA and delivery body to track the progress made towards the delivery of said outcome, as part of a wider performance framework.

- 6.2.6. The vision for this objective is for buses to be a critical and highly recognisable part of an integrated public transport network. Additionally, buses would embody the affordability of the network and demonstrate its green credentials. Finally, in this vision, buses would cease to be an afterthought as the last mode of public transport used to access certain parts of the region and would instead become the centrepiece of an integrated transport network.

Strategic objective	Outcome	Measure
Buses at the heart of an integrated transport network: 'The Angel Network'	There should be a single, integrated source of journey information and customer support that is easy to understand	Improved satisfaction with information provision within the first three years of implementation
	A unified and integrated North East transport network	The Angel brand will apply to all buses – and other bus infrastructure assets, as well some other transport assets within the first three years of implementation
	Bus fares should be affordable and tickets should be easy and simple to use	Sustain or improve perception of value for money within first five years of implementation
		Improved simplicity in fare structure within first year of implementation (reduce the range of different fares available)
		Improved access to contactless or smartcard capping across all buses within the first year of implementation
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles	Accelerate the transition to zero emission bus vehicles in the region, working towards all buses being zero emission by 2035
	Information, including real time information, should be accurate, integrated and accessible through a single source	Increase in real time information provision within the three years of implementation

	The delivery model encourages use of bus as part of a multi modal network	Higher relative bus ridership than reference case

6.3. Improve bus punctuality and reliability

- 6.3.1. Section 4.3 highlights that poor perceptions of punctuality and reliability are an important driver of public dissatisfaction with local bus services. Attracting passengers to bus services requires them to be an attractive travel choice that residents across the region feel they can rely on.
- 6.3.2. As discussed in section 5.7, bus punctuality in the North East is 87% and has remained consistently below the Traffic Commissioner’s 95% target. Bus reliability in the region has averaged at around 97.4% compared to the 99.5% target¹⁰³. Improving punctuality and reliability responds to a central focus of public dissatisfaction and – alongside other interventions – delivers a more attractive transport network.
- 6.3.3. One of the strategic objectives of bus reform is therefore to improve bus punctuality and reliability. This vision for this objective is to deliver a punctual and reliable bus service.

Strategic objective	Outcome	Measure
Improve bus punctuality and reliability	Passengers should be confident that that buses will operate as scheduled	Improved punctuality and reliability within the first five years of implementation, working towards the Traffic Commissioner’s targets for bus performance

6.4. Make the bus network resilient

- 6.4.1. Bus patronage is also closely linked to financial sustainability. Long-term declines in bus patronage further exacerbated by COVID-induced changes to travel patterns left the large operators in the region (Arriva, Stagecoach, and Go North East) facing losses to the tune of roughly £1.3 million in 2022/23, although these since recovered to circa £16 million (an average 7% profit margin) in 2023/24¹⁰⁴.

¹⁰³ “[Bus Service Improvement Plan](#)”. North East Mayoral Strategic Authority. 2024.

¹⁰⁴ Analysis of “[Arriva Durham County Limited](#)”, “[Arriva Northumbria Limited](#)”, “[Busways Travel Services Limited](#)”, and “[Go North East Limited](#)” accounts. Companies House. 2025.

- 6.4.2. Bus operators are seeking to make a profit on their operations, as commercial entities with responsibilities to their shareholders. As profitability declines, operators are expected to take remedial actions to return to their desired level of profitability – such as first attempting to reduce their overhead expenses through measures such as consolidating depots, followed by reducing service frequency and, ultimately, cutting unprofitable routes to prioritise their more profitable offerings. If the route is considered to be socially necessary, local authorities can step in to offer the route as a secured service, but funding to do so is limited. In such cases, the public sector contracts that bus service – with the specifics described further in the commercial case. Local authorities cannot prevent such commercial actions beyond reacting to secure the service for passengers.
- 6.4.3. Since the publication of the first BSIP in October 2021, declining commercial viability of many routes has resulted in many operator cuts. Many of these routes have come back into operation as supported services, with 13% of the current mileage of the North East bus network secured by Nexus, NCC and DCC¹⁰⁵. These organisations, however, need to balance securing bus services against wider organisational spending priorities. Continual increases to secured service spending are not sustainable amidst wider financial pressures.
- 6.4.4. Therefore, there is a pressing need to put the bus network on a secure and sustainable long-term financial footing. There is a circular link between this and other objectives. The financial sustainability of the bus network is the foundation that permits it to deliver all the other objectives in this section and delivering these wider improvements to services is likely to attract new passengers or better retain existing passengers – in turn supporting the financial stability of the network. Therefore, to provide passengers with a bus service that is safe, reliable and punctual while also being responsive to customer feedback, the bus network needs to be financially sustainable and resilient in the long-term.

Strategic objective	Outcome	Measure
Make the bus network resilient	The bus network should be financially sustainable and resilient in the long term	On a long-term basis, the North East's bus network will be financially stable and affordable, allowing for financial planning of the bus network Bus ridership should be stabilised leading to financial resilience

6.5. Make the bus network accessible and inclusive to all

¹⁰⁵ “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

- 6.5.1. For a bus network to be truly accessible and inclusive for all, it needs to be easily accessible to customers regardless of where they are located, their current financial status, and their physical and mental health.
- 6.5.2. The North East has a diverse geography, spanning heavily rural areas, villages with a strong mining legacy, market towns, coastal communities, and major cities. Section 3 has shown that rural and coastal communities in the region often have limited access to public transport. Manufacturing and mining legacy areas, rural-urban fringes, smaller cities and towns, and coastal communities are also at a higher risk of Transport Related Social Exclusion (TRSE). 31.5% of residents in the North East are at risk of TRSE when compared to 18% for the rest of England. The North East has a slightly higher proportion of residents living in rural areas (21.1%) when compared to the rest of England excluding London (20.9%). Northumberland and County Durham, two of the local authorities within the MSA's region, have a rural demographic share of 44% and 41% respectively. Therefore, the North East is home to a lot of residents who may have limited access to transport which could, in turn, be contributing to their social exclusion. The LTP recognises this and hopes to address these transit-related infrastructural and service deficiencies to ensure that all communities in the region can share the benefits of inclusive growth. This is why one of the aims of bus reform is to preserve and expand the reach of the bus network.
- 6.5.3. In addition to geographical inclusivity, there is also a need to focus on making the public transport network, and specifically the bus network, more inclusive by extending access to groups and communities that may face financial barriers to accessing the bus network. This is particularly relevant in the North East, given its higher levels of poverty – particularly child poverty. Since the publication of the first BSIP in October 2021, the MSA¹⁰⁶ has worked with delivery bodies and operators to introduce discounted ticketing products for those aged 21 and under (£1 singles, and £3 day tickets). For care leavers aged between 18-25, the MSA has worked to make travel on public transport including buses free. Finally, the EP scheme currently includes a commitment to conduct a study examining the costs and benefits associated with standardising local additions to the ENCTS throughout the region.
- 6.5.4. Finally, there is a need to ensure that the bus network and the broader public transport network are accessible to all people in the region including those who are disabled. Disabled adults take an average of 28% fewer trips per year than their non-disabled counterparts¹⁰⁷. Over 21% of people living in the North East identified as having a disability in the 2021 census¹⁰⁸. As the North East is forecasted to age faster than other regions in the country, the proportion of individuals with disabilities is also likely to increase. Recognising this fact, the LTP makes clear that the needs of disabled individuals need to be catered for on public transport. Alongside efforts to bring about ENCTS standardisation through the BSIP, the MSA is pushing for accessibility

¹⁰⁶ *And its predecessor bodies*

¹⁰⁷ "[North East Local Transport Plan: Delivering Green Transport](#)". North East Mayoral Strategic Authority. 2025.

¹⁰⁸ "[Disability, England and Wales \(census 2021\)](#)". Office for National Statistics. 2023.

improvements on buses, bus stops, and shelters. The region's EP has also brought in a bus passenger charter which includes a commitment from operators to arrange a taxi service for disabled passengers if there is no space on the bus and the taxi can be at the bus stop sooner than the next service. Furthermore, the BSIP commits to introducing audio-visual next stop information on all buses (as required by legislation). Finally, the new ZEV buses being introduced using ZEBRA 2 funding come with accessibility upgrades like additional wheelchair space and AV next stop passenger information.

- 6.5.5. Therefore, the MSA recognises the importance of widening the reach of the network both in terms of geography and demographic inclusion and has taken concrete steps towards achieving this goal by working with various players in the current market to make the bus network more accessible and inclusive. However, the MSA also recognises that this is an initiative that may be hampered by the current structure of the regional bus market as bus operators driven by a desire to profit are unlikely to invest sufficient resources to secure the relatively marginal (if any) financial benefit associated with making the network more physically and geographically accessible even though such investment would have significant social benefits. Therefore, the inclusion of this objective is informed by a desire to create a regional bus network that caters to the transport needs of as many residents as possible regardless of their geographic isolation, economic situation, or physical vulnerabilities.

Strategic objective	Outcome	Measure
Make the bus network accessible and inclusive to all	The bus network should be accessible to all communities and demographics, including disabled and older residents	Bus network satisfaction should increase amongst older and disabled bus users
	The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible	The reduction in bus mileage should be stabilised and new services should be introduced where financially possible

6.6. Ensure that everyone feels safe when travelling, especially women and girls

- 6.6.1. The Mayor is committed to improving safety, and particularly the safety for women and girls, across the region. Her election manifesto recognises that women and girls deserve to feel safe when travelling on public transport.
- 6.6.2. Safety on public transport and perceptions of safety on public transport greatly influences the willingness of individuals to use public transport for journeys. Recognising this fact, the LTP has a specific area of focus aimed at ensuring that travel using any mode of public transport is safe for all.

- 6.6.3. Within this area of focus, the LTP further recognises that women and girls face elevated risks while using public transport. This informs the inclusion of specific policies aimed at making women and girls feel safer on their journeys.
- 6.6.4. The LTP emphasises the importance of creating clear and effective channels for women and girls to report incidents of harassment and violence experienced on the network. In addition to creating these channels, the LTP calls for awareness campaigns to highlight their existence and provide details on how survivors and bystanders can use these channels to report crimes.
- 6.6.5. Increased reporting and analysis of such crime data will assist the relevant authorities in getting a better sense of the scale of the problem, the kind of resources that will need to be mobilised, and where these resources should be allocated in order to have the greatest possible impact in terms of eliminating violence against women and girls.
- 6.6.6. The LTP also calls for additional investments in safer bus stops and stations, CCTV, body worn cameras and enhanced gender-based violence prevention training for all staff and increased security presence across the network to both prevent violence against women and girls and catch perpetrators while also making the network safer for all users. The Bus Services Act 2025 includes a requirement for operators to train drivers to “*identify, respond appropriately to, and where safe to do so, prevent*” both violence against women and girls and anti-social behaviour more broadly.
- 6.6.7. Drawing on this safety focus of the LTP, this strategic objective for bus reform intends to make the bus network safer for all users. This objective would like to see the creation of a bus network that is as safe as it possibly can be for women and girls. Implementing these targeted improvements will result in the creation of a transport network that is safer for every passenger thereby eliminating any barriers to accessing the transport network that are related to the safety of the network.

Strategic objective	Outcome	Measure
Ensure that everyone feels safe when travelling, especially women and girls	People’s safety should be central to the network – including at bus stops and stations, with a particular focus on the safety of women and girls and other vulnerable groups	Perceptions of safety should be improved, especially for women, girls and other vulnerable groups

6.7. Create regional pride in its buses

- 6.7.1. Buses in the North East are often not seen as an attractive option or chosen when passengers have a choice of transport modes, with 47% of passengers not having an alternative transport option for their most recent journey¹⁰⁹. The MSA aspires to see a step-change in perceptions of bus use, with residents and visitors to the region

¹⁰⁹ “[Your Bus Journey – Transport Focus Data Hub](#)”. Transport Focus. 2024.

experiencing a consistent and high-quality service wherever and whenever they access the bus network.

- 6.7.2. Successful national and international transport networks are often held in high regard by residents, becoming a source of pride and identity for those using them. Passengers who experience a high-quality service are more likely to encourage friends and family to use the bus as well, with these trusted testimonials supplementing the formal marketing strategy.
- 6.7.3. Recognising this context, the LTP wants all users of the public transport network to feel a sense of pride in the network which makes them keen to use it again. Residents can and will become advocates of a bus network that seeks and responds to customer feedback through demonstrable and continuous service quality improvements.
- 6.7.4. Building regional pride is a cross-cutting ambition that will be delivered by creating a significantly improved green and integrated transport network that works for all. Passengers who feel that the network is easy to use and gets them to where they need to go affordably and reliably will become champions of the network. No single intervention can deliver this alone.
- 6.7.5. Buses also make a wider and significant contribution by allowing passengers to get to work, school, healthcare facilities and shopping destinations – and producing less carbon emissions and congestion than undertaking journeys by car. The LTP accordingly recognises that people making journeys is good – and sustainable travel is even better.
- 6.7.6. Buses should be seen playing their part in delivering the MSA’s five missions for the North East. Table 7 below summarises how local bus services – as part of an integrated transport network – can contribute to achieving each of these missions.

Table 7: Contribution of buses to MSA missions

Mission	Role of bus
Home of real opportunity	Buses are essential for access to opportunity – particularly for more deprived communities. 400,000 people across the UK are either employed, or in better employment, than they would be without access to the bus – generating an estimated £400m in additional economic output ¹¹⁰ . Improving bus journey times by 10% could bring around 50,000 more people into employment across England ¹¹¹ .
A North East we are proud to call home	People across the North East are proud of their local communities and identities – 70% of leisure and shopping trips by bus are to town or city centres, while out-of-town retail parks are dominated by car trips ¹¹² . Buses bring people

¹¹⁰ “[Buses and Economic Growth Main Report](#)”. University of Leeds. 2012.

¹¹¹ “[Buses and the Economy II Main Report](#)”. University of Leeds. 2014.

¹¹² “[Buses and the Economy II Main Report](#)”. University of Leeds. 2014.

	to town centres, supporting shops and hospitality venues to thrive and building residents pride in their localities.
Home to a growing and vibrant economy for all	Across the UK, bus passengers make shopping and leisure trips with a cumulative value of £27bn annually ¹¹³ – supporting local economies, businesses and employment across the region.
Home of the green energy revolution	Diesel buses produce approximately 40% less emissions per passenger-km than internal combustion engine cars ¹¹⁴ , and increasing average bus occupancy to London levels would reduce this to 50% less emissions. A wider transition to ZEBs will support the North East's transition to a green economy.
A welcoming home to global trade	Attracting inward investment in a competitive environment requires investors/employers to have confidence in the region's workforce and infrastructure. Buses have an important role in transporting employees to work – and thereby providing confidence for investors to choose the North East.

6.7.7. In essence, this strategic objective would like to see the residents of the North East take pride in their buses because of the high service quality levels they experience. It would also like to see the buses recognised for the role that they play in realising important regional outputs.

Strategic objective	Outcome	Measure
Create regional pride in its buses	Buses should play their part in delivering regional outputs, such as economic growth, carbon emission reduction and improved public health.	The North East bus network KPIs should benchmark well against comparable networks.
	North East residents should be advocates of the bus network.	Perceptions of the bus network should improve within the first five years of implementation.

Key insights from this section

- Objectives for the reform of the regional bus network have been developed based on the aims and objectives of the LTP and the BSIP. The development process for these objectives sought input from partners (DCC, NCC, and Nexus) to ensure that objectives reflected regional priorities.
- Six strategic objectives have been developed with each one being associated with at least one measurable outcome. The objectives are:
 - Buses at the heart of an integrated transport network: 'The Angel Network'

¹¹³ "[Buses and Economic Growth Main Report](#)". University of Leeds. 2012.

¹¹⁴ "[Carbon footprint of travel per kilometer](#)". Department for Energy Security and Net Zero. 2022.

- Improve bus punctuality and reliability
- Make the bus network resilient
- Make the bus network accessible and inclusive to all
- Ensure that everyone feels safe when travelling, especially women and girls
- Create regional pride in its buses

7. Geographic area considered in this assessment

This section will:

- Confirm that any intervention will cover the same geographic footprint as the MSA area.

- 7.1. The proposed franchising scheme, and any other options considered in this assessment, are geographically coterminous with the area of the MSA.
- 7.2. In July 2024, the North East Mayor and Cabinet unanimously agreed to the preparation of this assessment “*covering the area of the North East CA [sic]*”¹¹⁵. There is precedent for intervention across this geography. The current North East EP was made in March 2023, with the MSA, local authorities and bus operators working together to respond to opportunities and challenges for bus services across the region. The North East LTP also covers this established transport geographic footprint, setting ambitious visions for the region as a whole. This places a strategic obligation for the LTP to deliver improvements throughout the MSA area.
- 7.3. Not applying the scheme across the North East would significantly impact the ability of the MSA, as the LTA for the region, to deliver the objectives of the LTP, namely a green, integrated regional transport network that works for all. As the bus reform objectives are based on the LTP they also apply to the entirety of the region. Table 8 below sets out the impact of geographic coverage on the bus reform objectives.

Table 8: Impact of geographic coverage on achievement of strategic objectives

Bus reform strategic objective	Impact of geographic coverage
Buses at the heart of an integrated transport network: ‘The Angel Network’	Applying the proposed franchising scheme across the region will allow improvements to be consistently implemented. Conversely, different reform options could impact on integration opportunities such as ticketing, passenger information and in network planning. This could also lead to confusion for residents and lead to fragmented standards across the region with some residents left out of an integrated transport network.
Improve bus punctuality and reliability	A scheme which is applied throughout the region will allow schemes to improve punctuality and reliability, such as a performance regime, to be applied consistently.
Make the bus network resilient	A fragmented regulatory system would mean that routes which are not included in

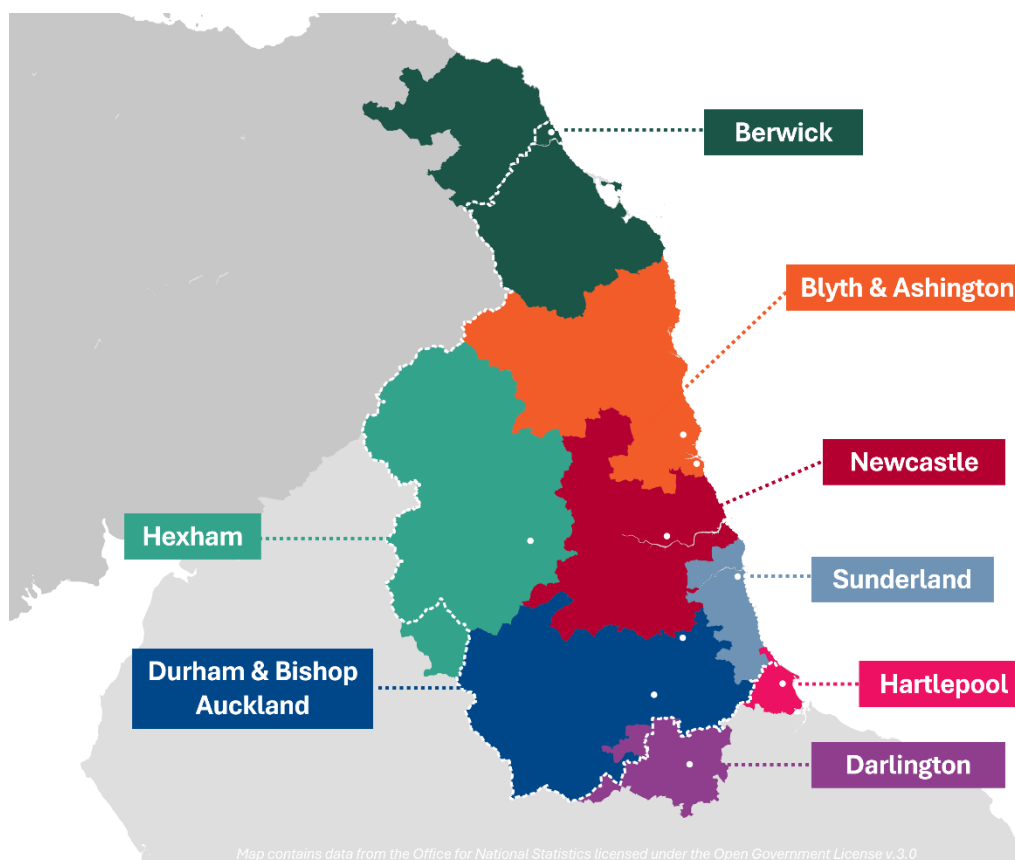
¹¹⁵ “[Improving and Reforming North East Buses](#)”. North East Mayoral Strategic Authority. 2024.

	the proposed scheme could not benefit from cross subsidisation which could impact on network resilience.
Make the bus network accessible and inclusive to all	Consistency within the region would allow these objectives to be targeted throughout the region.
Ensure that everyone feels safe when travelling, especially women and girls	
Create regional pride in its buses	An inconsistent offering throughout the region could lead to fragmented democratic accountability. The MSA itself is an established body with recognised, democratically accountable and region-wide political leadership by the Mayor and Cabinet. A region-wide intervention would provide customers, operators and other stakeholders with a clear line of accountability for public sector-led interventions in the bus market.

7.4. As can be seen in Figure 24, Travel to Work Areas (TTWA) generally cover the same footprint as the MSA area¹¹⁶, limiting the number of cross boundary bus journeys when compared to the scale of journeys which take place within the MSA area.

¹¹⁶ Only TTWAs wholly or partially within the MSA area are shown in the figure.

Figure 24: North East Travel to Work Areas (2011)



7.5. The most significant exception to this is journeys which cross the boundary to the south of the region with over 30,000 people commuting between the North East and Tees Valley daily in 2021 across all transport modes¹¹⁷.

7.6. However, the amount of cross-boundary travel between the MSA area and Tees Valley is significantly lower than travel within the region itself as approximately 300,000 people remain within their home LA and nearly 175,000 people commute from one North East LA to another for work. Consequently, alternate geographic coverage could substantially increase the number of cross-boundary services. For example, should the franchising scheme be restricted to covering only Tyne and Wear, the number of cross-boundary services would more than triple compared to a region-wide intervention, representing almost 20% of services which carry over 25% of all passenger journeys in the North East.

7.7. Mayor McGuinness set out her priorities for the region in her election manifesto. These priorities were democratically endorsed by the region's voters through electing her as North East Mayor. Mayor McGuinness received the most votes in each of the seven local authority areas; the public across the region have endorsed her priorities. Deviating from the North East geography would mean this democratic mandate is not fulfilled, and would confuse

¹¹⁷ "[Origin-destination data explorer \(census 2021\)](#)". Office for National Statistics. 2023.

future democratic accountability as the Mayor would be responsible for the network in part, but not all, of the region.

- 7.8. A single intervention that is coterminous with the area of the MSA builds on the precedent set by the existing EP, delivers a democratic commitment, recognises the interconnected nature of the region's geography, provides clear political accountability, and supports delivery of the ambitions of the LTP across the North East.

Key insights from this section

- Bus services and bus journeys are not naturally split within the MSA's local authority boundaries. 175,000 people commute between North East LAs each day (across all modes of transport).
- A single intervention that is coterminous with the area of the MSA accordingly builds on the existing EP and LTP, helps to achieve our region's objectives, recognises the interconnected nature of the region's geography, and provides clear political accountability.

8. Outline of delivery options available to the North East MSA

This section will:

- Confirm that this assessment compares the proposed franchising scheme to the currently available EP and explain the rationale for this decision.
- Briefly describe municipal ownership and explain why the MSA does not consider it as a viable third delivery option in this assessment.

8.1. Background to option selection

- 8.1.1. Section 123B(2)(b) TA2000 requires that an authority proposing to make a franchising scheme to complete an assessment that compares making the proposed scheme to one or more other courses of action.
- 8.1.2. Statutory franchising guidance, published in January 2026, specifies that the assessment should compare the authority's preferred franchising model to "*the currently available EP*". The MSA engaged with local operators in March and April 2025 around the EP option for the assessment, receiving no objection to its proposal that the current EP should be the reference case for the assessment and that there were no additional proposals to incorporate into the EP option.
- 8.1.3. The MSA recently produced and published a comprehensive Options Report (OR) which investigated the different delivery options available and which informed the Mayor and Cabinet's decision to commence an FSA¹¹⁸. External experts were commissioned to produce a detailed feasibility study of all available options; this study underpinned the OR and was published as an appendix to it.
- 8.1.4. This feasibility study considered a wide range of options, including those which would be difficult to implement or not possible under existing legislation, particularly municipal ownership. Franchising and EP-based options were evaluated to have the greatest ability to meet the objectives and have the greatest deliverability. These two options were taken forward for further consideration in the OR.
- 8.1.5. The OR concluded that these two options were "*worthy of further detailed investigation*" and that a more exhaustive piece of work would be required, recommending that the Mayor and Cabinet undertake an FSA.
- 8.1.6. Among other measures, the Bus Services Act 2025 allows LTAs to establish a publicly owned bus company. The MSA sought an update to the feasibility study to determine whether this change in law would change the original conclusion of the feasibility study. This update concluded that "*public ownership models do not offer the overarching region-wide opportunities to reform bus services compared to a well-performing EP or Franchise Scheme*" and there are "*no specific factors that would change how that option was appraised and hence scored*".

¹¹⁸ "[Bus Reform Options Report](#)". North East Mayoral Strategic Authority. 2024.

- 8.1.7. This updated feasibility study, which was brought to the Bus Reform Programme Board in March 2025, therefore reaffirmed that EP and franchising should be the only options tested in detail within the FSA.

8.2. Shortlisted delivery options

- 8.2.1. Section 7 of this strategic case confirms that bus reform options will cover the whole MSA area, reflecting the region's interconnected economic geography and political leadership.
- 8.2.2. In line with the requirements set out in legislation and statutory guidance, and informed by the OR and feasibility study, the FSA therefore assesses the following two options for implementation across the North East:
- **Making the proposed franchising scheme.** The MSA would issue local service contracts to operators following competitive procurement processes to operate the network to the MSA's specification. This option is described further in section 9.
 - **Continuation of the current EP.** Operators and the MSA would continue to work in partnership to deliver specific agreed improvements within the deregulated market structure. This option is described further in section 10.

8.3. Municipal ownership

- 8.3.1. Municipal ownership is a model in which a local or strategic authority owns a bus company that provides local services. There are currently five municipal bus companies operating in England, including in areas with high bus patronage and passenger satisfaction such as Nottingham and Reading.
- 8.3.2. The Bus Services Act 2017 previously prohibited LTAs from establishing a new municipal bus company, though existing municipals were unaffected. This provision was repealed by the Bus Services Act 2025, allowing LTAs to set up arms-length companies to run bus services.
- 8.3.3. Municipal ownership is, however, not a standalone option that could be pursued instead of franchising or the EP. Municipals are an ownership model while the EP and franchising are regulatory structures. Municipal ownership could operate under either regulatory model but a choice between continuing with the EP or making a franchising scheme would still be necessary.
- 8.3.4. Under the EP, a municipal bus company would need to compete with existing commercial bus companies to gain market share – such as by bidding for secured service contracts, identifying and starting services on currently unserved but profitable routes or running competing services on existing routes. Operators would be expected to defend their current market position, and it is likely that the establishment of a competing public sector operator would damage partnership working with existing operators.

- 8.3.5. Gaining market share in the deregulated market would therefore be a slow process with no guarantee of success; a municipal operator may never reach the scale where it can significantly affect outcomes for a large number of passengers. It is not possible to establish a municipal bus company and gift it the exclusive right to operate all routes in the area.
- 8.3.6. Under franchising, a municipal bus company would compete for local service contracts against other interested operators through the tendering process. As with any other bidder, the municipal operator would be able to tailor its bids to its capabilities. Contract awards would be on the basis of price and quality; the municipal operator could not be given preference in contract awards because it was publicly owned.
- 8.3.7. While there may be benefits to municipal operation it would also be highly complex for a local authority to establish as the operator would not benefit for the economies of scale that most bus operators achieve.
- 8.3.8. A variant of municipal ownership involves entering into a joint venture with a bus operator – either through purchasing a significant share of an incumbent operator or entering into a new partnership with a competitively selected operator. Such an approach may theoretically share risk and draw upon the relevant operator’s institutional expertise – but also involves significant challenges.
- 8.3.9. Joint ventures were explored as part of the feasibility study mentioned in section 8.1.3. In addition to the need to identify an operator willing to negotiate an (at least partial) sale to the authority, this concluded that aligning the culture and objectives of a partner operator with the authority would take “*significant time*” with “*governance and stakeholder relations*” also likely to “*provide additional complexity*”. Analysis of all options concluded that a joint venture – and municipal ownership generally – was “*likely to be ineffective*”¹¹⁹.
- 8.3.10. A decision to make a franchising scheme or continue with the current EP would not preclude the Mayor and Cabinet from taking a future decision, if desired, to establish a municipal bus company that would operate under either regulatory model.
- 8.3.11. However, as municipal ownership (including via a joint venture) is not a third regulatory option that could be pursued instead of the EP or franchising, municipal ownership is not evaluated further in this assessment.

8.4. High-level comparison of shortlisted options

Category	EP	Franchising
Branding	Branding primarily driven by operators, with different liveries and brand identities. Some public sector branding applied across	Consistent Angel Network branding across the bus and wider public transport network – including vehicles, passenger information and bus stops and stations.

¹¹⁹ “[Bus Reform Options Report](#)”. North East Mayoral Strategic Authority. 2024.

	fares initiatives and passenger information.	
Customer Experience	Operators primarily responsible for customer experience, providing individual websites and apps and handling lost property and customer contact. Network-wide passenger charter supplements individual operators' charters.	DB becomes the single point of contact for passengers by providing journey information (through its app and website), responding to customer complaints and handling lost property enquiries. Customer charter continues to apply.
Fares and Ticketing	Bus operators are legally required to set prices for their own fares/tickets independent of other operators (except in specific circumstances such as a multi-operator ticketing or the fare capping scheme).	The MSA would take responsibility for fare-setting enabling simplified and integrated ticketing to be introduced.
Network	Service levels for commercial services in the North East would continue to be dictated by demand with secured services filling in the gaps where there is insufficient demand to attract a commercial service but there exists a social need for a bus service.	Franchising would permit communities to influence network change. While the franchised bus network will continue to evolve to reflect changing passenger needs and travel patterns, the DB will aim to limit wholesale reorganisation of routes and mid-contract timetable changes.
Accessibility	Any future on-bus accessibility improvements that are not legally mandated would need to be delivered through complex negotiations with bus operators.	The MSA could potentially specify accessibility requirements to integrate future on-bus accessibility developments onto services through future rounds of local service contracts.
Passenger Safety	Any future on-bus public safety improvements that are not legally mandated would need to be delivered through complex negotiations with bus operators.	The MSA would take strategic control of public safety across the entire bus network enabling it to deploy customer safety officers across the network and coordinate multi-modal public safety communications campaigns.
Fleet	Decarbonisation activity would continue (subject to funding, practical and operational uncertainties and challenges) through providing grant-funding to operators to decarbonise fleet and depots.	Decarbonisation activity would continue (subject to funding, practical and operational uncertainties and challenges) by setting standards in local service contracts. This is likely to simplify decarbonisation investment. Further and/or faster decarbonisation is a non-appraised further investment opportunity under franchising.

Employment Standards	Bus operators are responsible for setting employment standards.	Franchising gives the MSA an opportunity to set employment standards through specifications in local service contracts. Such specifications could include requiring operators to gain Shine accreditation and making a commitment to pay the real living wage.

Key insights from this section	
• A detailed feasibility study produced by external experts identified franchising and EP-based options as the options that were best placed to achieve the objectives of bus reform. The results of this study were taken forward for further consideration in the OR.	
• The OR concluded that these options needed detail examination and recommended that the Mayor and Cabinet undertake an FSA. The shortlisted options were: ○ Continuation of the current EP ○ Making the proposed franchising scheme	
• The Bus Services Act 2025 allows LTAs to form arms-length companies to run bus services - but municipal ownership, in itself, is not a viable third delivery model. However, neither the continuation of the current EP nor making the proposed franchising scheme would preclude the Mayor and Cabinet from taking a future decision to set up a municipal bus company under either regulatory model.	

9. Franchising

This section will:

- Describe the proposed franchising model considered in this assessment – particularly describing the arrangements for branding and customer experience, fares and ticketing, the network, fleet, employment standards, accessibility and passenger safety.
- Outline further interventions which, although not expected at day one of the proposed franchising scheme's operation, could subsequently be introduced by under franchising at a future date.
- Note the MSA's position that alternate franchising models would be inconsistent with the policy direction in the LTP and would not deliver on its objectives.
- Provide an insight into the various topics that were discussed during engagement with neighbouring LTAs.

9.1. Intended franchising model

- 9.1.1. Making the proposed franchising scheme would fundamentally change how bus services are delivered in the North East. The MSA would allocate the network into a number of contractual packages and award these to operators through regular competitive procurement processes. Contracts would specify standards, such as vehicle requirements, the fares and ticketing products to be accepted and how services would be branded.
- 9.1.2. In addition to the interventions delivered in the proposed franchising scheme immediately, the MSA could respond to future policy aspirations and evolving passenger needs by amending the specifications included in contracts for subsequent procurement rounds.
- 9.1.3. Franchising guidance suggests a number of different franchising models an authority may pursue – such as 'micro-franchising' along particular bus corridors, jointly developing franchising with an operator, or only applying franchising to currently tendered services. The franchising model assessed in this document is a scheme covering its whole geography (for the reasons discussed in section 7) which incorporates most registered local bus services operating in that area.
- 9.1.4. As evidenced in earlier sections of this strategic case (particularly sections 2, 4, and 5), there are challenges in the local bus market across the MSA's geography, including customer dissatisfaction, the need for significant public sector investment without commensurate influence and the long-term decline to the network. Alternate approaches to franchising – such as those described in the guidance - would not respond to these challenges across the MSA's whole geography and would fail to achieve its objectives.
- 9.1.5. The MSA's proposed franchising scheme is therefore the only franchising model considered further in this assessment. This section describes the strategic aspects of the scheme – particularly how passengers will experience and interact with a

franchised network. Section 5 of the commercial case describes the commercial and contractual arrangements underpinning the scheme.

9.1.6. Sections 9.2 to 9.7 describe the MSA's intended franchising model, which is appraised against the strategic objectives in section 11 and modelled in the financial and economic cases. Section 9.8 subsequently describes areas of further ambition which the MSA could pursue under franchising, and which would be easier to achieve under franchising than the EP, but which are subject to significant uncertainty over funding. These are qualitative opportunities that are not considered in the appraisal of options in section 11.

9.2. Branding and customer experience

- Consistent Angel Network branding across the bus and wider public transport network – including vehicles, passenger information and bus stops and stations.
- DB becomes the single point of contact for passengers by providing journey information (through its app and website), responding to customer complaints and handling lost property enquiries. Customer charter continues to apply.

9.2.1. Franchising offers the ability to significantly change the branding of the bus network and the customer experience offer, with the delivery body assuming most responsibilities currently held by operators. Buses would be part of the wider integrated transport network with consistent branding introduced across the bus network – including on vehicles themselves, on bus stops and paper timetables, and digital tools such as a website and mobile application.

9.2.2. Introducing consistent branding will bring the North East bus network in line with the approach often taken amongst national and international counterparts which have strong recognisable brands. This will not only help to raise the profile of bus as a mode in the North East but make the network easier to navigate for users, especially new users¹²⁰. Consistent branding across the bus network reflects the policy commitments in the LTP discussed in section 2.3, particularly the commitment that *“the network should have consistent and cohesive branding such as colour schemes, signage, design standards, and quality of service, so that there is a clear ‘look and feel’ of the network on routes, stops and stations.”*

9.2.3. A consistent livery would be introduced across vehicles operating franchised bus services. This could also include route-based branding (i.e. for park and ride, or specific tourist routes). Exceptions to the consistent livery will be limited, such as school services (to enable a broader pool of vehicles). Most local bus services will carry this consistent livery design which will signal to passengers that these buses are all part of

¹²⁰ [“Moving Forward: The Role of Marketing in Fostering Public Transport Usage”](#). Gijssensberg & Verhoef in the Journal of Public Policy & Marketing. 2019.

the integrated transport network and communicate the MSA / DB's role in planning services.

- 9.2.4. Branding will be updated across the region's 13,000 bus stops and stations to further demonstrate that buses are part of the integrated transport network. Existing bus stop flags would be replaced with new flags featuring the integrated transport network branding. Paper timetable information displayed at bus stops would also be updated to incorporate the integrated transport brand.
- 9.2.5. Passenger information displays are currently present at around 400 bus stops and stations. These digital displays currently show the timetabled information, but work is ongoing to allow these to display real-time information.
- 9.2.6. Digital information would be available to passengers through a single website and mobile application, providing passengers with a single source of truth. Passengers will be able to access timetables, view real-time vehicle locations and purchase ticketing products via the website and app.
- 9.2.7. Legal requirements for audio-visual announcements on vehicles would continue to apply; franchised operators will need to comply with this requirement. Franchising also allows further requirements around on-bus passenger information to be specified by the DB in the future, should additional requirements be desirable.
- 9.2.8. The DB will become the single point of contact for passengers, for example handling customer complaints and lost property enquiries. Contractual provisions would specify the standards expected of operators and their staff; operators would be responsible for taking action to comply with the contract should a complaint reveal a serious breach of expectations. Passengers would also be able to take their complaints to Bus Users UK for alternative dispute resolution if they are unsatisfied with the operator's response to their complaint.
- 9.2.9. The North East Bus Passenger Charter, originally developed as part of the EP has four headline commitments to punctuality, better connections, value for money and accessibility. This would continue to apply to franchised services and would be reviewed to investigate where commitments could be strengthened within a franchising scheme.
- 9.2.10. BSIP funding has introduced Bus Champion and Bus Ambassador roles to improve the customer experience on the network under the EP; these functions are assumed to be part of the wider customer experience function under franchising.
- 9.2.11. Responsibility for branding and marketing also offers greater potential for the MSA/delivery body to run unified public information campaigns across the whole integrated public transport network, complementing other measures to tackle issues such as anti-social behaviour and violence against women and girls.

9.3. Fares and ticketing

- The MSA would take responsibility for fare-setting enabling simplified and integrated ticketing to be introduced.

- 9.3.1. The MSA recognises that the complexity of the fares and ticketing landscape can confuse passengers and represents a potential barrier to growing bus use. The LTP and BSIP outline the principles of the MSA's preferred future fares and ticketing policy; both documents emphasise the importance providing simple, integrated, easy-to-use and affordable ticketing products for passengers.
- 9.3.2. Work is underway within the MSA to develop a medium-term fares and ticketing ambition, centred around these principles to inform future interventions. This strategy is mode agnostic, but its approach would be inherited by the franchised bus network.
- 9.3.3. The MSA, through its Cabinet, intends to assume responsibility for specifying fare prices and determining the products sold across the franchised bus network. It proposes to develop a detailed fares and ticketing approach during the transition and mobilisation period, including precise products, fare levels and eligibility criteria for these products. This will be informed by the wider fares and ticketing ambition.
- 9.3.4. Franchising will enable significant simplification of the fares and ticketing landscape. Fares will not be operator specific and period ticketing products would be replaced by simple daily and weekly caps, reducing complexity, improving passenger convenience and offering better value travel for passengers. Annual passes would continue to be available.
- 9.3.5. The MSA would invest to keep fares at the same level in real terms (i.e. increases of RPI or less) under franchising for an initial ten years, supporting customer demand and ensuring buses do not become unaffordable. A further policy decision on future fare levels and associated investment will be required after these ten years. As illustrated in Figure 18 in section 5.2, this represents a clear intervention in the market and break from the status quo – with fares around 20% lower in real-terms as a result of this intervention.
- 9.3.6. Reducing child poverty is a priority for the MSA, with significant progress made under the EP to introduce cheaper single tickets for young people. The MSA would continue to target fares interventions that limit the cost of travel for young people under franchising. This will encourage the formation sustainable travel habits amongst young people. There would also be a standardisation of the eligibility age for youth ticketing products, replacing each operator's individual definition, further simplifying the ticketing landscape.
- 9.3.7. Smart capping enabled by a technical upgrade to the Pop smart card system (a pre-paid smartcard system that enables users to pay for journeys on the Metro, almost all buses in Northumberland, Tyne and Wear, County Durham, and the Tees Valley, on the Shields Ferry, and on the Northumberland Line) would continue to operate under

franchising, allowing passengers to automatically have the cost of their travel capped at the best value ticket for their combination of journeys. This includes multi-modal capping across buses, Metro, Ferry, and heavy rail.

- 9.3.8. A range of methods are assumed to be available for passengers to purchase tickets, reflecting the commitments in the LTP. In addition to tap-on payment with a Pop card, passengers are assumed to be able to purchase tickets from the driver onboard the bus and pay using either cash or a credit / debit card. Passengers are also assumed to be able to buy tickets off-bus via the smartphone app, paying with a debit or credit card. Payment methods available in the future will be determined by the MSA/DB as technology and customer preferences evolve.
- 9.3.9. Discretionary enhancements to the ENCTS offer are inconsistent across the North East. Harmonising these is a further investment opportunity under franchising (as described at section 9.8), but the appraised franchising scenario does not assume harmonisation.
- 9.3.10. As with other areas such as network investments and home to school policies where the current approach differs across the region, franchising may provide an opportunity to review these policies and harmonise provision however this is considered out of scope of the assessment and has not been modelled as part of the appraised franchising scenario.

9.4. Network

- Franchising would permit communities to influence network change. While the franchised bus network will continue to evolve to reflect changing passenger needs and travel patterns, the DB will aim to limit wholesale reorganisation of routes and mid-contract timetable changes.

Network size and integration

- 9.4.1. The LTP sets the aspiration for the region to “*no longer consider different forms of transport as separate networks and move to one integrated and highly interconnected network where people can make seamless door to door journeys*”. Franchised bus services will become part of the wider integrated public transport services and planned as one network by the DB – instead of multiple separate operators planning their own commercial services.
- 9.4.2. The DB will be responsible for coordinating both local bus services and Metro – offering further opportunities for holistic network planning across the region, including potential timetable integration where feasible at bus-to-bus interchanges, Metro stations as well as rail stations, in line with the LTP commitment that “*there should be well-coordinated public transport timetables and services which complement each other*”.
- 9.4.3. Coordination of the entire local bus network from one body also brings greater ability to cross-subsidise across the entire network, particularly benefitting traditionally less profitable routes in rural and coastal areas.

- 9.4.4. In addition to the ability to direct some revenue from the region's most profitable services to this provision, evidence from Greater Manchester indicates that the cost of providing such services through franchised local service contracts is up-to a third less expensive than providing them as secured services in a deregulated market¹²¹, providing better value for money.
- 9.4.5. Franchising will also provide local politicians, local authorities, and communities themselves with greater opportunities to engage and influence decisions affecting local bus services – including network planning and design.
- 9.4.6. Local politicians will be able to engage on such matters through their transport portfolio holders and their representative at Cabinet. Local authority officers will be able to work with the DB to develop and refine proposals for local bus services. There will also be opportunities for local communities, customers, businesses and other stakeholders able to engage through an engagement process that builds upon Local Bus Boards and new forums and stakeholder panels for community members to feed in views.
- 9.4.7. Similarly, the LTP specifies that the integrated transport network should “*extend into every community of the North East, including our rural and coastal areas*” – but, considering the significant decline described in section 5.2, further decline risks leaving communities – particularly those in rural and coastal areas – losing vital connections.
- 9.4.8. The MSA will therefore invest to maintain the size of the network for an initial ten years under franchising – with investment in the network after this point subject to a separate policy decision after this period. This investment maintains essential links across the region that would otherwise be lost, with the network projections shared in section 5.2 and described further in the economic case. Around 12 million miles will be preserved (by the end of the ten-year period) due to this intervention.
- 9.4.9. In addition to maintaining the base mileage of the network, there may also be opportunities to review and amend the network to respond to, for example, new housing developments and employment centres as opportunities arise.

Network change process

- 9.4.10. In order to make the transition to franchising smooth for passengers, the initial network under franchising will be the same as the network pre-transition. There may be a small number of new or enhanced services which the DB will investigate further to be ready for procurement activity for the relevant tranches.
- 9.4.11. The MSA recognises that maintaining consistent timetables can build passenger familiarity with and confidence in their local bus services, while acknowledging there may be operational reasons that require occasional timetable changes. Timetables may change when contracts are renewed or tendered to new operators, or when

¹²¹ “[Written evidence submitted by Transport for Greater Manchester \(LBS0021\)](#)”. House of Commons. 2025.

operational efficiencies are identified, but the MSA aspires to keep planned mid-contract timetable changes to a minimum – at maximum twice per year.

9.4.12. Some temporary and permanent network and timetable changes will, however, likely be required on an ad-hoc basis to respond to external factors, such as road closures, changes to home-to-school demand and to provide services to new housing developments at the right time.

9.4.13. The delivery body will be responsible for undertaking network reviews with input from local authorities and engagement with the MSA's Transport Advisory Board (as described further at section 9 of the management case). These changes would then be subject to approval from Cabinet. Further information on the role of members in network changes can be found in section 9 of the management case.

Bus priority infrastructure

9.4.14. As discussed further in section 4.1, bus priority infrastructure has an important role in positioning bus as an attractive travel choice and responding to passenger priorities around punctuality and reliability.

9.4.15. Bus priority, and general highway interventions, are assumed to be delivered under either scenario, with a full list of planned interventions attached as Appendix C.

9.4.16. It should be noted however that although future schemes could be delivered under either delivery model, franchising more directly incentivises highways authorities to prioritise funding to such schemes. Any cost saving enabled by bus priority infrastructure under franchising would be internalised by the public sector, allowing this resource to either be reallocated into the network or used to reduce the cost of operating the scheme to authorities.

Demand Responsive Transport

9.4.17. As discussed further in the commercial case, Durham County Council operates a DRT service – 'Link2' – offering an accessible dial-a-ride bus service for people who do not have a suitable bus service or are unable to access regular bus services due to mobility issues.

9.4.18. A wider network analysis has been undertaken by the MSA, NCC, DCC and Nexus to determine the scope of the proposed franchising scheme, specifically which services should be included in the scheme, sit outside the scheme but operate with a service permit, or be excluded from the requirements of the scheme entirely. These conclusions are discussed in the commercial case.

9.4.19. The Link2 service would be operated through a service permit as it is largely separate from local bus services which are the primary focus of the franchising scheme. Link2 uses customised vehicles and requires a contact booking centre, it is not considered necessary or desirable to transfer this provision to the franchised network.

9.4.20. NCC also runs a range of section 19 and section 22 DRT (community and not-for-profit) services. However, these services are not in the scope of the proposed franchising scheme.

9.4.21. The potential for introducing further DRT services is currently being reviewed.

9.5. Accessibility and passenger safety

- The MSA could potentially specify accessibility requirements to integrate future on-bus accessibility developments onto services through future rounds of local service contracts.
- The MSA would take strategic control of public safety across the entire bus network enabling it to deploy customer safety officers across the network and coordinate multi-modal public safety communications campaigns.

9.5.1. Accessibility is an important consideration in the LTP, with policy commitments that services should be accessible to all, and that drivers and staff should ensure that everyone feels welcome and safe at stations and on services.

9.5.2. Accessibility is particularly important on bus services as large parts of the region are not served by rail and many disabled people are unable to drive as a result of their disability – meaning local bus services are their only transport option.

9.5.3. A review is taking place to assess how accessible the wider transport network is for wheelchair users and visually impaired people. Precise timescales are yet to be confirmed, but the review is expected to conclude in 2026. Additionally, the MSA is conducting a study on the safety of women and girls when using public transport in the region with this study also expected to conclude in 2026. The MSA will then consider the identified areas for improvement and, if appropriate, incorporate these into the wider transport delivery plan. In the longer-term, the MSA would remain considerate of potential further improvements to on-and-off bus accessibility as technology and legislation evolves. The MSA would also be able to improve future on-bus accessibility through the possible inclusion of accessibility specifications in local service contracts.

9.5.4. Under franchising, the MSA would also be able to take strategic control of passenger safety across the entire regional bus network enabling it to introduce measures like the deployment of customer safety officers across the bus network and unified multi-modal public safety communications campaigns.

9.6. Fleet

- Decarbonisation activity would continue (subject to funding, practical and operational uncertainties and challenges) by setting standards in local service contracts. This is likely to simplify decarbonisation investment.
- Further and/or faster decarbonisation is a non-appraised further investment opportunity under franchising.

- 9.6.1. Decarbonisation is a strategic priority for the North East. One of the five missions in the Corporate Plan is to make the North East the home of the green energy revolution. The LTP specifies that “*the North East should set the highest standards for a fleet of green public transport vehicles*”.
- 9.6.2. Progress has been made towards reducing emissions as described further in section 0 of the strategic case. The MSA has previously secured government funding to introduce zero emission vehicles in the region, working in partnership with operators to deliver these. Approximately 10% of the region’s bus fleet is expected to be zero emission vehicles once all ordered ZEBs begin operations.
- 9.6.3. In line with these wider policy commitments, including the BSIP aspiration to achieve a 100% decarbonised fleet by 2035, the MSA would continue work to decarbonise the fleet under franchising. Vehicle standards in local service contracts can specify that particular services (or groups of services) must be operated with ZEBs.
- 9.6.4. There are, however, a number of significant operational, technological and financial uncertainties and challenges around the transition to ZEBs – including the ability of future funding and cost of ZEBs, conversion of depot sites (including additional space if required) to enable ZEB operation, and the shorter maximum range of battery-electric ZEBs compared to diesel vehicles. These challenges are present in both the EP and franchising scenarios.
- 9.6.5. A decarbonisation roadmap is being progressed by the MSA’s customer experience team, which sits separately to the FSA and considers how decarbonisation can be achieved under both the EP and franchising. The FSA therefore assumes that progress towards decarbonisation would be the same under both the EP and franchising in both appraised scenarios.
- 9.6.6. Decarbonisation would, however, be delivered differently under franchising – with the requirement specified in local service contracts rather than grant funding to operators. This may allow for greater value for money, and certainty over that value for money, compared to the status quo, as the cost of fleet decarbonisation would be incorporated into – and therefore tested in – the bidding process. It would also be simpler to run a planned programme of depot electrification where such sites are owned by the DB.
- 9.6.7. Section 9.8 acknowledges that faster or further decarbonisation is a further investment opportunity under franchising, but which does not form part of the appraised franchising scenario.

9.7. Employment standards

- Franchising gives the MSA an opportunity to set employment standards through specifications in local service contracts. Such specifications could include requiring operators to gain Shine accreditation and making a commitment to pay the real living wage

9.7.1. Operators would remain the employer of bus industry employees under franchising, but the MSA would have greater ability to improve employment standards, including through specification and a potential quality component in procurement. This includes specifying that all contracted operators pay employees the Real Living Wage as a minimum standard. Evidence shows that paying the Real Living Wage boosts morale, reduces staff turnover, and strengthens recruitment¹²².

9.7.2. Additionally, the MSA could also require operators to gain Shine accreditation¹²³, promoting inclusive workplaces and fair treatment. By embedding these principles into contracts, the MSA can demonstrate leadership in tackling low pay, driving up job quality, and aligning transport delivery with wider social and economic goals.

9.7.3. The MSA is committed to ensuring that disruption is kept to a minimum for staff who may be transferring employers at the beginning of franchised contracts. As such, the packaging and depot strategies have been developed with a view to minimise the changes to existing working-location arrangements for staff. This stability supports better work-life balance, as staff can plan their commutes and personal commitments with confidence. It also fosters stronger team cohesion and familiarity with local routes, which can improve service quality and safety. This approach further demonstrates the MSA's commitment to staff wellbeing through maintaining predictable working arrangements during a period of significant change for the North East bus industry.

9.7.4. In line with Transfer of Undertakings (Protection of Employment) (TUPE) Regulations 2006, staff that are considered "*principally connected*" with the provision of existing local services would be eligible to transfer their employment to the new operator. This transfer would require the new employer to honour employees' existing contracts, such as all previous terms and conditions of employment and pension arrangements. Further detail can be found in section 3.5 of the management case.

9.8. Further investment opportunities possible under franchising

9.8.1. Sections 9.2 to 9.7 outline the franchising proposition that is appraised in this assessment. This ambitious offer includes the 10-year commitment to maintain the size of the network and avoid real-terms increases in fare prices, as well as various other interventions including simpler fares and ticketing with contactless capping, unified branding as part of the Angel Network, and a consistent passenger information offer providing a single source of truth.

¹²² "[Working to Live: The relationship between the Living Wage, quality of life and job satisfaction](#)". Living Wage Foundation. Published May 2025.

¹²³ *Shine is the MSA's free employer accreditation scheme which supports employers to do right by their people through fair pay, secure work, inclusive practices, and opportunities to grow.*

9.8.2. There are further investment opportunities that would be possible to pursue under franchising, but which do not form part of the core franchising proposition. These interventions could be introduced were sufficient funding available and could enhance the role of franchised bus services within the Angel Network.

9.8.3. Such further investment opportunities include:

- **Free travel for under-18s.** Free travel could be provided on local bus services in the North East for children and young people, enhancing their mobility and opportunity while reducing costs for young people and their families. This intervention is estimated to cost approximately £17 million per annum.
- **Harmonised and improved concessionary travel offer across the region.** Discretionary enhancements to ENCTS could be harmonised across the region, uplifting to the best terms available for the passengers. A further enhancement could also be introduced to remove the restriction on using ENCTS passes in the morning peak, allowing all-day concessionary travel. Costs would vary by uptake and whether any increased demand required additional vehicles, but are estimated to be in the region of £8.4 million to £10.2 million.
- **Increased PVR.** Adding additional vehicles, with associated staff, to the network to enhance reliability of services, provide more frequent urban and rural services, and add currently missing connections to the network. This intervention is estimated to cost approximately £17 million per annum for 50 extra PVR, less any revenues generated by these services.
- **Delivering a zero-emission fleet.** Additional ZEBs could be acquired for the region, coupled with the necessary upgrades to depot sites, to achieve the MSA's aspiration for a fully decarbonised bus fleet by 2035. This intervention is estimated to require approximately £160 million in capital expenditure¹²⁴ for fleet, plus additional capital investment for depots.

Experience from Greater Manchester shows potential for rapid decarbonisation under franchising when accompanied by sufficient funding, with around 300 ZEBs operational in the city region (as of July 2025) compared to around 30 before franchising, and a plan to use part of its TCR allocation to reach a 100% ZEB fleet by 2030.

9.8.4. Although indicative costs are provided above to illustrate the level of investment required for each of these opportunities, all costs are subject to further development and refinement.

9.8.5. Franchising would enable the MSA/DB to deliver these further investment opportunities comparatively easier than under an EP. As discussed at section 5.4, introducing

¹²⁴ Assuming that the MSA provided a similar proportion of funding to that required in recent competitive funding bids, such as ZEBRA2 (i.e. up to 75% of the incremental capital cost of a new ZEB compared to a comparable diesel alternative).

additional interventions under the EP would depend on complex commercial negotiations without clarity over value for money, and depend on operators not invoking the statutory objection thresholds.

9.9. Engagement with neighbouring authorities

- 9.9.1. Section 2.10 lists the five authorities bordered by the MSA. Franchising guidance requires that an authority proposing to make a franchising scheme engage with neighbouring transport authorities to understand these authorities' policy objectives and how making a franchising scheme would impact on bus services and transport in their areas.
- 9.9.2. The MSA, Nexus, DCC and NCC conducted engagement with the five identified neighbouring transport authorities in summer 2025 during the development of this assessment. This took the form of an initial meeting where an update to the bus reform project was given by the MSA, the scale of cross boundary services was discussed and implications of bus reform for these services was also discussed. Following the meeting it was requested that the neighbouring authorities send written feedback which has been considered when developing the proposed franchising scheme.
- 9.9.3. Meetings were held with the following authorities:
- Tees Valley Combined Authority (TVCA)
 - Scottish Borders Council
 - York and North Yorkshire Combined Authority (YNYCA)
 - Cumberland Council
 - Westmorland and Furness Council
- 9.9.4. As discussed in section 2.10 the central theme of all neighbouring authorities' policy objectives in relation to bus emphasised connectivity and increasing patronage. During the meetings it was discussed that the most important factor where the proposed franchising scheme could impact neighbouring authorities' objectives are cross boundary services.
- 9.9.5. The advantages and disadvantages of introducing a service permit regime compared to including cross boundary services in the franchising scheme were discussed and this has fed into the ultimate approach to cross boundary services discussed in section 5.4 of the commercial case.
- 9.9.6. Important considerations included the affordability of any standards specified within a service permit for a cross boundary secured service as this would limit the viability of the service thereby working against the objectives of neighbouring authorities.
- 9.9.7. Ensuring a smooth transition with no loss of service levels in neighbouring authorities is also an important priority. The MSA will continue to engage closely with neighbouring

authorities to ensure these considerations are prioritised if the proposed franchising scheme is introduced.

Key insights from this section

- Making the proposed franchising scheme would fundamentally alter the region's bus network as the MSA would allocate the network into a number of contractual packages and award these to operators through a regular competitive procurement process. These contracts would specify standards that operators would have to adhere to and would be able to respond to customer needs by altering future contract specifications.
- Buses would be a part of a wider integrated transport network with consistent branding introduced across the bus network including on vehicles and all bus-related physical (e.g. bus stops and bus liveries) and digital infrastructure (e.g. apps). The delivery body would become the single point of contact for handling all customer complaints and enquiries.
- The MSA intends to assume responsibility for specifying fare prices and determining ticketing products sold on the franchised bus network. Period ticketing would be replaced by multi-operator caps that improve passenger convenience. The MSA plans to continue limiting the cost of travel for young people. Smart capping, enabled by a technical upgrade to the Pop card system would allow passengers to have the cost of their travel capped at the best value ticket across different public transport modes.
- Franchised bus services will become part of an integrated public transport network that will be planned and delivered by the delivery body. Franchising will also provide local politicians, local authorities, and communities with more opportunities to engage and influence decisions affecting local bus services.
- The basis of the network on day one of franchising will be in line with the pre transition network. The MSA will invest to maintain the size of the network for an initial ten years under franchising. Subsequent network investment is dependent on future policy decisions.
- DCC's Link2 DRT service will be operated through a service permit.
- The MSA would remain considerate to future improvements to on-bus accessibility and would seek to implement the findings of the accessibility survey that is presently underway to improve off-bus accessibility.
- Under franchising, the MSA would be able to take strategic control of passenger safety across the entire regional bus network enabling it to develop region-wide strategies to improve passenger safety on local buses.
- Approximately 10% of the region's fleet is expected to be zero emission vehicles by 2026. The MSA would continue to work towards the BSIP aspiration of achieving a 100% decarbonised fleet by 2035.
- Franchising enables the MSA to set employment standards and conditions across the regional bus industry. The MSA would require operators to pay their employees a Real Living Wage as a minimum standard. Operators will also need to gain a Shine accreditation.
- The packaging and depot strategies have been developed in a manner that minimises changes to existing working-location arrangements for staff so as to minimise disruption for employees transferring at the start of franchised contracts.

- | |
|---|
| <ul style="list-style-type: none">• There are further investment opportunities that would be possible to pursue under franchising, but which do not form part of the core franchising proposition. Such further investment opportunities include:<ul style="list-style-type: none">○ Free travel for under-18s.○ Concessionary travel harmonisation.○ Increased PVR.○ Delivering a zero-emission fleet through the acquisition of additional ZEBs. |
| <ul style="list-style-type: none">• The MSA, Nexus, DCC, and NCC engaged with the five identified neighbouring LTAs (TVCA, Scottish Borders Council, YNYCA, Cumberland Council, Westmorland and Furness Council) in summer 2025 during the development of this assessment.• This took the form of an initial meeting where the MSA provided an update on the project, discussed the scale of cross boundary services and any implications that bus reform may have for these services.• During these discussions, the impact of the proposed franchising scheme on cross-boundary services and the necessity of a seamless transition to franchising emerged as important concerns for neighbouring LTAs focused on strengthening connectivity in their regions and increasing bus patronage. |

10. Enhanced Partnership

This section will:

- Describe, at a high-level, the EP option considered in this assessment - particularly describing the arrangements for branding and customer experience, fares and ticketing, the network, accessibility and fleet.
- Note that this option is reflective of the current EP.

10.1. Existing Enhanced Partnership

10.1.1. As outlined in section 4.1.13, the EP currently in place in the North East was made in March 2023 following negotiation and consultation with bus operators. Most local bus services are required to comply with the standards in the EP Scheme. Facilities and measures which are provided by local authorities and bus operators are also included within the EP Scheme.

10.1.2. This alternative option to the franchising scheme assumes that the Enhanced Partnership continues in its current form throughout the assessment period. As outlined in section 8.1, this approach complies with statutory franchising guidance and was confirmed following engagement with, and lack of objection from, local operators.

10.2. Branding and customer experience

10.2.1. The LTP requires that *“the network should have consistent and cohesive branding such as colour schemes, signage, design standards, and quality of service, so that there is a clear ‘look and feel’ of the network on routes, stops and stations”*.

10.2.2. As the enhanced partnership matures, and the MSA further establishes itself, the Mayor’s logo will be used on marketing materials for bus-related schemes that have been funded by the MSA. An example of this is *“The Mayor’s Fares”*. Fare initiatives are typically the only area with unified branding.

10.2.3. As a result of these difficulties coordinating a consistent campaign across operators, any future brand exercises will be focussed on the new website and app, which is a programme of works currently being sub-contracted to Nexus. The website and app are designed to support network-wide ticketing initiatives and to provide a single source of truth for journey planning region-wide. The intent is for these to fall under a *“Travel North East”* brand (Figure 25), however once implemented this logo will be one amongst many and does not go far in delivering a consistent brand for passengers.

Figure 25: Proposed logo for the Enhanced Partnership



- 10.2.4. Passenger information is assumed to continue to be split between operators and the public sector under the EP. Digital passenger information is likely to consist of individual operators' apps and websites alongside the public sector app and website noted above, with real-time information visible on both (and third-party apps via BODS) as well as at real-time information displays at some stops.
- 10.2.5. Existing public sector responsibilities for branding passenger information at stops are also assumed to continue along the status quo. Nexus, DCC and NCC provide paper timetable information at stops, with different bus stop flags in each authority area¹²⁵.
- 10.2.6. The big three operators each have their own customer charter with inconsistent standards and complaints teams when customers feel the charter has not been upheld. The EP has introduced a network wide North East Bus Passenger Charter with additional measures, such as a 'wheelchair guarantee' which provides a taxi for wheelchair users where they cannot be accommodated on a bus service (providing waiting for the next bus would not be quicker than waiting for a taxi). Passengers seeking customer support of any kind are required to engage with the customer support services of bus operators running the specific service that the passenger is using or has used to make their journey. As mentioned above, each operator has a different approach to dealing with customer complaints and grievances. Passengers can also approach Bus Users UK and make use of their Alternative Dispute Resolution mechanism if they believe that their complaint has not been addressed adequately by the operator.

10.3. Fares and Ticketing

- 10.3.1. Bus operators are legally required to set prices for their own fares/tickets independent of other operators, (except in specific circumstances such as a multi-operator ticketing or fare capping scheme). This can mean that different fares apply for the same journey when multiple operators serve the same route.
- 10.3.2. As of September 2025, all bus operators in the region are currently participating in the £2.50 fare cap scheme, further subsidised from the £3 national fare cap by the MSA. This intervention is designed to assist with the cost-of-living crisis and has continued to significantly reduce the cost of some bus trips in the North East. These arrangements,

¹²⁵ Nexus print paper timetable information for Northumberland through a contract with NCC.

however, require negotiated reimbursement arrangements with operators. It is difficult to determine whether these arrangements offer value for money, as discussed in section 5.4.1.

10.3.3. As part of the EP, BSIP funding has been used to introduce adult multi-modal, multi-operator capped one day tickets: County Durham (£6), Northumberland (£6), and North East-wide (£7.50)¹²⁶. This intervention has significantly reduced the cost of interchange throughout the region. Additionally, BSIP funding is also being used to offer £1 single/£3 multi-modal day tickets for those aged 21 and under. These ticketing interventions are assumed to remain in the future, subject to continued operator participation and funding availability.

10.3.4. Other integrated ticketing is provided through Network One, a partnership of bus operators, Nexus and train companies in Tyne and Wear. These include weekly, four-weekly and annual period tickets that operate on a zonal model.

10.3.5. Further examples of positive ticketing integration in the North East include for major events. For example, during the Great North Run effective coordination between bus operators and Nexus enabled over 144,000 journeys to be taken across bus, Metro and Ferry in 2024.

10.3.6. As discussed above and at section 5.4.6, these fares interventions depend on negotiations between operators and demonstrating value for money is challenging. Current commercial arrangements require annual increases of RPI+2% to maintain operator participation – but it is not sustainable for the MSA to subsidise above-inflation fares increases, meaning bus travel becomes less affordable in real-terms for passengers.

10.3.7. A technical upgrade to the Pop card system will be introduced as part of the EP, enabling passengers who make use of a Pop card to automatically have the cost of their travel capped at the best value ticket for their journey, regardless of operator or mode.

10.3.8. As well as use of a Pop card, payment methods available include contactless credit and debit payment, cash and through various passes and apps. The retention of these payment methods will be subject to operator commercial decisions in the future and some payment methods currently vary between operators.

10.4. Network

10.4.1. Under the Enhanced Partnership, service levels for commercial services in the North East would continue to be chiefly dictated by demand. Secured services ‘fill in the gaps’ where there is insufficient demand to attract a commercial service. This results in variable levels of provision throughout the region.

10.4.2. Each operator plans their own routes/network. As plans are developed in isolation from one another, there can be some duplication on certain corridors. In areas with

¹²⁶ A Tyne and Wear ticket was previously available but has since been withdrawn.

high demand, duplication may be planned as operators compete for market share. Head-to-head on-street competition in the region is likely to continue being largely limited to a small number of key corridors, particularly on roads into and out of town and city centres. Many areas within the North East are already served by one dominant operator.

- 10.4.3. Developing plans in isolation to one another also results in timetable misalignments which prevents passengers from making smooth multi-operator and multi-modal journeys.

Network design and change

- 10.4.4. In the EP, operators would continue to be responsible for planning their own routes/network and they would continue to dictate any future network redesign/change. They are designed independently and so opportunities for coordination with other operators or modes may be limited.
- 10.4.5. As part of the Bus Passenger Charter, and the Code of Conduct, operators have committed to consulting with bus users and affected communities prior to a major route or timetable change to ensure that impacts are fully considered. Despite this commitment, under the EP, operators are under no obligation to make any amendments to their proposed changes as a result of this consultation.
- 10.4.6. There are areas where the public sector has previously been able to exercise some influence, such as agreeing with the relevant operators a Qualifying Agreement (QA) in place on the A1058 Coast Road to provide even headways and ticket acceptance on GNE and Arriva services. GNE, however withdrew from the QA with effect from March 2026, stating that the QA restricted their “*ability to optimise services and ticketing products commercially*”. Section 3.7 of the commercial case further describes the QA and GNE’s decision to withdraw.
- 10.4.7. The Code of Conduct embedded into the EP includes a provision that planned network changes will be implemented at fixed dates in the year which are agreed in advance with the relevant LA/PTE. There are currently six network change dates, approximately every two months. In practice however, operators require flexibility to respond to market conditions and in some circumstances network change may take place outside of these windows. If operators were found to be in breach of these requirements, the only mechanism available is for deregistration of non-compliant services and withdraw public funding. In practice however, such a reaction is difficult to justify as a result of the knock-on effects to network stability that would inevitably follow.
- 10.4.8. BSIP funding is being used to support and enhance the network with new services or improved frequencies where there is demand (such as the night services recently introduced to Newcastle International Airport). Most of this funding is focused on maintaining the existing network however, as challenges such as declining patronage and a shortage of bus services make it difficult to sustain new services. As covered in

the case for change, these investments may also have relatively poor value for money due to a potential lack of competition and transparency.

Bus priority infrastructure

10.4.9. As discussed further in section 4.1, bus priority infrastructure has an important role in positioning bus as an attractive travel choice and responding to passenger priorities around punctuality and reliability.

10.4.10. As discussed in section 9.4, all bus priority and highway interventions are assumed to be delivered under either scenario, and the full list of planned interventions can be found attached as Appendix C.

Demand Responsive Transport

10.4.11. As stated in the previous section, the potential for additional DRT provision is being reviewed. Should this change, the service would likely be provided using similar regulatory and contractual arrangements as those of the Link2 service provided by Durham County Council.

10.5. Accessibility and passenger safety

10.5.1. As in the proposed franchising scheme, the EP would continue to prioritise accessibility, both on and off-bus, in order to best place it to meet the commitments outlined in the LTP.

10.5.2. Work is underway with operators to ensure that they will meet the requirement of the Public Service Vehicles (Accessible Information) Regulations 2023 for all buses to have audio-visual announcements as required by the deadline of 1 October 2026. As part of the EP the MSA is also working with operators to develop and fund a customer service training package for supervisors which would include a module on accessibility.

10.5.3. As also in the franchising case, the EP would consider the outcome of both the public transport accessibility review, and the study of the safety of women and girls when using public transport, being undertaken by the MSA and incorporate any changes identified as necessary for meeting the commitments outlined in the LTP into the wider transport delivery plan. The MSA would continue to remain considerate of potential further improvements to on-and-off bus accessibility as technology and legislation develops, and to broader policy development regarding the safety of women and girls when using public transport.

10.5.4. Operators will remain primarily responsible for the delivery of future on-bus accessibility and public safety improvements across their individual commercial bus networks. To secure network-wide coverage, for improvements such as additional wheelchair spaces the public sector will have to engage in complex commercial negotiations with individual operators to encourage operator uptake of such improvements on their network thereby ultimately providing network-wide coverage.

10.6. Fleet

- 10.6.1. As noted in section 9.6, progress towards fleet decarbonisation has been made through partnership working with operators, with approximately 10% of the fleet decarbonised.
- 10.6.2. Grant funding provided by the MSA to operators (through success in central government funding bids) has supported this decarbonisation. ZEBs have a capital cost premium of approximately £200,000 compared to a diesel vehicle, with grant funding providing up-to 75% of this difference. Funding has also been provided to support the associated decarbonisation at depots to enable ZEB operation, including improving power connections and installing vehicle chargers.
- 10.6.3. The Grant Funding Agreements (GFAs) made with operators to support previous decarbonisation have included a clause that states the funded ZEBs must remain on the agreed route for at least five years, to ensure that North East residents get the benefit of these vehicles. This guarantees the medium-term presence of these vehicles in the region. Operators are, however, free to move vehicles out of the region once these conditions expire.
- 10.6.4. As described in section 9.6, decarbonisation remains a strategic priority for the MSA. A decarbonisation roadmap is being prepared by the customer experience team that considers how the BSIP aspiration of a fully decarbonised fleet can be achieved under both the EP and franchising, acknowledging the significant practical, financial and operational challenges.
- 10.6.5. The FSA does not forecast a difference in fleet between the appraised franchising and EP scenarios; decarbonisation is expected to progress at the same pace in both scenarios – under the EP through providing funding to operators through GFAs and under franchising through setting standards in local service contracts.

Key insights from this section

- The current EP, made in March 2023, is the alternative option to the proposed franchising scheme assessed in this FSA. This approach was confirmed following engagement with, and lack of objection from, local operators.
- Beyond fares initiatives (such as The Mayor's Fares) and the new app and website (under development), it is challenging for the MSA to influence branding any further under an EP. The EP has introduced a network-wide North East Bus Passenger Charter that supplements the existing passenger charters of the big three operators.
- Bus operators are legally required to set prices for their own fares/tickets independent of other operators (except in specific circumstances such as a multi-operator ticketing or the fare capping scheme).
- As of September 2025, all bus operators in the region are currently participating in the £2.50 fare cap scheme, further subsidised from the £3 national fare cap by the MSA. As part of the EP, BSIP funding has been used to introduce adult multi-modal, multi-operator capped one day tickets and offer £1 single/£3 multi-modal day tickets for those aged 21 and under.
- A technical upgrade to the Pop card system will be introduced as part of the EP, enabling passengers who make use of a Pop card to automatically have the cost of their travel capped at the best value ticket for their journey across operators and public transport modes.

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| <ul style="list-style-type: none">• Under the EP, service levels for commercial services in the North East would continue to be dictated by demand with secured services filling in the gaps where there is insufficient demand to attract a commercial service but there exists a social need for a bus service. This results in variable levels of provision throughout the region.• As part of the Bus Passenger Charter and the Code of Conduct, operators have committed to consulting with bus users and affected communities prior to a major route or timetable change to ensure that impacts are fully considered. Despite this commitment, under the EP, operators are under no obligation to make amendments to their proposed changes as a result of this consultation. |
| <ul style="list-style-type: none">• Work is underway with operators to ensure that operators meet the Public Service Vehicles (Accessible Information) Regulations 2023 requirements. The EP would also consider the outcome of the MSA's public transport accessibility review and the study being conducted by the MSA on the safety of women and girls when using public transport and incorporate any feasible changes. |
| <ul style="list-style-type: none">• Within the EP scheme, the public sector can require participating operators to meet defined standards in areas like vehicle emissions and audio-visual information systems. While the EP can mandate compliance with these standards, the cost and responsibility for meeting them remains with the operators. The BSIP also aims to completely decarbonise the North East's bus fleet by 2035. Government subsidies have previously covered 75% of the incremental cost of a ZEB. |

11. Assessment of options against bus reform objectives

This section will:

- Assess both options against the bus reform objectives set in section 6, describing whether, and the extent to which, each option contributes to achieving these objectives and delivering their intended outcomes.
- Summarise the assessment against objectives with a RAG rating for each option's ability to deliver intended outcomes.

11.1. Introduction to assessment against objectives

11.1.1. This section assesses the extent to which the EP and franchising options will achieve the six bus reform objectives and the 13 outcomes detailed in section 6. As described in section 6, the bus reform objectives are closely linked to, and derived from, the LTP and other relevant policies. This exercise therefore shows the extent to which the two assessed options would contribute to the implementation of these policies as required by the TA2000 and statutory franchising guidance.

11.1.2. The assessment against objectives considers the extent to which the EP and franchising options will achieve each outcome through a high-level narrative and RAG rating in a summary table.

11.1.3. The narrative is intentionally focused on the most significant factors influencing whether the relevant outcome can be achieved. It is informed by, and incorporates material from, all five cases in the FSA.

11.1.4. A small number of key arguments appear multiple times throughout the assessment against objectives. These can be considered as overarching strategic arguments for pursuing a franchising scheme.

11.1.5. Such arguments include the ability for greater consistency in the offer and passenger experience; that bus travel is often a distress purchase with limited competition for passengers; and that, while some improvements can be introduced under the EP, these are subject to complex and negotiated commercial agreements for operators which may not be an efficient use of public funds.

11.2. Buses at the heart of an integrated transport network: 'The Angel Network'

Outcome: There should be a single, integrated source of journey information and customer support that is easy to understand.

EP

11.2.1. There is an inconsistent and confusing passenger information and customer support landscape in the status quo. Passengers are expected to navigate a complex digital ecosystem with various applications and websites, without a single source of truth or one stop solution. These tools have varying levels of detail, accuracy and usability.

11.2.2. This is particularly acute for passengers making multi-operator and/or multi-modal journeys. Operators' applications only cover that operator's services, and while some third-party sources (e.g. Traveline, Google Maps) will provide network-wide journey planning, these lack merchandising functions. Passengers therefore must use multiple tools to navigate the network, which can be frustrating for passengers and deter public transport use.

11.2.3. The EP is enabling an improvement to the status quo ante through the website and app under development by Nexus that will replace its existing offering – including journey planning, real-time information and some retailing functionality. This app will, however, supplement rather than replace the existing operator offering as it will not be able to support all the necessary features such as merchandising and customer support. Passengers will continue to need to navigate a complex digital ecosystem without a single and integrated platform for information and customer support.

Franchising

11.2.4. Franchising will significantly simplify the information and customer support arrangements for passengers – creating a consistent experience for passengers with a single source of truth.

11.2.5. Passengers would use a single application and website covering the whole integrated transport network, including the Metro. This would be a one-stop solution for passengers, covering journey planning, merchandising, disruption information and customer support – including transparently displaying the best value price for the journey across all modes of transport. Other third-party applications with some of these functions would likely be available, but these would not be essential for passengers to use in addition to the website and app.

11.2.6. There would also be increased coordination between the delivery body and relevant organisations like operators, local authorities (including in their capacity as highways authorities), and the UTM to manage the bus network and share information at times of disruption. Real-time disruption information would also be centralised with consistent and reliable reporting.

11.2.7. A single integrated source of truth will support passengers – both residents and visitors to the region – to confidently make journeys across different modes. This creates the feeling of an integrated network and promotes public transport as a simple-to-use and easy-to-understand travel choice.

EP	Franchising
Passengers are currently and will, in the future, be expected to navigate a complex digital ecosystem to obtain journey information and customer support.	Passengers will be able to use a single application and website covering the entire integrated transport network to obtain journey information and customer support.

Outcome: A unified and integrated North East transport network.

EP

- 11.2.8. There is not a unified and integrated transport network in the status quo – and there are considerable legal and commercial barriers to delivering a unified and integrated network. Operators have a commercial incentive to compete with other modes where this is profitable while competition law limits the extent to which operators can cooperate – particularly on fares and ticketing.
- 11.2.9. There is no guiding mind responsible for the North East bus network as a whole. The North East bus network is the sum of multiple distinct commercial networks designed, operated and managed separately by individual operators according to their own commercial motivations and incentives. Operators are aware of the performance and patronage flows on their own network, but there is no organisation with full awareness of performance and patronage flows across the whole North East public transport network. Public sector control is limited to providing a comparatively small network of secured services where the legal test to do so is met.
- 11.2.10. Passengers therefore experience inconsistency across the bus network, with different fares and ticketing arrangements, branding and passenger experiences according to operator. There is some historic multi-operator and multi-modal integration present, such as Network One ticketing, but this is supplemental to single-operator and bus-only arrangements.
- 11.2.11. Cooperation through the EP offers some ability to improve integration across the transport network, including through multi-modal tickets subsidised with BSIP funding and the expected introduction of a recognisable symbol for public transport under the EP.
- 11.2.12. These measures make some progress towards – but crucially do not deliver – a unified and integrated transport network. Network planning would remain fragmented with incentives for modal competition while the experience of using the network for passengers would be inconsistent across operators.

Franchising

- 11.2.13. Bus services will sit as part of an integrated public transport network – and as the region's most used form of public transport, buses will be an essential part of this integrated network.
- 11.2.14. Passengers travelling on franchised bus services will experience a consistent look and feel across the network, owing to a single and recognisable brand, marketing campaigns, a single source of truth for passenger information and a simplified fares and ticketing offer across the network.
- 11.2.15. The DB will become the guiding mind for network planning, consolidating a function previously split across operators. Strategic decisions could therefore be made considering the regional bus network in totality.

- 11.2.16. Farebox revenue for bus, Metro and Ferry flowing to the same source would also change incentive structures from rewarding modal competition to abstract from those modes to promoting modal integration to build an attractive integrated network capable of attracting new passengers. The DB will have enhanced awareness of performance and patronage flows across the whole integrated transport network – allowing coordination and planning across the network rather than individual services or transport modes.

EP	Franchising
The EP has some potential to integrate the North East public transport network through measures like multi-operator, multi-modal ticketing but it neither introduces a single guiding mind for network planning nor enables passengers to feel like buses are a part of a regional integrated transport network.	Franchising has greater potential to integrate the North East public transport network as it would make the DB the guiding mind for network planning and will enable passengers to feel like they are part of an integrated regional transport network through the introduction of common branding and by providing users with a single point of passenger information.

Outcome: Bus fares should be affordable, and tickets should be easy and simple to use.

EP

- 11.2.17. Fare structures are complex with limited interoperability between operators. Passengers' ability to achieve best value for their travel is dependent on their ability to navigate a complicated and potentially confusing landscape with approximately 370+ ticketing options to select the product best suited for their expected travel itinerary.
- 11.2.18. Ticketing arrangements have partially been simplified and reduced in price through The Mayor's Fares, including the £2.50 single fare cap, £1 fare for under-22s and all-day tickets. These fares have become popular travel choices, being used on 75 million journeys¹²⁷.
- 11.2.19. Such public sector interventions can only be introduced through commercial negotiations with operators, including the agreement of a reimbursement mechanism for revenue forgone. It is difficult to ascertain the extent to which these arrangements are delivering value for money as there is limited transparency and reimbursement mechanisms are often complex.
- 11.2.20. Existing reimbursement mechanisms assume that above-inflation fares increases are required by operators – the commercial arrangements for the MSA's The Mayor's Fares range assume increases of RPI+2% annually. Fares would consequently become relatively less affordable for passengers each year.

¹²⁷ Between the launch of these products and December 2025. The U22 single launched on 7 May 2023, U22 day ticket on 3 September 2023, adult day tickets on 5 November 2023 and the adult capped single on 1 January 2025.

Franchising

- 11.2.21. Fares will be significantly simplified under franchising. There will be a consistent pricing structure across the network, which accounts for the distance travelled on a journey, while multi-modal daily and weekly caps would allow easy and simple interchange.
- 11.2.22. Fares interventions will no longer be dependent on commercial negotiations and the agreement of reimbursement mechanisms. These would only be required where fare acceptance was a condition of a service permit which represents a much smaller proportion of ridership and revenue. The DB would have greater transparency over fares and ticketing arrangements to monitor the efficiency of public subsidy.
- 11.2.23. Fares are forecast to be relatively more affordable under franchising than the EP as the MSA is assumed to limit fare increases to RPI for a decade after the introduction of franchising, keeping affordability constant in real terms.

EP	Franchising
Fare structures are complex with limited interoperability between operators but has been simplified for the passenger through ticketing interventions (like the £2.50 fare cap and multi-modal tickets) funded by the public sector that may not be the providing it with the best value for its money.	Fare structures will be simplified under franchising through the introduction of multi-modal daily and weekly caps with the DB being able to monitor the efficiency of public subsidy directed towards fares and ticketing arrangements more effectively.

Outcome: The North East should achieve the highest sustainable standards for a fleet of green bus vehicles.

EP

- 11.2.24. Further decarbonisation will require continued willingness to invest on both the MSA and operator sides. The MSA remains committed to its broader strategic aspiration of achieving a 100% ZEB fleet by 2035 but achieving this requires sufficient funding.
- 11.2.25. Operator willingness to invest will equally depend on their own market positions and commercial considerations; operators are unwilling to invest on ZEBRA-like terms at present due to uncertainty around their future operations. Further investment, and hence the achievement of the MSA's aspirations, may be deterred by other operator considerations outside the authority's control.
- 11.2.26. The public sector will continue to have some influence over vehicles used on the network, through specification in secured service contracts – such as a minimum Euro emissions standard to operate – but this only applies to a small proportion of the network.

Franchising

- 11.2.27. Funding would remain a primary constraint to decarbonisation under franchising – future ZEB investment is a separate investment proposition that Cabinet would take a decision on at the appropriate time.
- 11.2.28. Franchising, however, would enable a clearer path to decarbonisation if Cabinet resolved to allocate the necessary funding. The DB will be able to specify vehicle requirements for every route on the network – including minimum emission standards and whether and when ZEBs are required – and it is likely to be easier to plan an overall programme of depot electrification where sites are owned by the DB.
- 11.2.29. Operators would bid to meet these specifications, balancing pricing the cost of doing so into their bids with the need to present a competitive tender to win the relevant contracts. This presents another cost lever for operators to bid on (e.g. making different assumptions on any resource saving from changing fuel source, attaining better value through a bulk vehicle order) – in turn potentially reducing the cost of decarbonisation to the MSA.

EP	Franchising
Further decarbonisation requires willingness to invest from both the MSA and the operator, with operator willingness to invest depending on their market position and other commercial considerations.	Franchising would enable a clearer path to decarbonisation with the DB gaining the ability to specify vehicle requirements for every route on the network (including minimum emission standards).

Outcome: Information, including real time information, should be accurate, integrated and accessible through a single source.

EP

- 11.2.30. Operators provide real-time journey information through their own applications and websites. Operator-owned applications and websites, however, are not integrated with other modes of transport, although BODS compatibility means that passengers can access this through third-party applications which often provide multi-modal information.
- 11.2.31. Introduction of the new Nexus website and application will improve the passenger experience by providing an information source covering the integrated transport network. This will, however, supplement rather than replace the existing operator offer meaning the current fragmented system of passenger information will be retained.

Franchising

- 11.2.32. A single website and application will provide information across the integrated transport network, including real-time information, for passengers under franchising. This will supersede existing operator apps and websites for information, simplifying arrangements for passengers and providing a single source of truth.

- 11.2.33. There will also be consistent branding of off-bus information (such as timetables at stops and stations), aligned to the branding of the wider integrated transport network, to build passenger confidence and promote a cohesive ‘look and feel’ of the network.

EP	Franchising
Bus operators provide real-time journey information (bus only) through their own apps and websites with the new Nexus website and app supplementing rather than replacing the existing operator offer.	A single website and app will provide real-time journey information across the integrated transport network replacing operator apps and websites and consistent branding for all off-bus information will build passenger confidence.

Outcome: The delivery model encourages use of bus as part of a multi modal network.

EP

- 11.2.34. It is possible to use buses as part of multi-modal journeys in the status quo – but as buses are not part of an integrated network that encourages multi-modal journeys, doing so requires a level of knowledge and planning.
- 11.2.35. A passenger intending to take a multi-modal journey needs to determine which ticketing products are valid for their intended itinerary from a complex landscape and access different sources of information. Operator control over branding, fares and ticketing and passenger information means that the journey will look and feel more like several journeys on different networks rather than a single journey on a single mode.

Franchising

- 11.2.36. Franchised bus services would become part of a multi-modal integrated transport network. Consistent information, branding and marketing will give the network a joined-up look and feel, promoting it as a single transport option for passengers.
- 11.2.37. Fares and ticketing interventions will encourage the use of bus as part of a multi-modal network. A simple to understand and use multi-modal daily cap will allow passengers to make seamless journeys across the region by whichever modes work best for their travel itinerary.
- 11.2.38. The DB will be responsible for both running Metro services and contracting local bus services, the two most common modes of public transport in the North East. This allows the multi-modal network to be fully coordinated and planned as a single network, in contrast to the status quo where bus operators each largely plan their own networks independently of each other, and other modes.

EP	Franchising

A passenger intending to take a multi-modal journey needs to determine which ticketing products are valid and represent the best value for money for their intended travel itinerary from a complex ticketing landscape.	A simple to understand and use multi-modal daily and weekly cap will allow passengers to make seamless journeys across the region by whichever modes work best for their travel itinerary.

11.3. Improve bus punctuality and reliability

Outcome: Passengers should be confident that buses will operate as scheduled.

EP

- 11.3.1. Operators are theoretically driven to improve punctuality and reliability in a deregulated environment by competitive pressure. Poor performance would be expected to reduce revenue as customers switch to other operators (if any are available) or move to other modes of transport, particularly private cars.
- 11.3.2. Competitive pressure is, however, often much more limited in reality, reducing its potential as a mechanism to drive performance. Bus travel is often a distress purchase for passengers, with 47% having no alternate travel option; there are large parts of the region with only one major operator and no other public transport options, with car ownership being unaffordable for many low-income passengers.
- 11.3.3. Operators are also driven to improve punctuality and reliability to meet the expectations of the Traffic Commissioner. These expectations are clear and universal, but potential sanctions are limited and are often blunt – such as revocation of licenses, fines or curtailment of vehicle numbers – which may not improve services for passengers if enforced. Punctuality has consistently sat below the TC’s compliance threshold.

Franchising

- 11.3.4. Operators will be incentivised to maintain and improve, where possible, punctuality and reliability under franchising through a performance regime incorporated into local service contracts. Operators will be able to earn additional incentive payments for high performance and face deductions for low performance.
- 11.3.5. Incentivisation payments and deductions through the performance regime offer a clearer and more direct link between performance and revenue for operators than the far-off and unclear threat of some level of potentially reduced patronage under deregulation.
- 11.3.6. The public sector will also see direct benefit from investing in bus priority infrastructure as any cost savings following from bus priority infrastructure will directly accrue to the delivery body.

Competitive pressures and possible TC sanctions are supposed to drive operators to provide punctual and reliable services but, limited competition and few TC sanctions has meant that punctuality has consistently sat below the TC's compliance threshold.	Operators are incentivised to provide a punctual and reliable service through a performance regime that provides financial incentives to operators for good performance and makes financial deductions for poor performance.

11.4. Make the bus network resilient

Outcome: The bus network should be financially sustainable and resilient in the long term.

EP

- 11.4.1. Significant reductions to network mileage and increases to fares are expected to be necessary over the appraisal period for operators to return to, and then maintain, target profit margins.
- 11.4.2. A financially sustainable network over the appraisal period would therefore be significantly smaller compared to the network at present and the counterfactual in the franchising case – with substantially reduced frequencies and the risk that some communities lose bus services entirely.
- 11.4.3. Financial sustainability of the network would also reduce – thus prompting further reductions in frequency and/or coverage – if BSIP funding were to expire without replacement, or be significantly reduced, by central government in the future.

Franchising

- 11.4.4. There will be policy decision points throughout the life of the franchising scheme where the Mayor and Cabinet decide a desired level of financial investment into the bus network, with the DB planning the network in line with these decisions.
- 11.4.5. The MSA is assumed to provide the requisite financial support to maintain the network for ten years at the first of these policy decision points. Decisions at later policy decision points would be for the Mayor and Cabinet at that time. This initial investment provides a comparatively larger network than the EP alternative – although still reduced compared to the status quo.
- 11.4.6. Risks around the loss of funding streams such as BSIP remain present under franchising; the size of the network that the MSA can sustainably afford will be driven by the revenue streams described in the financial case, reduction to any of these streams would have knock-on consequences for the size and financial sustainability of the network.

Significant reductions to commercial network mileage and fare increases are expected to be necessary for operators to return to, and then maintain, target profit margins with the financial sustainability of the current network also threatened by any detrimental changes to BSIP funding.	The MSA is assumed to provide the financial support required to maintain the network for ten years at the first policy decision point during the life of the franchising scheme. Risks around the loss of funding streams such as BSIP remain present under franchising.

11.5. Make the bus network accessible and inclusive to all

Outcome: The bus network should be accessible to all communities and demographics, including disabled and older residents.

EP

- 11.5.1. Recent improvements to on-bus audio-visual announcements mandated by legislation further improves accessibility, while the customer charter introduced through the EP includes a commitment to a wheelchair space on each bus and a guarantee that a taxi will be provided where a bus is unable to accommodate a disabled customer who would otherwise be accommodated (provided waiting for the next bus would not be quicker than waiting for a taxi). These interventions make the bus network more accessible and allow disabled passengers to travel with confidence.
- 11.5.2. Network reductions – as discussed above – would, however, likely have a significant indirect impact on elderly people, as they are more likely to live in rural communities. Rural routes tend to generate lower revenues and have higher operational costs; in-turn making them more likely to face frequency reduction or cancellations.

Franchising

- 11.5.3. Interventions that enable accessibility for elderly and disabled people, such as ENCTS, audio-visual announcements on buses and the customer charter would continue to apply under franchising – continuing to support access to the network and providing continuity for their beneficiaries.
- 11.5.4. The DB will also be able to specify standards in local service contracts – including any future enhancements to accessibility features. This would enable such standards to be rolled out faster, and consistently across the network, where enabled by technological improvements and/or funding and political will.
- 11.5.5. Under franchising, the bus network will be wider than it would under the EP due to the policy decision to maintain the size of the network for an initial ten years post-franchising. With 27% of all local bus journeys in the North East being made using concessionary passes, this greater coverage will preserve essential links that are relied

upon by elderly and disabled residents, facilitating social inclusion in education, employment and leisure activities¹²⁸.

EP	Franchising
The customer charter's taxi guarantee alongside pre-existing ENCTS concessions and new legal provisions surrounding on-bus audio-visual announcements provide elderly and/or disabled passengers with more confidence to travel using the bus network but, commercial network reductions by operators driven by their commercial considerations have an outsized impact on these communities.	Alongside ENCTS concessions, audio-visual announcements, and the customer charter, the DB will be able to specify accessibility standards in local service contracts enabling future accessibility improvements to be incorporated efficiently while also being able to prevent the geographic reduction of the network more effectively which benefits elderly and/or disabled communities by increasing their capacity to engage in education, employment, and social activities.

Outcome: The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible.

EP

11.5.6. Bus operators often withdraw or reduce the frequency of commercial services in the face of low revenue. Bus services in rural and coastal communities often have lower levels of patronage (and therefore revenue) when compared to urban services meaning they are more likely to have their frequencies reduced or be cancelled.

11.5.7. The public sector plays a critical role in the preservation of the bus network with LTAs stepping in to secure services that bus operators deem to be financially unsustainable.

Franchising

11.5.8. Financial realities will continue to drive the network but the network is expected to have broader regional coverage under franchising than the EP. This will preserve valuable links across our region which residents in rural, coastal and urban communities rely on every day. Over time this will mean millions of journeys will be taken that would have been impossible without intervention.

11.5.9. Franchising also enables greater cross-subsidy of services, as all revenue would pass to the DB irrespective of franchised operator or where it was created. The DB would be able to target revenue available for enhanced or new services to any area across the region it deemed needed, allowing for a more holistic approach to cross-subsidy and network planning.

¹²⁸ "[Bus statistics data tables: BUS01](#)". Department for Transport. 2025.

EP	Franchising
Commercial bus services in rural and coastal communities often have lower levels of patronage when compared to urban services meaning they are more likely to be cancelled by operators. LTAs step in to secure services that operators deem to be commercially unviable.	Enables greater cross-subsidy from more profitable urban routes to less profitable rural and coastal routes, as all revenue would pass to the DB irrespective of operator or location.

11.6. Ensure that everyone feels safe when travelling, especially women and girls

Outcome: People's safety should be central to the network – including at bus stops and stations, with a particular focus on the safety of women and girls

EP

- 11.6.1. Operators are responsible for passenger safety in the status quo, including the introduction of on-bus measures to promote customer safety and deter antisocial and/or illegal behaviour. These include CCTV on vehicles, communications campaigns and joint operations with the police. The public can encourage operators to introduce particular measures, but the final decision rests with operators.
- 11.6.2. Different operators will naturally pursue different measures, based on their own assessment of each measure's effectiveness and cost. Measures and the information campaigns around them are therefore unlikely to be consistent across the network.

Franchising

- 11.6.3. The CA/DB can introduce measures to protect passenger safety more directly under franchising, as these do not need to be negotiated and agreed. Franchised bus services will include the introduction of customer safety officers across the network, providing a visible presence to deter intimidating, anti-social or criminal behaviour.
- 11.6.4. There will also be greater consistency in messaging and reporting as there will be a single marketing and customer contact function across the integrated transport network. This allows uniform communications campaigns to be rolled out across the network and provides a clear point of contact for passengers seeking to report incidents – including allowing the CA/DB to target future interventions based on information gathered.

EP	Franchising
Operators are responsible for passenger safety with different operators engaging with the police in different capacities and pursuing different measures based on their own assessment of each measure's effectiveness and cost.	The DB/MSA takes strategic control of safety across the network and can implement measures like uniform safety communications campaigns and rolling out customer safety officers across the network.

11.7. Create regional pride in its buses

Outcome: Buses should play their part in delivering regional outputs, such as economic growth, carbon emission reduction and improved public health.

EP

- 11.7.1. The contribution of buses to regional outputs is closely linked to how many people take the bus – which directly reduces congestion and improves air quality and shapes the size of the network and the number of destinations that can be served. Although individual services may make a significant contribution – particularly for passengers using these services, the aggregate contribution of a skeleton network of low-frequency and low-ridership socially necessary services would be limited.
- 11.7.2. As set out in the economic case, network mileage and ridership are both forecast to fall more sharply under the EP option than under franchising. It is likely that this reduced network size and mileage will mean that fewer destinations (including workplaces and education centres) can be served – or served less frequently at less convenient times – limiting buses contribution to economic growth.
- 11.7.3. Fewer buses would mean that some potential passengers will instead either need to make their journeys using their personal vehicle which will result in greater carbon and particulate matter emissions that damage public health or not travel at all thereby causing greater social exclusion and depriving the regional economy of the benefits that could be realised through these journeys.

Franchising

- 11.7.4. Forecast ridership and network mileage are higher under the franchising option, with more residents and visitors will be able to choose bus services as a travel choice – enabling them to travel for work and education – and offering an alternative to car travel.
- 11.7.5. A wider network makes a greater contribution to the region's wider priorities – as described in Table 7 in section 6.7. A comparatively wider, more affordable and higher ridership bus network better enables the achievement of the five missions set out in the MSA corporate plan – improving connectivity to jobs and opportunity, stimulating economic activity in town and city centres, reducing emissions and adding to the region's appeal to investors.
- 11.7.6. A full appraisal of the impacts of bus reform on the economy, environment and society are presented in the economic case. Franchising delivers beneficial impacts relative to the EP such as reduced congestion, improved access to employment, time savings for passengers, and reduced greenhouse gas emissions.

EP	Franchising
Sharper declines in ridership and network mileage will reduce the contribution of buses to the regional economy.	The comparatively higher forecasted ridership and network mileage means that a franchised bus network would offer a

	greater aggregate contribution to the regional economy.

Outcome: North East residents should be advocates of the bus network.

EP

- 11.7.7. Approximately half of all bus passengers have no suitable alternative for their journey. National Travel Survey data shows that bus use decreases rapidly as car access increases. Those without access to a car or van in England outside of London took an average of 81 bus trips, those with some access to a car or van took 19¹²⁹, with the main driver of cars or vans taking just seven local bus journeys a year¹³⁰.
- 11.7.8. Residents are therefore not advocating for the bus network with their actions; passengers are often those with no alternative as those with the choice largely choose different modes of travel.
- 11.7.9. Operators are theoretically incentivised to promote potential innovations that improve the journey experience for passengers, in order to attract new customers and increase their revenue. These incentives have enabled some improvements – such as leather seating and other measures to make some services ‘feel premium’ – but bus services frequently remain the travel option of last resort.

Franchising

- 11.7.10. Extensive public consultation on the LTP in winter 2024/25 received 16,294 responses, with 81% agreeing with its aim to create a green and integrated transport network that works for all and 81% also agreeing that the document LTP focuses on the right improvements. 64% of responses indicated that the proposed improvements would increase their use of sustainable travel.
- 11.7.11. Franchising enables the delivery of that aim. Integrated ticketing, simplified fares, clear and consistent passenger information are innovations that the introduction of franchising will introduce to the North East bus network which are likely to improve the customer experience for bus passengers. This, in turn, makes it more likely that passengers will become advocates of the network.
- 11.7.12. Franchising enables delivery of the LTP’s aim and the improvements it identifies including integrated ticketing allowing passengers to seamlessly change between modes, simple and easy to use fares and clear and consistent passenger information. These improvements, enabled by franchising, will reflect public feedback and support North East residents to be advocates of the bus network.

¹²⁹ Those listed as ‘Persons in households with a car or van – other driver’ (such as those insured as a named driver on a vehicle primarily driven by somebody else).

¹³⁰ “[National Travel Survey: 2024](#)”. Department for Transport. 2025.

EP	Franchising
Residents are presently not advocating for the bus network through their actions as the majority of bus passengers choose the bus because they have no suitable alternatives for their journey.	Integrated multi-modal ticketing, simplified fares, clear and consistent customer information and support are innovations that will be introduced under franchising that reflect public feedback thereby making it more likely that residents will become advocates of the bus network.

11.8. Summary

Objective	Outcome	Delivery Option	
		Franchising	EP
Buses at the heart of an integrated transport network: 'The Angel Network'	There should be a single, integrated source of journey information and customer support that is easy to understand		
	A unified and integrated North East transport network		
	Bus fares should be affordable and tickets should be easy and simple to use.		
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles		
	Information, including real time information, should be accurate, integrated and accessible through a single source		
	The delivery model encourages use of bus as part of a multi modal network		
Improve bus punctuality and reliability	Passengers should be confident that that buses will operate as scheduled		
Make the bus network resilient	The bus network should be financially sustainable and resilient in the long term		
Make the bus network accessible and inclusive to all	The bus network should be accessible to all communities and demographics, including disabled and older residents		
	The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible		

Ensure that everyone feels safe when travelling, especially women and girls	People's safety should be central to the network – including at bus stops and stations, with a particular focus on the safety of women and girls and other vulnerable groups		
Create regional pride in its buses	Buses should play their part in delivering regional outputs, such as economic growth, carbon emission reduction and improved public health		
	North East residents should be advocates of the bus network		

12. Conclusion

This section will:

- Summarise and share key messages from the preceding sections of this case.
- Conclude that making a franchising scheme would make the greatest contribution to implementing the MSA's LTP and its other relevant policies.

- 12.1. The MSA sets out five clear and ambitious missions in its Corporate Plan; the overall aim of these is to increase opportunity, create more well-paid employment, improve transport connections, build a greener North East and reduce child poverty.
- 12.2. The LTP was approved by Cabinet in March 2025, following an extensive consultation across the region. The LTP aims to create a green and integrated transport network that works for all. Transport is a key enabler of the MSA's wider aspirations – the LTP identifies that achieving its aim will enable inclusive economic growth, help protect the environment and tackle climate change and help achieve better health outcomes.
- 12.3. Buses are the region's most used form of public transport – with 115.9 million journeys taken on bus services covering 51.4 million miles in 2024/25. Bus services provide vital connections to employment, education, healthcare and leisure destinations. Buses are many people's only form of public transport and offer a vital lifeline; this is particularly significant for those living in the region's rural and coastal communities where other transport provision is generally more limited. Buses will therefore be an important part of delivering a green and integrated transport network that achieves the LTP's ambition.
- 12.4. There is a challenging landscape for bus use in the North East, with a substantial and long-term decline to the network. Bus use in the North East¹³¹ in 2024/25 was only a third of its level in 1985/86. This is an ongoing trend: annual ridership has fallen by 51.5 million journeys in the fifteen years between 2009/10 and 2024/25 while the network has lost 24.4 million miles over the same period – with a 28% decline in Tyne and Wear, 39% decline in County Durham and 43% decline in Northumberland.
- 12.5. Several other challenges in the status quo are identified in the case for change. These are:
- **An inconsistent and unintegrated customer offer.** Operators provide different passenger information and ticketing offers, meaning there are inconsistent standards and a frustrating lack of integration for passengers.
 - **Value for money.** Operators require reimbursement for public sector fare interventions, which require complex commercial negotiations with limited transparency for the MSA and no way to introduce competition.
 - **Lack of competition.** Many parts of the North East are served by a single large operator, particularly in more rural and coastal areas. These are functional monopolies with little need to compete for passengers.

¹³¹ Including Tees Valley, due to data availability

- **Accountability to communities.** Operators dictate the pace, frequency and nature of any service changes which – while often necessary – are highly disruptive to passengers. There is limited ability for local communities to influence the bus service in their area.
- **Punctuality and reliability.** Punctuality in the North East sits below the performance expected by the Traffic Commissioner (although is higher than England outside of London). Poor performance undermines passenger confidence in the network and makes the bus a less attractive option to private cars and other modes.
- **Passenger safety, particularly preventing violence against women and girls.** Issues around safety and security on public transport remains a significant concern. There is no transport safety scheme operating across the whole MSA area.
- **Child poverty.** Addressing the high rates of child poverty in the North East is a strategic priority for the region, but fragmentation and inconsistent network coverage means that transport – including the local bus network – often cannot reliably connect people to employment and education opportunities that would lift families out of poverty.

12.6. The MSA has considered possible options for bus reform, in line with the requirements in legislation and statutory guidance, with two feasible options identified. These options are making a franchising scheme or continuing with the current EP. Both would apply across the MSA's whole area.

12.7. Sections 8 and 9 describe both options in detail and outline specific interventions that would be introduced under each. The EP would involve continuing to work with the region's bus operators to deliver mutually agreed interventions. Making a franchising scheme would transfer control to the MSA, which (through its Delivery Body) would issue local service contracts to operators through a competitive procurement process to operate the network to its specification.

12.8. The MSA has developed six bus reform objectives – aligned to the aim and policy objectives of the LTP – and assessed both options against these objectives. This exercise established that franchising better achieves the bus reform objectives than continuing with the current EP, including significantly greater ability to make buses the heart of an integrated transport network.

12.9. Retaining the status quo risks significant further decline to bus ridership and the size of the network – compared to an initial ten-year intervention period under franchising where fares do not increase beyond inflation and the size of the network is maintained. It is estimated that under the status quo:

- There would be 25.7 million fewer journeys annually at the end of the ten-year intervention period than under franchising.
- Fares would be 22% higher at the end of the ten-year intervention period – reducing the affordability of bus travel.

- 12.2 million miles would be lost compared to franchising over this ten-year period.

12.10. This strategic case has established that there is a clear need for intervention in the regional bus market to respond to the significant and long-term decline and achieve the MSA's strategic aspirations for the region. Franchising is found to be the bus reform option that would make the greatest contribution to the implementation of the MSA's LTP and its other relevant policies.

Franchising Scheme Assessment:

Economic Case

March 2026

1. Introduction

1.1. Purpose of the economic case

1.1.1. Section 123B(3) Transport Act 2000 (TA2000) requires an assessment to consider whether a proposed franchising scheme will represent value for money (VfM); this is replicated in statutory franchising guidance. The economic case fulfils this requirement.

1.1.2. The purpose of the economic case is therefore to assess and demonstrate the VfM of alternative bus service delivery options for the North East MSA (the MSA).

1.1.3. The assessment is prepared in accordance with the HM Treasury Green Book¹ and the Department for Transport (DfT) TAG (Transport Analysis Guidance)², as well as the DfT franchising guidance (January 2026)³. This alignment ensures that all forecasts, modelling, and impact appraisals are not only methodologically sound but also policy-compliant and consistent with UK government expectations for major transportation investment decisions. This supports the transparency and credibility of the evidence base underpinning any recommendations made.

1.1.4. As established in the strategic case, the two options under consideration are:

- **Enhanced Partnership (EP):** This is the reference case, reflecting the continuation of existing legal and operational arrangements between the MSA and local bus operators. It captures what is realistically deliverable through current partnership powers and consensus-building, in the absence of further regulatory change.
- **Franchising:** This model involves the MSA adopting statutory powers to plan, specify, and procure local bus services through a competitive tendering process. Franchising would see the MSA, through its Delivery Body (DB), set route patterns, fares, service standards, and deploy integrated branding and customer experience across the regional network.

1.1.5. The appraisal of options leads to the identification of a preferred option that represents the optimal balance between costs, benefits and risks to society and the public sector, allowing for any qualitative factors which could affect a decision. This economic case presents the appraisal of these options from an economic perspective.

¹ [“The Green Book \(2022\)”](#). HM Treasury. 2024.

² [“Transport analysis guidance”](#). Department for Transport. 2025.

³ [“Setting up a bus franchising scheme”](#). Department for Transport. 2026.

1.2. Appraisal scope and parameters

1.2.1. The appraisal assesses the franchising option against the continuation of the EP which reflects the baseline for service provision in the absence of further reform. This incorporates:

- Establishment and quantification of economic, environmental, and social costs and benefits.
- Consideration and description of the impacts on a range of user groups; including current passengers, new/potential users, operators (large and small) and stakeholders across the wider regional economy and environment throughout the transition period through to delivery.
- Application of both monetised and non-monetised (qualitative) appraisal methods, using the Green Book and DfT guidance.
- Consideration of transition impacts, covering potential risks and disruptions associated with change, as well as paths to long-term network sustainability.
- A VfM assessment of franchising relative to the continuation of the EP is ultimately provided, including both quantitative outputs (such as Net Present Value (NPV) and Benefit-Cost Ratio (BCR)) and wider qualitative narrative in accordance with government guidance.
- Sensitivity analysis to test uncertainty around key appraisal assumptions such as capital costs, operator margins and demand uplifts.

1.3. Structure of the economic case

1.3.1. To address the requirements of the Green Book and franchising guidance, this economic case is presented across the following sections:

1.3.2. **Section 2 - Impacts of bus reform** describes the specific interventions proposed under each reform option, outlining high-level impacts for existing and new bus users, operators, environmental and social outcomes and Wider Economic Impacts (WEIs).

1.3.3. **Section 3 - Approach to demand, revenue and cost forecasting** explains the methodology for demand, revenue and cost forecasting, including key assumptions, modelling approach and the chosen appraisal period.

1.3.4. **Section 4 - Factors influencing bus demand and revenue** identifies and analyses drivers of current and future bus demand and revenue (e.g. demographics, car ownership, fares, intervention features), with scenario inputs for the EP and franchising scenarios.

1.3.5. **Section 5 - Factors influencing bus network costs** sets out assumptions about the bus network. Details cost drivers and assumptions used in the bottom-up cost modelling, including labour, fuel, fleet maintenance, and overheads, with note of staged transition to zero emission buses (ZEBs).

- 1.3.6. **Section 6 - Demand, revenue and cost forecasts** presents outputs from the forecasting model for each option, covering future demand, revenue and costs and referencing key areas, such as farebox revenue, operating costs and operator margins across both delivery scenarios.
- 1.3.7. **Section 7 - Approach to appraisal of impacts** sets out the approach taken to appraise the impacts of the delivery options, including the methodology and assumptions used to assess economic, environmental and social outcomes. These include both one-off and regular (ongoing) impacts, ensuring a comprehensive assessment over the appraisal period.
- 1.3.8. **Section 8 - Impacts on the economy** examines the direct and wider economic impacts for bus users, operators, other transport users and the North East economy. This includes consideration of impacts on small and medium-sized operators.
- 1.3.9. **Section 9 - Impacts on the environment** assesses the environmental outcomes of each option, including air quality, noise and greenhouse gas emissions, as well as the approach to the ZEB rollout.
- 1.3.10. **Section 10 - Impacts on society** considers wider social impacts, such as access to opportunities, physical activity, affordability, inclusion and the implications for neighbouring authorities.
- 1.3.11. **Section 11 - Impacts on public accounts** quantifies the impact of options on the MSA's finances, including direct and indirect costs and effects on public revenues.
- 1.3.12. **Section 12 - Economic appraisal outputs** summarises all key findings, including NPV, results of sensitivity tests and a consolidated VfM assessment.
- 1.3.13. **Section 13 - Conclusion and value for money statement** provides a summary of the findings of the economic appraisal and a value for money statement.

2. Impacts of bus reform

This section will:

- Set out the anticipated impacts of bus regulatory reform in the North East, comparing outcomes between the EP and the proposed franchising scheme.
- Summarise the specific interventions and delivery levers associated with each option.
- Compare the level of public sector influence, control over the network and the scale, timing and certainty of the interventions that can be delivered under the two options.
- Explain the links to the strategic objectives and show how the differences in the options drive varied outcomes for people, places and businesses, including vulnerable and socially disadvantaged groups, setting out the context for the quantitative appraisal.

2.1. Link to strategic objectives

2.1.1. This economic case is directly aligned with the strategic objectives established by the MSA for bus reform. These objectives underpin the assessment of both the EP and franchising options, ensuring that the appraisal is fully positioned towards achieving MSA's wider regional ambitions. The proposed bus reform is considered in direct relation to the following objectives:

- **Buses at the heart of an integrated transport network 'The Angel Network':** The case considers the potential of each option to achieve a fully unified public transport network, encompassing operational integration across bus, Tyne and Wear Metro, rail, and active travel, as well as cohesion in information, branding, and user experience.
- **Improve bus punctuality and reliability:** The extent to which each option supports more reliable and punctual journeys is addressed, reflecting the MSA's aim to meet high standards of service and operational performance.
- **Make the bus network resilient:** The economic case assesses how each option enhances the bus network's resilience, ensuring reliable service during disruptions and safeguarding regional connectivity and economic activity.
- **Make the bus network accessible and inclusive to all:** The case examines how well each option advances accessibility and inclusion, ensuring equitable public transport for all communities and user groups across the region.
- **Ensure that everyone feels safe when travelling, especially women and girls:** Both the EP and franchising are considered in terms of their capacity to enhance safety and security, particularly for women and girls.
- **Create regional pride in its buses:** The economic case considers the contribution of each option to regional pride, economic growth, carbon reduction, and public health, supporting the MSA's vision for broader social and economic benefits.

2.1.2. By aligning the appraisal and recommendations with these strategic objectives, this economic case ensures that any preferred way forward delivers not only value for money

but is fully consistent with the LTP's aspiration of creating a green, integrated regional transport network that works for all.

2.2. Overview of reform options

2.2.1. Two options were shortlisted for further assessment in the strategic case, reflecting the requirement in statutory guidance that the assessment considers the proposed franchising scheme against an EP comparator and that government funding is only available to authorities operating under an EP or franchising model. Section 7 of the strategic case includes further detail on options available and the option selection process.

2.2.2. The two options appraised in the economic case are:

2.2.3. **Continuation of the current EP:** This is the reference case and involves continuation of the North East EP which was made in March 2023. The EP involves the MSA working in negotiated partnership with local commercial bus operators to deliver an enhanced bus network for the region under the powers set out in the TA2000, as amended by the Bus Services Act 2017. Whilst the MSA can introduce statutory ticketing schemes and discretionary concession schemes, interventions are typically contingent on operator agreement and the commercial viability of routes or initiatives, within the constraints of available public funding. Under this model, the revenue risk largely remains with operators.

2.2.4. **Making the proposed franchising scheme:** The Mayor would make a bus franchising scheme under the powers in the TA2000 as amended, transferring planning, specification and procurement authority for the local bus network to the public sector. Under this proposed franchising model (further detail can be found in section 5 of Commercial Case), the public sector would provide strategic depot sites for larger contract packages, while operators provide buses for contracted routes. Particular on-bus technology (such as ticketing systems, chips allowing for real-time information and tracking, and operational equipment) would be specified and unified integrated transport network branding would be applied on all buses operated under franchise contracts and potentially those under service permits. Most local bus services would operate under contract to the authority, awarded via competitive tender. The public sector would therefore gain comprehensive control over service patterns, fares and ticketing, vehicle and accessibility standards, branding and customer engagement, enabling precise alignment with local and regional policy objectives. The model shifts revenue risk from operators to the MSA.

2.2.5. The EP represents the baseline against which the proposed franchising scheme is assessed. It incorporates the most likely assumptions for costs, benefits, and timing. For the appraisal undertaken for this economic case, no further interventions are assumed beyond existing commitments (although it is acknowledged that the EP may evolve in the future). As the reference case, the EP serves as a benchmark for appraising the impact and value for money of proposed investment or policy decisions.

2.2.6. The EP option has been constructed based on a continuation of the existing EP as it currently operates in the North East, including service levels, fare structures, operational practices and partnership governance. It assumes that the current funding levels (through the Bus Service Improvement Plan (BSIP)) will continue. It represents the most likely future

scenario in the absence of further regulatory reform. No step change in local powers or operator obligations is assumed, only incremental improvements based on what is judged commercially and practically deliverable via continued consensus-building.

2.3. Interventions delivered

2.3.1. Table 1 below summarises the degree to which each of the intervention areas could potentially be delivered under the EP or through franchising.

Table 1: Extent of potential public sector control and delivery certainty by intervention area under EP and Franchising options

Intervention Area	EP	Franchising
Network	Limited/some	Full
Fares & ticketing	Some	Full
Branding & customer experience	Limited/some	Some
Fleet	Some	Broader
Reliability improvements	Some	Broader

Note: All interventions are subject to funding constraints and only those affordable within the budget envelope are included in modelling.

2.3.2. ‘Limited’ implies that the public sector has restricted powers and can only make changes with full operator consent, whereas ‘Some’ indicates that the public sector has modest influence, either through partial funding leverage or voluntary agreements, but still cannot mandate network-wide changes. ‘Broader’ means that, while franchising provides the public sector with additional tools and levers such as contractual performance regimes to improve outcomes (for example, service reliability), practical delivery remains subject to factors beyond the authority’s direct control (such as road congestion or operational issues), so complete certainty cannot be guaranteed.

2.3.3. For this assessment, only the costs and associated benefits for the more basic foreseeable interventions that will be delivered immediately have been considered. However, it is recognised that franchising ultimately may allow the MSA to be more ambitious in the nature and scale of potential improvements in future (with appropriate funding).

2.3.4. The arrangements and interventions under the proposed franchising scheme and continuing the EP are set out in sections 9 and 10 respectively of the strategic case. These are summarised below.

Interventions delivered under the EP

2.3.5. The EP scenario has been assumed to include the following:

- **Network:**
 - Operators will continue to be responsible for planning their own routes and network and dictate any future network redesign/change.
 - Where services are commercially unviable but socially necessary, Nexus (for Tyne & Wear), Durham County Council or Northumberland County Council

will continue to support these through subsidies where this is financially affordable; this may be in a reactive manner following the withdrawal of a commercial service. Further details are provided in section 3 of the commercial case.

- Bus priority infrastructure schemes will be delivered on key corridors across the region, as well as more localised interventions led by the highways authorities. This pipeline covers schemes planned up to 2032 and these are assumed to be delivered under both the EP and franchising.

- **Fares and ticketing:**

- A range of methods are currently available for passengers to purchase tickets. In addition to tap-on payment with a Pop card, passengers can purchase tickets from the driver onboard the bus and pay using either cash or a credit / debit card, or (for some operators and tickets) purchase these off-bus via a mobile application.
- Bus operators will continue to be legally required to set prices for their own fares/tickets independent of other operators (except in specific circumstances such as a multi-operator ticketing or fare capping schemes). This can mean that different fares apply for the same journey when multiple operators serve the same route.
- Whilst all bus operators are currently participating in the £2.50 fare cap scheme (further subsidised from the £3 national fare cap by the MSA) and offering adult multi-modal, multi-operator capped one day tickets and the £1 youth fare for people aged under 21 and under (through BSIP funding), these initiatives do not have guaranteed funding source in the long-term meaning so they may be removed or the price increased to commercial levels in the future.
- Assumptions on fares increases under the EP are set out in section 4.4.

- **Branding and customer experience:**

- As the EP matures, and the MSA further establishes itself, the mayor's logo will be used on marketing materials for bus-related schemes such as fares initiatives that have been funded by the MSA (e.g. The Mayor's Fares). However, beyond fares initiatives and the app and website, it is challenging for the MSA to influence branding any further under the EP. A unified regional bus livery is arguably the most potent way of promoting a brand to passengers; however, while this is possible under the EP⁴, it would require agreement with all bus operators.
- As detailed in section 2.1 of the management case, the MSA's Transport Customer Experience team manages its role in the EP, overseeing programme

⁴ ["Transport for Cornwall prepares to begin operations"](#). Coach and Bus Week. 2020.

delivery, partnership performance monitoring, and marketing and stakeholder engagement to support bus patronage growth.

- Further initiatives to improve the customer experience under the EP include customer service training for front line staff including drivers on how to provide excellent customer service, have a better understanding and awareness of the requirements of those with additional needs, and allyship for various groups to improve perceptions of safety (particularly for women and girls).
- The EP is bringing improvements over the current situation with a new website and app being developed by Nexus to replace their existing platform, including features like journey planning, real-time information, and some retail capabilities. However, this app is intended to supplement, not fully replace, the current operator solutions, as it will not support all essential functions such as merchandising and comprehensive customer support. As a result, passengers will still encounter a fragmented digital landscape, lacking a unified platform that integrates both information and customer support.

- **Fleet:**

- Within the EP scheme, the public sector can require participating operators to meet defined standards in areas such as vehicle emissions, accessibility, audio-visual information systems, branding, or minimum service levels. However, while the EP can mandate compliance with these standards, the cost and responsibility for meeting them—including acquiring new buses, upgrading existing ones, or retrofitting—will remain with the operators.
- Decarbonisation as part of the EP remains a strategic priority and the LTP commits to setting “*the highest standards for a fleet of green, zero emission buses operating as part of an integrated network*”. In the interim, under the EP, operators have committed that all newly manufactured buses will meet Euro VI engine emission standards (as a minimum). Successful central government funding bids have enabled the MSA to part-subsidise the purchase of new ZEBs such that around 10% of the North East fleet will be ZEBs in the near future, with 113 total ZEBs planned or currently operational in the region. However, as these vehicles are owned by operators, under both the EP and franchising there is no guarantee that operators will keep these vehicles in the North East over the long term.

Interventions delivered under franchising

2.3.6. Franchising has been assumed to include the interventions outlined below. Further details on the proposed franchising scheme are provided in section 9 of the strategic case.

- **Network:**

- There will be minimal bus network change introduced on day one of the franchising scheme’s operation with no wholesale reorganisation of routes.

There may be a small number of new or enhanced services which the MSA intends to investigate further during the transition and implementation period.

- In the longer-term, as set out in section 4, it is a commitment of the MSA to maintain the overall level of the network over the first ten years whereas under the EP the network is expected to continue to be cut. Within this, there may be small scale network and timetable changes to reflect changing passenger needs and travel patterns, and operational requirements, but these are likely to have limited impact on the wider network and existing services.
- Bus priority infrastructure schemes will be delivered on key corridors (as per under the EP).
- **Fares and ticketing:**
 - In addition to the current mechanisms available to pay for tickets under the EP (as set out above), under franchising passengers will also be able to buy the full range of tickets off bus via the smartphone app (rather than only some tickets/operators), paying with a debit or credit card.
 - Whilst a detailed fares and ticketing strategy has not yet been developed (it is expected this will be done during the transition and mobilisation period), it has been assumed for this assessment that period ticketing products will be harmonised and rationalised into a much smaller number of products. Period tickets will also become multi-operator, offering more convenient and better value travel for passengers served by more than one operator.
 - Assumptions on fares increases under franchising are set out in section 4.4.
- **Branding and customer experience:**
 - A consistent livery design will be introduced across the fleet of vehicles operating franchised bus services.
 - Branding will be updated across the region's 13,000 bus stops to further communicate that buses are part of the integrated transport network. Existing bus stop flags will be replaced with new flags featuring the integrated transport network branding. Timetable information displayed at bus stops will also be updated to incorporate the integrated transport brand.
 - Digital information will be available to passengers through a single website and mobile application, providing passengers with a single source of truth. Passengers will be able to access timetables, view real-time vehicle locations and purchase ticketing products via the website and app. This will include cross-boundary services.
- **Fleet:**
 - The MSA will seek to continue progress on decarbonisation under franchising, noting however the practical and financial challenges that may constrain a roll-out of ZEBs.

- **Reliability improvements:**

- The reliability improvements under franchising are greater than under the EP, even with the same bus priority interventions, because franchising gives the MSA full network control and enables direct contractual enforcement of performance KPIs on reliability and punctuality. This means the MSA can mandate and enforce reliability standards across the network, whereas under the EP such improvements depend on voluntary operator agreement and have limited, less consistent application. Transition costs relating to interventions that could improve reliability are outlined in section 6 of the financial case.

Nature and certainty of delivery

2.3.7. Under the EP, 'limited' authority means changes typically require negotiation and operator consent; the public sector has almost no power to require network-wide standards or consistent implementation outside this framework. Benefits can be patchy, slow and reversible if partnership consensus is lost. While EPs do not always require unanimous operator consent for changes, many significant modifications must meet statutory operator approval thresholds, meaning that widespread support among operators is necessary for implementation and can limit the public sector's ability to deliver consistent, region-wide standards.

2.3.8. Under the proposed franchising scheme, all interventions flow from an enforceable statutory scheme, and contractual arrangements between the DB and operators, ensuring region-wide consistency and delivery. This approach applies to all contracted local services, apart from those provided under service permits and exempt services, which are subject to separate regulatory arrangements. The structure of local service contracts (as detailed in the commercial case) allow the MSA to require operators to comply with set requirements to operate local services, with contractual enforcement mechanisms if these requirements are breached.

2.4. Extent of intervention across options

2.4.1. Franchising enables the MSA to deliver strategic control by aligning network design, fares, operational standards, fleet investment and customer offer with the MSA's ambitions. This will cover vehicle standards, ticketing and integration, customer service, network information and accessibility.

2.4.2. When compared to an EP, a franchising scheme can more effectively:

- Ensure consistent standards for reliability, cleanliness and safety.
- Simplify fares and ticketing.
- Create a joined up and simple to use bus network with consistent passenger information, branding and customer contact.
- Raise standards by requiring bus operators to compete for the market by offering best value (as opposed to an EP in which there is competition in the market).

- Incentivise better bus performance.
- Achieve greater value for money for investments already made in the bus network.
- Strengthen resilience and long-term financial sustainability for the network.
- Support coordinated labour market and supply-chain benefits by preserving links to key economic, education and health destinations inclusively.

2.5. Scenarios for implementation

2.5.1. The implementation of interventions under the proposed franchising scheme includes day one changes e.g. ticketing through to phased delivery of other interventions e.g. improved integration and fleet branding. This reflects the phased approach to introducing franchising across multiple tranches as set out in the transition strategy in section 5.6 of the commercial case.

2.5.2. The modelling of the benefits to passengers for this economic case reflects the phased delivery of the interventions. Full details are provided in the Model Specification Report (Appendix D).

2.6. Speed and timing of impacts

2.6.1. It is important to note that the scale and timing of benefits may differ between options. EPs typically delivers gradual, incremental improvements, with the timing and coverage governed by the pace of partnership negotiation and commercial viability. Under the EP, the speed and extent of improvements are influenced not only by commercial viability but also by the availability of public sector funding. However, where partnerships are effective and commercially attractive, some benefits may be delivered more quickly than under franchising, particularly for specific corridors or operators willing to invest early. In contrast, franchising unlocks the ability to implement consistent and comprehensive changes across the whole network and user groups, with benefits becoming rapidly and consistently visible to all, especially once the transition to full franchising (with a 2-year phased rollout starting in September 2029 and completed by September 2031).

2.6.2. There is an inherent risk that the benefits gained from the EP may not be sustained in the long term. Historical experience in other regions shows that operators can withdraw from partnership commitments when agreements lapse⁵, leading to erosion of service enhancements or fare initiatives⁶. The MSA's own EP experience to date reflects this (see section 10 of strategic case for further details), suggesting that while short-term gains are possible, the partnership model may struggle to deliver durable change without stronger regulatory levers. However, the economic case assumes that this does not happen and that the benefits of the EP secured to date are continued long term in the FSA.

2.7. Transition impacts

⁵ "Bus Partnerships: Understanding Stakeholder Experiences". Transport Focus. 2019.

⁶ "Bus Services Act 2017 Evaluation Report". Department for Transport. 2023.

- 2.7.1. **EP:** Fewer transition risks, as implementation occurs by consensus and incrementally, but the downside is that the scale and speed of transformation are limited by the need for operator negotiations, which may delay, restrict meaningful change for some groups or lead to a change in scope. While implementation of an EP does not always require unanimous operator consensus, significant changes typically depend on meeting statutory thresholds for operator approval, which can limit the pace and scope of transformation.
- 2.7.2. **Franchising:** Transitioning to franchising may result in temporary disruption, including the risk that some operators might withdraw from the market before competitive contract awards, potentially destabilising vulnerable or commercially marginal routes. If measures such as interim contracts or emergency subsidies are not planned, short-term service gaps could arise. Additional complexities stem from changes in depot and asset access as the MSA/DB assumes ownership of infrastructure, necessitating new operator access agreements and potential transitional support.
- 2.7.3. The MSA will ensure robust, proactive planning for the transition period, including a clear communications strategy, risk/contingency funds and plans, arrangements for depot transfer and access, and close engagement with incumbent operators, communities and prospective market entrants. Experience from Greater Manchester Combined Authority (GMCA) and Liverpool City Region Combined Authority (LCRCA) franchising transitions will inform best practice. Further detail is provided in the Section 4 of the management case.
- 2.7.4. With careful mitigation, transition risks can be contained and are expected to be short-lived (i.e. limited to the initial transition phase), with the long-run benefits of franchising including increased competition associated with depot ownership and the ability to require technology and branding on all buses outweighing initial costs and temporary service instability.
- 2.7.5. Further detail on the risks associated with the EP or a transition to franchising are outlined in the risk register in section 10 of the management case.

2.8. Conclusion

- 2.8.1. By placing full network specification, funding and delivery powers in the hands of the MSA/DB, including the ownership and management of depots, and the authority to require technology and branding on privately owned buses, franchising enables a system-wide approach to economic, environmental and social objectives. The enhanced flexibility, enforceability, and consistency of franchising unlocks greater net benefits, especially for those currently disadvantaged by commercial practices, an inconsistent service and fragmented ticketing. The EP may achieve some similar incremental improvements but is structurally limited in delivering the step-change that regional policy and strategic objectives demand.
- 2.8.2. The additional interventions proposed under franchising relative to the EP provide the potential to deliver a greater level of benefit to passengers and the North East region. However, these incremental benefits need to be compared against the costs of franchising. The following sections set out the approach to establishing the benefits and costs of the franchising option relative to the EP and determine its value for money (VfM).

3. Approach to demand and revenue forecasting

This section will:

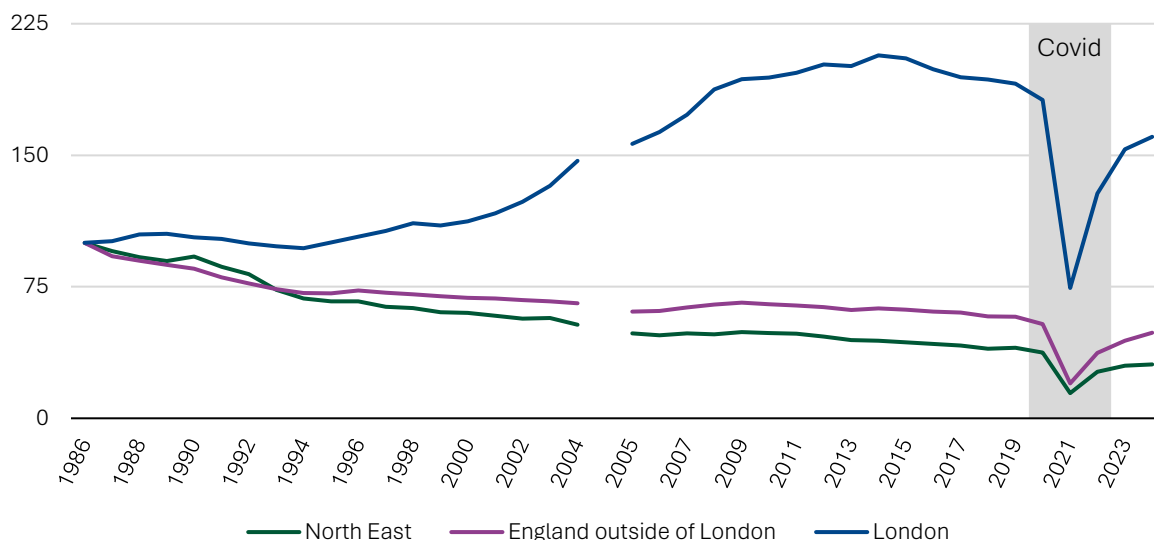
- Describe how comprehensive and reliable forecasts of bus demand and revenue under the two options (the EP and franchising) have been developed.
- Set out how the forecasts are subsequently used to inform the economic appraisal as well as providing a foundation for the financial and commercial cases.

3.1. North East bus network system

- 3.1.1. The cost of running the North East bus network must be met by farebox revenue received by operators and the public funding available to subsidise bus services that would not be commercially viable otherwise. This affordability equilibrium of bus services is not isolated to individual routes but encompasses the whole of the North East bus network as a system.
- 3.1.2. This equilibrium is impacted by multiple factors including exogenous and endogenous demand and cost drivers, the legal and regulatory system under which buses operate and the level of public funding available to subsidise services.
- 3.1.3. Transport is a derived demand for movement of people and goods to satisfy needs like work, education, and leisure. The potential bus demand in the region is largely driven by exogenous drivers (e.g. social, economic factors), as well as effects from the wider transport network (e.g. levels of car ownership). However, the actual demand supported depends on the services operated. The choice of which services to operate depends on the affordability of the network. The affordability, in turn, is driven by the revenue generated, operating costs (including profit margin) and available subsidy.
- 3.1.4. Strategic decisions, such as prioritising services or adjusting fares, can shift the affordability equilibrium. Under the current regulatory system, the MSA's control is limited, but franchising would allow greater oversight of most aspects of service delivery. Additionally, franchising is expected to lower required operator margins by transferring revenue risk from operators to the MSA.
- 3.1.5. Historically, the network has seen declining bus patronage, leading to falling revenue and service cuts as subsidies have not kept pace. Bus patronage in the North East has decreased at a greater pace than England outside of London since 1985, as detailed in Figure 1. The gap in year 2005 is due to difference in indexation for data until then and from 2006 onwards as noted on the bus statistics web page⁷. The strategic case details the patronage and ridership context across the region in more detail. Unless action is taken, this trend is likely to continue. The forecasting approach set out in the following section is designed with this context in mind.

⁷ [“Bus statistics data tables”](#). Department for Transport. 2025.

Figure 1: Indexed passenger journeys on local bus services, 1985/86 to 2024/25 (1985/86 = 100)



3.2. Forecasting approach

EP forecasting

- 3.2.1. Under the current EP system, bus services in the North East are either operated commercially by bus operators or provided on a supported basis where subsidies are needed. As demand, revenue, and costs fluctuate, the split between commercial and supported services shifts, determined by operators' commercial decisions and public sector budgets for supported services. The EP forecasting approach models this dynamic balance each year, accounting for variations in key market and operational conditions.
- 3.2.2. Operators determine which routes they run commercially based on the profitability of their service portfolios. If revenues fall or costs rise, they may reduce or withdraw less profitable routes leaving gaps in the network or reduce overheads e.g. close depots. The public sector can step in to subsidise these gaps within its available budget in respect of socially necessary services, prioritising support based on cost-effectiveness and wider social needs. The EP gives the public sector some influence over bus service delivery such as fares and ticketing arrangements, and service standards. These endogenous changes are incorporated into the model alongside the exogenous drivers (population, employment, economic growth/income, car ownership/costs, competing modes, policy) used in the unconstrained demand, revenue, and cost forecasts. The forecasting model reflects these decisions, evaluating how changes in funding, demand, or operator strategy affect network coverage and financial sustainability.

Franchising forecasting

- 3.2.3. Under franchising, the public sector gains control over the bus network, including decisions on fares, ticketing, services and timetables. The forecasting approach models how these endogenous changes impact demand, revenue, and costs. Unlike the current

EP, franchising replaces separate decisions for commercial and supported services with a single, system-wide network based on accessibility standards as set by the MSA in consultation with the Mayor and Cabinet subject to a financial budget set by them. Each year, the model determines an affordable network configuration by evaluating the net cost per passenger for each potential service.

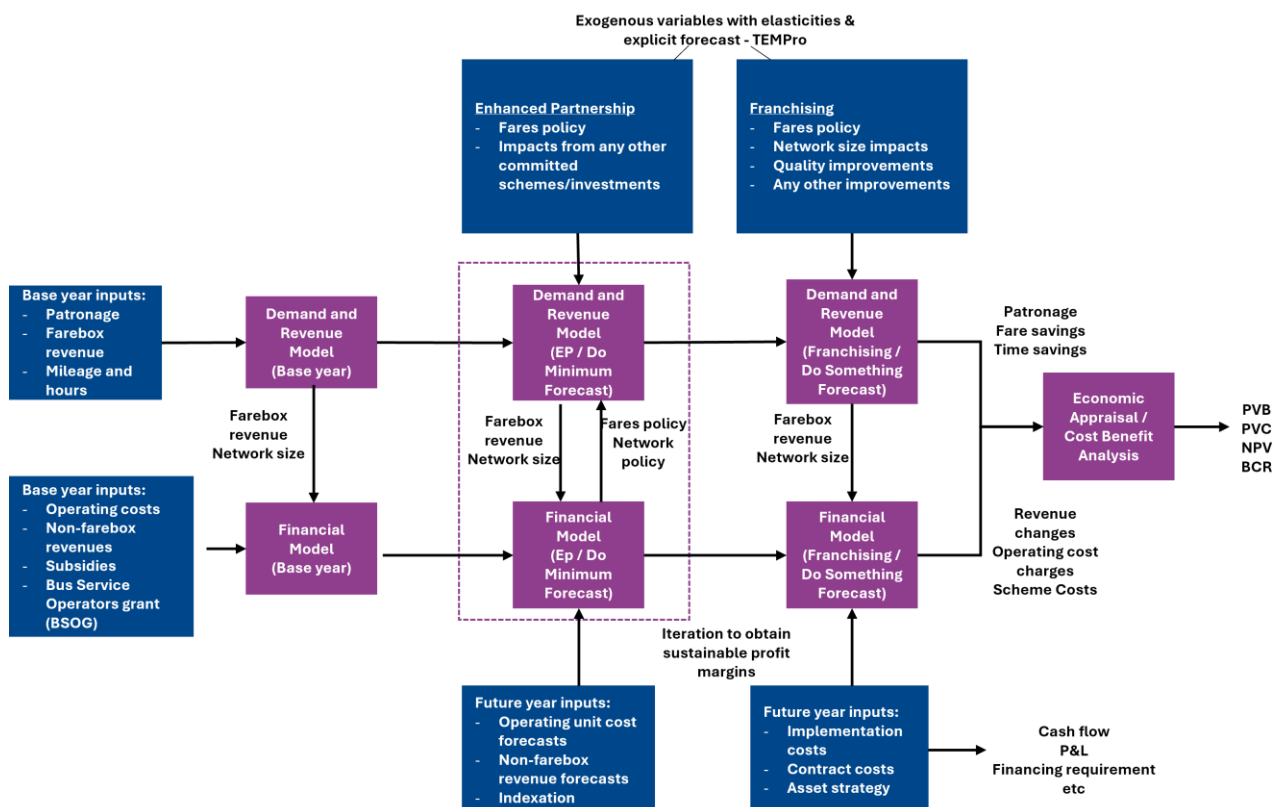
3.3. Modelling approach

3.3.1. A demand and revenue model (DRM) has been built to forecast the changes in bus demand and revenue over time and the implications of interventions relating to franchising in the North East.

3.3.2. The DRM is part of a suite of models used in the assessment. The DRM works alongside a financial model that examines operating costs, revenues and profits in the bus industry. Outputs from the DRM and financial model feed into the cost-benefit analysis (CBA) that calculates welfare benefits and wider economic impacts. The DRM is a spreadsheet-based model which pivots from base patronage according to changes in a set of forecasting variables. It uses a combination of elasticities which explain how sensitive bus patronage is to each of these variables, and explicit demand impacts taken from other sources.

3.3.3. An overview of the model system is shown in Figure 2 below:

Figure 2: Model system overview



3.3.4. The forecasts are based on a number of user inputs including exogenous forecasts, competing mode forecasts, changes in fares, network design and soft measures. The

demand forecasts are used to generate farebox revenue forecasts by applying average yield per trip.

3.3.5. Revenue is calculated based on average yield per trip:

$$\textbf{Demand forecast} \times \textbf{yield per trip} = \textbf{Farebox revenue forecast}$$

3.3.6. It is important for the DRM to establish a realistic EP position with service levels financially viable for operators, informed by interaction between the economic and financial models.

3.3.7. Outputs from the DRM are passed to the financial model for each set of forecasts. The outputs of the financial model in terms of operator margin (EP) or authority surplus or deficit (franchising) are examined to determine the appropriateness of the fares and network assumptions applied in the DRM. Outputs also pass to the CBA model which calculates benefits based on the difference between the EP forecast, and the franchising forecast. The DRM works alongside the financial model that calculates costs, revenues and profits.

3.4. Key modelling assumptions

- 3.4.1. The forecasting approach outlined in this assessment incorporates a variety of assumptions that underpin the demand, revenue and operating costs forecasts, and the overall affordability of the bus network.
- 3.4.2. Subsequent sections detail the specific data sources and assumptions applied to forecast demand, revenue, and operating costs for each delivery option being considered. The principal overarching assumptions guiding this FSA are summarised in section 4.

3.5. Forecasting period

- 3.5.1. When assessing the EP and franchising options, it is important to determine the appropriate period over which the costs and benefits of interventions are evaluated. This period does not need to account for every future cost or benefit, as impacts will extend far beyond the appraisal timeframe. Instead, it should reflect the lifecycle of the main investments proposed. For many transport schemes, a 60-year appraisal period is standard, capturing the long-term value of infrastructure before it would require full renewal.
- 3.5.2. However, for bus reform, there is no single major infrastructure investment dictating the appraisal period. The primary investment cost for MSA and public funding relates to the bus fleet and depots. Accordingly, a monetised appraisal period of 30 years has been adopted given the appraisal is more focussed on service interventions than infrastructure interventions. The forecasting starts from a base year of 2024/25, a scheme opening year of 2029/30 to a final forecast year of 2058/59. The DRM therefore presents outputs for the base year 2024/25 (according to outturn demand and revenue) and forecasts for the period 2025/26 to 2058/59.

4. Factors influencing bus demand and revenue

This section will:

- Provide an overview of the forecasting framework used to forecast bus demand and revenue.
- Set out the base year and level of data disaggregation.
- Identify the factors that influence bus demand and revenue.
- Set out the data sources and assumptions underpinning the demand impact of each factor.

4.1. Overview of forecasting framework

4.1.1. The forecasts of demand and revenue for the MSA assess the likely evolution of bus patronage and farebox income under two regulatory options: the **EP** and **franchising**. The methodology is aligned with industry best practice and DfT TAG guidance to project changes resulting from both exogenous (external, market-driven) and endogenous (intervention-driven) factors.

Base year demand and revenue inputs

4.1.2. The base year for all forecasts is set at 2024/25. This year has been selected to ensure the most reliable representation of prevailing demand and is the latest year of data available from bus operators (the exception to this is Arriva: the latest data available for this operator was for the calendar year 2024).

4.1.3. Passenger and revenue data are provided by regional operators and other North East bus providers, disaggregated by route, ticket type, and user group. Disaggregation is as follows:

- By **route** (directly from operator data).
- By **user group**: Adult, young person, child, scholars, concessionary (English National Concessionary Travel Scheme (ENCTS)).
- By **ticket/product**: Single, operator-specific, multi-operator, duration (single/return/daily/weekly/seasonal).

4.2. Option comparison and model inputs

4.2.1. Table 2 summarises the treatment of key factors across the two options (the EP and franchising) and their classification as exogenous or endogenous model inputs.

Table 2: Forecast scenario by option (exogenous & endogenous factors)

Exogenous / Endogenous	Factor	EP	Franchising
Exogenous	Population & demographics	Yes	Yes
	Employment	Yes	Yes
	Economic growth & income	Yes	Yes
	Car ownership and costs	Yes	Yes
	Competing modes	Yes	Yes

	Congestion	Yes	Yes
	Policy & regulation	Yes	Yes
Endogenous	Network structure	Operator status quo	MSA/DB-mandated
	Fares & ticketing	Limited reforms	Full integration/caps
	Branding & marketing	Current	Enhanced
	Passenger information	Current	Enhanced/standardised
	Punctuality & reliability	Operator responsibility with Traffic Commissioner oversight and targets	Authority oversight/targets
	Bus programmes	Yes	Yes

4.3. Exogenous (market-driven) forecast

4.3.1. Exogenous factors determine the underlying trajectory of bus demand in both options.

4.3.2. Regional bus demand growth rates by local authority, extracted from DfT TEMPro software represent the impacts of exogenous factors (population growth, car ownership levels, employment levels). These include:

- Population & demographics
- Employment
- Economic growth & income
- Car ownership & costs⁸
- Competing modes (local rail, Tyne and Wear Metro)
- Congestion
- Regulatory & policy baseline

4.3.3. These growth factors are modelled to assess the impact across both the EP and franchising scenarios, setting a common foundation for comparison. TEMPro data has been adjusted to reflect the latest regional evidence and insights from the North East Regional Evidence Hub, ensuring that the forecasts align with local conditions.

4.3.4. The high-level assumptions on the exogenous drivers are set out below. More detail on the endogenous drivers including assumptions and associated data sources is provided in Table 5 below and in the Model Specification Report (Appendix D).

- **Population & demographics:** Demand forecasts assume a direct, proportional relationship between population size/age profile and bus trips. Population projections by age group and geography drive segmentation.

⁸ For the purposes of this modelling, it is assumed that current car parking policy and provision remain unchanged, as any future changes to parking are at the discretion of local authorities and could influence car ownership and journey costs in either option.

- **Employment:** Increases in employment drive additional commuting and discretionary demand, with proportional uplift applied.
- **Economic growth & income:** Projected changes in regional GDP and average household incomes influence the propensity to travel and the allocation of trips across modes. Periods of economic growth are typically associated with higher discretionary travel demand (for shopping, leisure, and social purposes); conversely, economic downturns may suppress overall trip-making but can also lead to some mode shift from car to bus.
- **Car ownership & costs:** Growth in car ownership and declining motoring costs dampen bus demand. Local variation is assessed, with parking/congestion interventions modelled as neutral (since these could occur under either option).
- **Competing public transport modes:** Improvements in alternative public transport modes may result passengers switching from bus to other modes on routes or corridors where competition exists. Any such enhancements are assumed to apply equally under each option unless explicitly modelled as a bus reform. For this economic case, the only competition that has been modelled is the impact of fares increases on the Tyne & Wear Metro for selected bus routes. No changes in Metro journey times are considered. Local rail competition is also not considered to impact rail services.
- **Northumberland Line impact:** The Northumberland Rail Line is likely to abstract bus trips from the corridor it competes in, so it has been included in the model as a demand impact. The number of bus trips lost has been estimated by multiplying the forecast number of rail trips on the line by a bus diversion factor. These trips have been deducted from the relevant services on the corridor.
- **Congestion:** Decrease of the DfT average speed projections for road transport modes (cars and buses). It will increase the journey times of their users, and therefore, will reduce car and bus demand respectively.
- **Policy & regulation:** Universal changes (e.g., national concession policies (ENCTS), baseline environmental regulations) that impact both the EP and franchising scenarios.

4.3.5. The net effect, evidenced both locally and nationally, is a decline of bus demand in the absence of intervention. TEMPro forecasts a decline in bus patronage over time due to exogenous factors. This is because, despite a forecast increase in population and employment (which would, all else equal, drive an increase in demand), car ownership and income are forecast to increase which has a negative impact on bus demand. It is important to remember that TEMPro only represents the impacts of exogenous influences on demand, and assumes all other endogenous factors such as fares, journey times, bus infrastructure and competing mode influences remain unchanged. The influences of these variables are modelled via other mechanisms in the DRM.

4.4. Endogenous (Intervention-driven) Forecast

- 4.4.1. Endogenous forecasts quantify the impact of policy and operational interventions/ actions that the MSA can initiate under the EP or, more comprehensively, under franchising. Each intervention area is modelled separately, using context-specific elasticities.
- 4.4.2. The main endogenous drivers are linked to the **level of bus network** i.e. total bus kilometres operated and **fare changes**. There is already evidence of operators increasing fares and cutting unprofitable mileage to improve margins. Assumed above inflation increases in the industry cost base mean that under the EP, above inflation fares increases and network cuts must inevitably continue.
- 4.4.3. Forecasts of the level of bus network cuts and fares increases have been determined to achieve a particular level of operator margin (under the EP) and level of public subsidy (under franchising) according to the cost forecast in the financial model presented in the financial case. This has been achieved by making an initial assumption on the level of network cuts and fare increases and then observing the forecast margin or subsidy in the financial model. Assumptions have then been iterated until a credible and sustainable forecast of the bus market is achieved. Further details are provided in section 11 of the strategic case.
- 4.4.4. The high-level assumptions on the endogenous drivers are set out below. More detail on the endogenous drivers including assumptions and associated data sources is provided in Table 5 below and in the Model Specification Report (Appendix D).

Network management:

- 4.4.5. Under the EP, it is assumed that network cuts will continue such that (in combination with above RPI fares increases as set out below) the operator margin is restored. Operators will take more aggressive action in the early years to get the network back to the required level of profitability. Once profitability and their target margin (assumed to be 10%⁹ average across all operators, detail given in section 4.1 of financial case) have been restored, there is a slight moderation in the network cuts from 2042/43 onwards; these cuts are continued to broadly achieve the 10% margin target for the remainder of the appraisal period. Such network cuts would continue historical trends in bus km operated in the North East which have decreased by 41% between 2005 (168 million bus km) and 2024 (100 million bus km)¹⁰.
- 4.4.6. Under franchising, it is assumed that the public sector will invest to maintain the network over the first ten years (see strategic case). As described in section 9.4 of the strategic case, a further policy decision on future network investment would be required towards the end of this initial ten-year period – informed by the policy and economic environment at that point. There is not currently a basis to make an active assumption, and therefore the case assumes a return to the baseline trend at the expiry of the initial ten-year commitment.

⁹ “[Written evidence submitted by Transport for Greater Manchester \(LBS0021\)](#)”. House of Commons. 2025.

¹⁰ “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

4.4.7. The network changes assumed under the EP and franchising scenarios are shown in Table 3.

Table 3: Network assumptions, 2025/26 – 2058/59

Year	EP	Franchising
2025/26 – 2028/29	-3.0% p.a.	-3.0% p.a.
2029/30 – 2033/34	-3.0% p.a.	0.0% p.a.
2034/35 – 2038/39	-3.0% p.a.	0.0% p.a.
2039/40 – 2041/42	-3.0% p.a.	-3.0% p.a.
2042/43 – 2058/59	-2.0% p.a.	-2.0% p.a.

- The demand change in response to the change in bus km operated is based on a ‘popularity’ approach (this assumes a cumulative relationship between demand and bus km which means that each additional percentage point reduction to mileage results in a larger demand impact than the previous percentage point i.e. the relationship becomes stronger over time as more reductions are made). This approach is described in more detail in the Model Specification Report (Appendix D).

Fares:

- Under the EP, it is assumed that fares increase by RPI +2% prior to franchising under current reimbursement arrangements. It is assumed that this will continue beyond 2029/30 such that, in combination with network cuts, profitability and operator margins are restored. This follows the historical trend of above inflation increases, detailed in section 5 of the strategic case.
- Under franchising, it is assumed that fares increase in line with inflation for the first ten years. As with the commitment to retain the size of the network for ten years, a further policy decision on future fare levels will be required at the end of the initial ten-year intervention period – informed by the policy and economic environment at that point. There is not currently a basis to make an active assumption, and therefore the case assumes a return to the baseline trend at the expiry of the initial ten-year commitment.
- The fares changes assumed under the EP and franchising scenarios are shown in Table 4.

Table 4: Fares assumptions, 2025/26 – 2058/59

Year	EP	Franchising
2025/26 – 2028/29	RPI +2.0% p.a.	RPI +2.0% p.a.
2029/30 – 2033/34	RPI +2.0% p.a.	RPI +0.0% p.a.
2034/35 – 2038/39	RPI +2.0% p.a.	RPI +0.0% p.a.
2039/40 – 2058/59	RPI +2.0% p.a.	RPI +2.0% p.a.

- Fare elasticities are used to determine the demand change in response to the change in fares as set out in the Model Specification Report (Appendix D).

Ticketing:

- Under the EP, only agreement-led reforms are feasible and operators retain their own fares as a legal requirement adding complexity.
- Under franchising, universal integrated, capped fares and ticket simplification are assumed, as in Greater Manchester's Bee Network. This has been modelled as follows:
 - Simplified ticketing (i.e. a simpler fares structure with fewer products) has been valued at 0.84 minutes per trip¹¹ applicable to all ticket types other than concessions.
 - Ticketing interoperability (where passengers can use the same ticket on services provided by different operators) has been valued at 0.3 minutes per trip applicable to daily and season tickets only (based on a willingness-to-pay of 7.6 pence per trip¹² and a value of time (VoT) of 25.8 pence per minute¹³).

Branding & marketing:

- Under franchising, there will be improved and unified branding of the bus network, and targeted marketing campaigns compared to the EP. This will deliver positive patronage uplifts, especially among infrequent users. It is important to note that the detailed branding policy is still to be developed, there may also be potential for route-based branding within a unified network.
- A demand uplift of 5%¹⁴ for branding and 1%¹⁵ for marketing has been assumed under franchising.

Passenger information:

- Under franchising, a demand uplift of 0.5% for passenger information. There will be more integrated passenger information across the network, creating a single customer contact centre for network and real-time updates. There are some features which cannot be delivered under the EP (for example merchandising functions for tickets via a mobile application) meaning passengers will still have to use multiple sources of information, franchising therefore offers an enhancement to what is possible under the EP.

¹¹ TAG Databook Table M3.2.1: Segmented value of bus interventions

¹² TfGM Interoperability Study / TN001 Model Specification Note. TfGM commissioned research to determine bus users willingness-to-pay for a ticket: that allowed them to use their current operator-specific ticket on buses run by other operators on their route; and that allowed them to use their current operators specific ticket on all other buses in Greater Manchester. For within route interoperability, the study gives separate values (in units of pence per trip) for daily and weekly tickets.

¹³ Market price value of time for commuting, TAG Data Book v2.01, Table A1.3.1

¹⁴ Marketing and the British Bus Industry (Enoch and Potter 2002) + further studies as provided in the Assumptions Log

¹⁵ Value of Bus Marketing, Greener Journeys (2014)

Punctuality & reliability:

- Under franchising, there will be a performance regime in place to incentivise good performance. It has been assumed this will result in a 1% demand uplift.
- Under both the EP and franchising there will be continuous improvement, in terms of infrastructure investment and operational improvements.

Bus programmes:

- The demand impact of bus improvement programmes funded through BSIP and the City Region Sustainable Transport Settlement (CRSTS) programmes have been reflected in the demand forecasts. As these programmes are committed schemes, they impact both demand under the EP and franchising. These include:
 - Bus priority infrastructure along key corridors across the North East including: bus lanes; junction signalisation; bus gates; and improved turning facilities: a 2% direct demand uplift has been assumed under the EP and franchising. A 2% demand uplift applicable from 2029/30 phased across four years has been assumed.
 - Bus stop improvements across the North East region including: new and improved shelters; raised kerbs; improved timetable information; bus flag/post improvements; street lighting and CCTV; and improved hardstanding and accessibility improvements. A 2% demand uplift applicable from 2029/30 phased across four years has been assumed.

4.4.8. The demand uplifts under franchising associated with ticketing, branding and marketing and punctuality and reliability have been phased in line with the rollout of each tranche which assumes that one-third of the network becomes franchised on 1st September 2029, the next third on 1st September 2030 and the final third on 1st September 2031. This results in the following phasing:

- 2029/30: 19% (33% of the network franchised for 7 months or 58% of the financial year).
- 2030/31: 53% (33% of the network franchised for the whole year plus a further 33% of the network franchised for 7 months).
- 2031/32: 86% (67% of the network franchised for the whole year plus the final 33% of the network franchised for 7 months).
- 2032/33: 100% (all parts of the network fully franchised).

Table 5: Exogenous and endogenous demand drivers

Demand Drivers		Source	Enhanced Partnership	Franchising
Exogenous	Population and demographics, employment, economic growth / income, car ownership.	TEMPro NTEM	Direct demand impact applicable under both options. Exercise detailed in Model Specification Report – Appendix D	
	Bus time (impact of congestion)	Change in travel time: DfT National Road Traffic Projections (2022) for North East region for A roads Bus demand elasticity: -1.1 (Bus fare and journey time elasticities and diversion factors for all modes - A rapid evidence assessment, Dunkerley RAND Europe and SYSTRA, 2018)	Elasticity-based demand impact applicable under both options.	
	Competing mode: Car cost	Change in car costs: TAG Databook M4.2.2a (Car cost series: Non-London core) Bus demand cross-elasticity: 0.19 (Review and meta-analysis of inter-modal cross-elasticity evidence, Wardman, Fearnley et al, 2018)	Elasticity-based demand impact applicable under both options.	
	Competing mode: Car time	Change in travel time: DfT National Road Traffic Projections (2022) for North East region for A roads Bus demand cross-elasticity: 0.63 (Review and meta-analysis of inter-modal cross-elasticity evidence, Wardman, Fearnley et al, 2018)	Elasticity-based demand impact applicable under both options.	
	Competing mode: Metro cost	Change in Metro fare: As per bus fares increases. Bus demand cross-elasticity: 0.2 (Review and meta-analysis of inter-modal cross-elasticity evidence, Wardman, Fearnley et al, 2018)	Elasticity-based demand impact applicable under both options to bus routes within 400 metres of a Metro station where competition exists for at least 20% of the length of the bus service.	

	Competing mode: Northumberland Line	OBC Northumberland Line demand forecasts (AECOM, 2019): 564,000 (2025) and 1,160,000 (2039) PDFHv6 Table B2.7 Rail diversion factor from bus (Interurban 10%-20%)	Impact applicable under both options. Bus abstraction: -84,600 in 2025/26 rising to -174,000 in 2038/39. No further demand growth assumed after 2039.																									
	Regulatory and policy baseline	ENCTS pension age	-5% reduction in demand of concessionary free tickets – phased into two years 2026/27 & 2027/28 Assumption of 20% recovery of concessionary free travel lost into adult tickets.	-5% reduction in demand of concessionary free tickets – phased into two years 2026/27 & 2027/28 Assumption of 20% recovery of concessionary free travel lost into adult tickets.																								
Endogenous	Network	Exercise detailed in Model Specification Report – Appendix D	<table><tr><th>Year</th><th>EP</th></tr><tr><td>2025/26 – 2028/29</td><td>-3.0% p.a.</td></tr><tr><td>2029/30 – 2033/34</td><td>-3.0% p.a.</td></tr><tr><td>2034/35 – 2038/39</td><td>-3.0% p.a.</td></tr><tr><td>2039/40 – 2041/42</td><td>-3.0% p.a.</td></tr><tr><td>2042/43 – 2058/59</td><td>-2.0% p.a.</td></tr></table>	Year	EP	2025/26 – 2028/29	-3.0% p.a.	2029/30 – 2033/34	-3.0% p.a.	2034/35 – 2038/39	-3.0% p.a.	2039/40 – 2041/42	-3.0% p.a.	2042/43 – 2058/59	-2.0% p.a.	<table><tr><th>Year</th><th>Franchising</th></tr><tr><td>2025/26 – 2028/29</td><td>-3.0% p.a.</td></tr><tr><td>2029/30 – 2033/34</td><td>0.0% p.a.</td></tr><tr><td>2034/35 – 2038/39</td><td>0.0% p.a.</td></tr><tr><td>2039/40 – 2041/42</td><td>-3.0% p.a.</td></tr><tr><td>2042/43 – 2058/59</td><td>-2.0% p.a.</td></tr></table>	Year	Franchising	2025/26 – 2028/29	-3.0% p.a.	2029/30 – 2033/34	0.0% p.a.	2034/35 – 2038/39	0.0% p.a.	2039/40 – 2041/42	-3.0% p.a.	2042/43 – 2058/59	-2.0% p.a.
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2042/43 – 2058/59	-2.0% p.a.																											
Fares	Exercise detailed in Model Specification Report – Appendix D	<table><tr><th>Year</th><th>EP</th></tr><tr><td>2025/26 – 2028/29</td><td>RPI +2.0% p.a.</td></tr><tr><td>2029/30 – 2033/34</td><td>RPI +2.0% p.a.</td></tr><tr><td>2034/35 – 2038/39</td><td>RPI +2.0% p.a.</td></tr><tr><td>2039/40 – 2058/59</td><td>RPI +2.0% p.a.</td></tr></table>	Year	EP	2025/26 – 2028/29	RPI +2.0% p.a.	2029/30 – 2033/34	RPI +2.0% p.a.	2034/35 – 2038/39	RPI +2.0% p.a.	2039/40 – 2058/59	RPI +2.0% p.a.	<table><tr><th>Year</th><th>Franchising</th></tr><tr><td>2025/26 – 2028/29</td><td>RPI +2.0% p.a.</td></tr><tr><td>2029/30 – 2033/34</td><td>RPI 0.0% p.a.</td></tr><tr><td>2034/35 – 2038/39</td><td>RPI 0.0% p.a.</td></tr><tr><td>2039/40 – 2058/59</td><td>RPI +2.0% p.a.</td></tr></table>	Year	Franchising	2025/26 – 2028/29	RPI +2.0% p.a.	2029/30 – 2033/34	RPI 0.0% p.a.	2034/35 – 2038/39	RPI 0.0% p.a.	2039/40 – 2058/59	RPI +2.0% p.a.					
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2039/40 – 2058/59	RPI +2.0% p.a.																											
Ticketing simplification	GJT saving: 0.3 min (TfGM Interoperability Study) Bus demand elasticity: -1.1 (Bus fare and journey time elasticities and diversion factors for all modes)	N/A	Elasticity-based demand impact applicable to daily and season tickets																									

		- A rapid evidence assessment, Dunkerley RAND Europe and SYSTRA, 2018)		
	Branding & marketing	Marketing and the British Bus Industry (Enoch and Potter 2002) - provides hard evidence as to the benefits of marketing bus services properly, suggesting that patronage gains of around 5-7% should be possible, even without major investment or legislative change.	N/A	Branding – +5% all demand (1.6 min of GJT) Marketing – +1% demand (0.34 min of GJT)
	Passenger information	TAG Databook M3.2.1, DfT) + further studies as provided in the Assumptions Log.	N/A	+0.5% all demand (0.17 min of GJT).
	Punctuality & reliability	Department for Transport — "The Impact of Punctuality on Bus Passenger Numbers" (2014, Atkins for DfT) The Impact of Congestion on Bus Passengers (Prof David Begg, Greener Journeys).	N/A	+1% all demand (0.34 min of GJT)
	Bus programmes	North East Bus Service Improvement Plan: Bus Priority Corridor Improvements (Tranches 1 & 2) (North East MSA) Bus Stop Improvements: Programme Level Full Business Case (North East MSA)	Bus priority: +2% uplift assumed across all demand. Bus stops: +2% uplift assumed across all demand	Bus priority: +2% assumed across all demand Bus stops: +2% uplift assumed across all demand

4.4.9. The principal endogenous demand and revenue drivers and their impact on patronage are presented later in section 6.

4.5. Revenue forecasting

4.5.1. Farebox revenue for each scenario is forecast by multiplying expected patronage (segmented by trip and ticket type) by per-journey yield. ENCTS revenue is represented as public reimbursement, modelled separately for each operator/ticket cohort, and tracked consistently throughout the forecast period.

4.5.2. All changes to fare structure, yield, and ENCTS are consistent with the assumptions set out above and aligned with valid policy constraints and likely implementation costs.

4.6. Limitations and considerations

4.6.1. All forecasts are subject to future validation, particularly where operator behaviour, macroeconomic conditions, or disruptive innovation (e.g. micro-mobility uptake) could diverge from historic precedent. Uncertainties, such as divergent Covid-19 recovery rates, economic shocks, or funding constraints, are accounted for via sensitivity analyses, with documentation of all key assumptions.

5. Factors influencing bus network costs

This section will:

- Identify the factors determining the cost of running the bus network.
- Set out the assumptions underpinning the cost forecasts.

5.1. Overview of bus network costs

- 5.1.1. The cost of operating the bus network is shaped by a range of core cost drivers that are fundamental to any delivery model, whether under the EP or franchising. The main elements include driver wages, fuel expenditure, vehicle maintenance costs, and routine operational expenditures associated with running the network.
- 5.1.2. In practice, cost forecasts take into account assumptions for growth in each of these categories. For example, established real growth rates are applied for driver salaries, fuel prices, and maintenance costs, ensuring that future projections remain robust and realistic. These assumptions are typically informed by sector benchmarks or specific local data and are applied consistently across delivery options to enable effective comparison.
- 5.1.3. As noted in section 4.4, bus network costs are influenced by the level of the bus network. Assumptions made on the level of the bus network and associated costs have been determined to achieve a credible and sustainable forecast of the bus market in terms of operator margin (under the EP) or level of public subsidy (under franchising).

5.2. Operating cost impact of network interventions

- 5.2.1. The operating cost of the bus network is predominantly determined by the **total vehicle kilometres** operated by the vehicles providing the service (service kilometres). It can also be influenced by the **peak vehicle requirement (PVR)** i.e. the maximum number of buses required at any one time during the day to maintain the scheduled frequency of the network.
- 5.2.2. For each category of operating cost, the total annual expense is primarily influenced either by overall service kilometrage or by the PVR. Accordingly, the calculation of each cost item is based on the most relevant of these two measures.
- 5.2.3. To project the future operating costs of the network under different service scenarios, adjustments to both service kilometres and PVR have been estimated in line with the network cuts as set out in section 4.4. The network changes assumed under the EP and franchising scenarios are shown in Table 6.

Table 6: Network assumptions, 2025/26 – 2058/59

Year	EP	Franchising
2025/26 – 2028/29	-3.0% p.a.	-3.0% p.a.
2029/30 – 2033/34	-3.0% p.a.	0.0% p.a.
2034/35 – 2038/39	-3.0% p.a.	0.0% p.a.
2039/40 – 2058/59	-2.0% p.a.	-2.0% p.a.

5.2.4. Under franchising, the Bus Service Operators Grant (BSOG) would continue to be paid but would be devolved to the MSA, as opposed to being paid by DfT to operators. The impact of this devolution has been assumed to be non-material to this VfM assessment, effectively being pooled with the MSA's wider budget available for funding bus services and so negating any impact on bus operators.

5.2.5. Operating cost forecasts have been constructed using **disaggregate bottom-up cost models**—summing per-route variable and fixed costs, based on data provided by the MSA, for:

- Driver staff costs
- Engineering / maintenance staff
- Fuel (diesel and AdBlue)
- Electricity (vehicle/depot/total)
- Tyres
- Vehicle depreciation/lease
- Vehicle/depot/personal insurance
- Depot costs
- Overhead costs.

5.2.6. More detail on operating costs including cost inflation assumptions is set out in section 4.4 of the financial case.

6. Factors Demand, revenue and cost forecasts

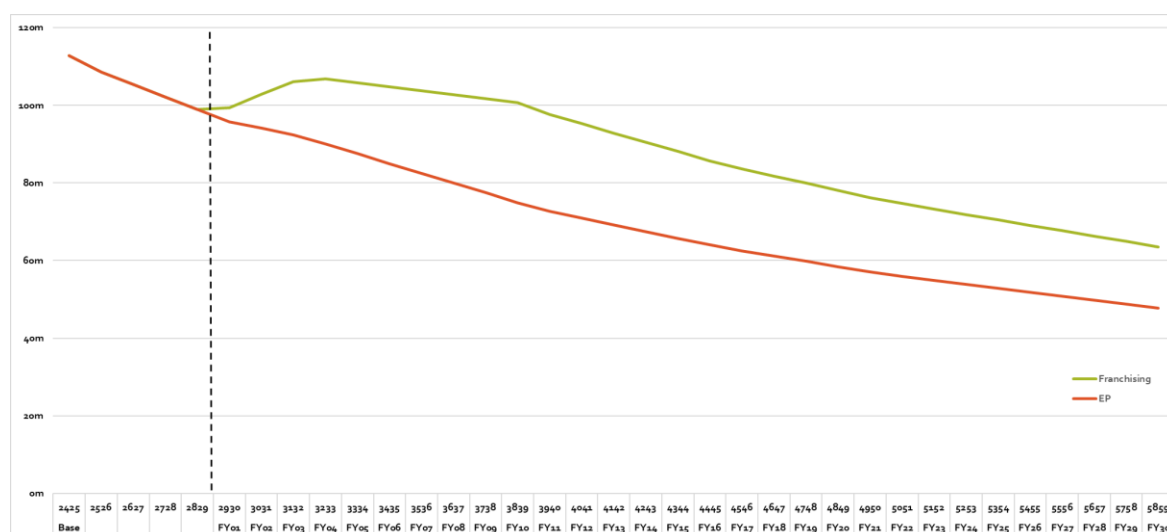
This section will:

- Provide the demand, revenue and costs forecasts for the two options according to the approach and assumptions set out in the previous sections.

6.1. Demand forecast

6.1.1. Demand forecasts are presented in below for the EP and franchising options. These forecasts provided by the DRM as set out in section 3.

Figure 3: Demand forecast (EP and franchising), 2024/25 – 2058/59



6.1.2. The demand forecast shows that bus patronage will continue to decline from 2024/25 to 2028/29 in response to exogenous factors, the industry continuing to implement network cuts (3% per annum) and fares rise above inflation (RPI +2% per annum) in response to increased costs. The reduction in the network compounds the fall in patronage. Overall, demand forecast is forecast to fall to 98.9 million passenger journeys by 2028/29 (a 12% reduction from 2024/25).

6.1.3. Franchising will be rolled out gradually through separate tranches. The first tranche of franchising is expected to go live in 2029/30 with full implementation completed by 2032/33.

6.1.4. Under the EP option, demand will continue to decline from 2029/30 onwards which would lead to reduced revenue, followed by further network cuts prompting a cycle of decline in the industry and further reduction in patronage. By the end of the 30-year appraisal period (2058/59), bus demand will have fallen to 47.8 million journeys (a 50% reduction since 2029/30), the network has contracted by 45% in this period.

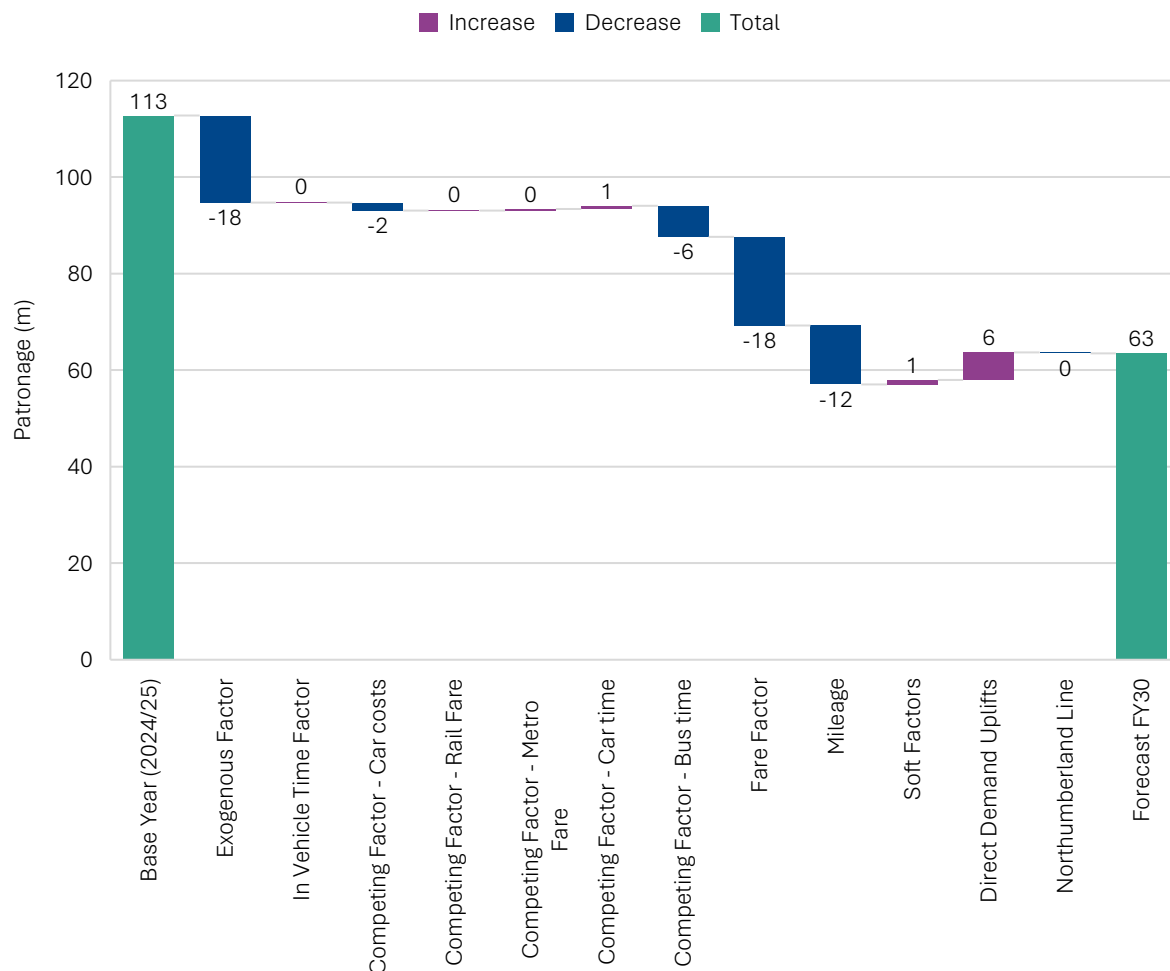
6.1.5. Under the franchising option, the decline in demand will be temporarily reversed with an increase in demand in the first few years of franchising in response to franchising interventions. However, from 2032/33 onwards demand will begin to gradually drop with a

steeper rate of decline from 2039/40 onwards when the initial ten-year fares and network intervention period expires. Further policy decisions will be required at this point – forecasts after this point reflect the position without further fares and network interventions. By the end of the 30-year appraisal period (2058/59), bus demand will have fallen to 63.5 million journeys (a 36% reduction) since 2029/30, the network has contracted by 31% in this period. Reducing the decline in turn means protecting millions of journeys that may have been lost under a continuation of the EP.

6.1.6. The impact of each driver on bus demand under franchising between 2024/25 and 2058/59 is shown in

6.1.7. Figure 4 below. The largest drivers of the decline in demand are exogenous factors (-18 million passenger journeys), fares (-18 million passenger journeys) and network cuts (-12 million passenger journeys). There are more minor impacts due to increased congestion resulting in longer bus journey times (-6 million passenger journeys) (this congestion would impact car journeys to a greater degree) and mode shift to car due to car costs becoming cheaper relative to bus (-2 million passenger journeys). Franchising interventions do generate demand (+1 million passenger journeys due to soft factors e.g. interoperability and simplified ticketing and +6 million passenger journeys due to direct demand impacts e.g. passenger information, branding, punctuality and reliability, and marketing). These impacts are insufficient to offset the overall decline in demand by 2058/59. **However, demand will be 15.7 million passenger journeys higher in 2058/59 than under the EP generating benefits to both passengers and the North East.**

Figure 4: Change in demand by driver 2024/25 – 2058/59

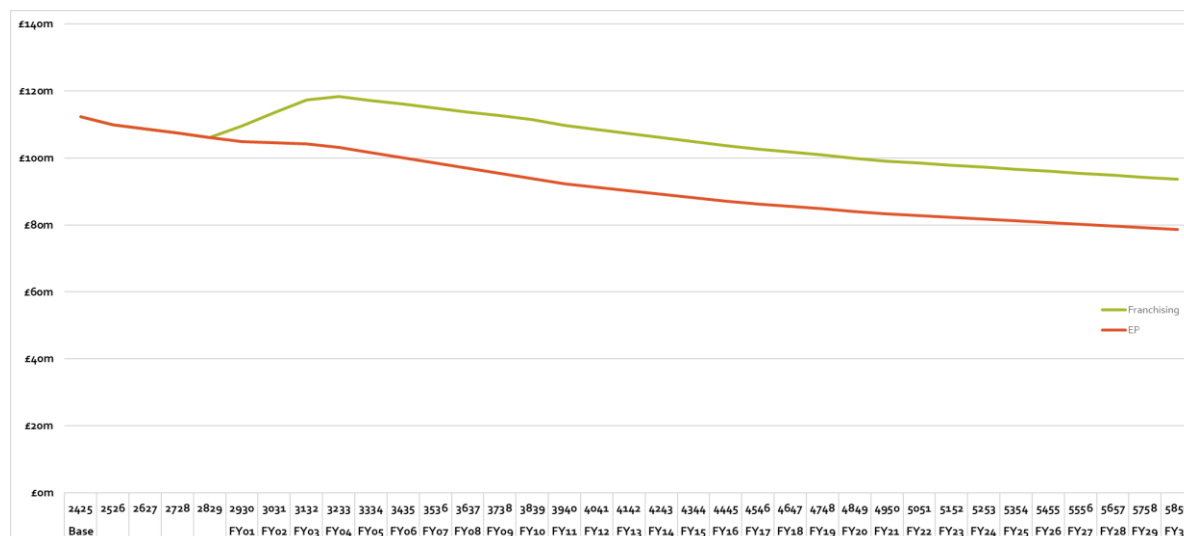


6.2. Revenue forecast

6.2.1. Revenue forecasts developed based on the demand forecasting described above are presented for each scenario in below. The revenue is calculated based on average yield per trip¹⁶ to determine the farebox revenue forecast for each year in the modelled period for the EP and franchising scenarios.

¹⁶ Average yield per trip = (on-bus revenue + off-bus revenue) / patronage

Figure 5: Revenue forecast (EP and franchising), 2024/25 – 2058/59



6.2.2. Revenue forecasts show a similar pattern to the demand forecasts, with revenue temporarily increasing in the first few years of franchising before declining again from 2033/34 onwards.

6.3. Operating costs

6.3.1. The forecasts are based on a single base year (2024/25) with cost indexation applied using ONS and NPV assumptions with RPI and CPI applied as appropriate. Details of the cost growth rates applied are provided in the financial case.

6.4. Capital and implementation costs

6.4.1. There will be differing capital, implementation and administration costs associated with the two options. Capital costs across both options include ticketing/back-office IT systems, new website and information displays and up-front investment in branding and wayfinding. Key additional costs of franchising are depots and passenger information.

6.4.2. Costs associated with the implementation and transition are also captured and profiled in the run-up to and first tranche of franchising roll-out in 2029/30. These costs include joint project management, legal, procurement and consultation expenses. Further details of the assumptions underlying implementation and transition are captured in section 4 of the management case. The assumptions underlying the costs during transition are captured in section 6.3 of the financial case. Bidding and administrative costs have been captured as a lump sum uplift to cost lines or as a separate budget line, dependent on evidence from peer authorities.

6.5. Option-specific cost treatments

6.5.1. The operating, implementation and capital costs take account of the option-specific variations. Variations between the EP and franchising option specific costs include:

- **Under the EP:**

- Considered to have rising supported services costs and associated costs e.g. administration as the commercial network continues to contract. In addition, there is likely to be limited further capital investment (for instance in terms of depot investment) apart from targeted ZEB fleet replacements (which is the same profile under both options where DfT/MSA funding is available).
- **Under franchising:**
 - Franchising would have additional ongoing costs for MSA/DB central management associated with contract-monitoring and performance reporting. There would also be additional responsibilities, including for passenger information.
 - Reprofiled operator margin: fixed uplift for gross cost contracts (5.0% of operating costs)¹⁷.

6.6. Management, administration and ongoing costs

6.6.1. In addition to the operating and capital costs described above there are costs associated with the management and administration of the schemes. Further details on these costs are provided in sections 5 & 6 of the financial case, throughout the commercial case and sections 3 & 4 of the management case.

¹⁷ The assumption of operator margin is based on benchmarking evidence from recent franchising assessments in other UK city regions and reflects gross-cost contract market requirements. However, this assumption will be subject to review as local evidence develops and is tested for sensitivity in the economic appraisal.

7. Approach to appraisal of impacts

This section will:

- Outline the analytical approach used to appraise the full range of impacts resulting from proposed bus reform in the North East.
- Set out the methods and key assumptions applied to calculate the monetised and non-monetised impacts.
- Set out the approach to undertaking distributional and place-based analysis.
- Identify the sensitivity tests undertaken to reflect potential uncertainty around key parameters.

7.1. Introduction

7.1.1. This section outlines the analytical approach used to appraise the full range of impacts resulting from proposed bus reform in the North East. It sets out the methods and key assumptions adopted for calculating both monetised and non-monetised impacts, including:

- User benefits
- User charges
- Marginal External Costs (MECs)
- Wider Economic Impacts (WEIs)
- Revenue and fiscal effects
- Social and environmental impacts.

7.1.2. Throughout, the net benefit of franchising is presented against the EP i.e. the reference case.

7.1.3. Results are presented in subsequent sections to reflect economy (section 8), environmental (section 9), social (section 10), and public account impacts (section 11), following the categories in the standard DfT Appraisal Summary Table (AST). Distributional and place-based perspectives are also included to understand the impacts of franchising across different social groups and the different regions of the North East.

7.2. Compliance with guidance

7.2.1. All elements of analysis and reporting are conducted in line with official guidance:

- HM Treasury Green Book.
- DfT Transport Analysis Guidance (TAG): Units A1.1, A1.2, A2.1-A2.4, A5.4, A4-2, and relevant Databook versions.
- National standards for discounting, market pricing, and presentation of uncertainty.

- DfT franchising guidance does not outline specific appraisal approaches and offers flexibility.

7.3. Overview of appraisal approach

7.3.1. Table 7 summarises how each impact in the AST has been appraised i.e. whether quantitative or qualitative and for quantitative impacts, the approach used. Some impacts can be measured quantitatively where established methods and robust data are available, while others are assessed qualitatively where impacts are less easily monetised or are considered too minor for formal quantification.

Table 7: Summary of appraisal approach by AST impact

Impact Category	Impact	Assessment Type	Quantitative Approach (where relevant)
Economy	Business users & transport providers	Quantitative	Bus users: Benefits per trip (existing and new users) Other mode users: MECs (MECs detail in 7.4.7)
	Reliability impact on business users	Quantitative	Benefits per trip (existing and new users)
	Regeneration	Qualitative	N/A
	Wider impacts	Quantitative	As per TAG Unit A2.1 Level 2 wider impacts (productivity, agglomeration, labour supply)
Environmental	Noise	Quantitative (non-users)	MECs
	Air Quality	Quantitative (non-users)	MECs
	Greenhouse gases	Quantitative (non-users)	MECs
	Landscape	Qualitative	N/A
	Townscape	Qualitative	N/A
	Historic environment	Qualitative	N/A
	Biodiversity	Qualitative	N/A
	Water environment	Qualitative	N/A
Social	Commuting and other users	Quantitative	Benefits per trip (existing and new users)
	Reliability impact on commuting and other users	Quantitative	Benefits per trip (existing and new users)

	Physical activity	Qualitative	N/A
	Journey quality	Quantitative	Benefits per trip (existing and new users)
	Accidents	Quantitative (non-users)	MECs
	Security	Qualitative	N/A
	Access to services	Qualitative	N/A
	Affordability	Qualitative	N/A
	Severance	Qualitative	N/A
	Option and non-use values	Qualitative	N/A
Public accounts	Cost to broad transport budget	Quantitative	Scheme costs & revenue generated
	Indirect tax revenues	Quantitative (non-users)	MECs

7.3.2. The different approaches used to quantify or monetise impacts are discussed below.

Where impacts have been monetised, the following adjustments have been made in line with TAG:

- **Conversion to 2023 prices:** All future costs and benefits are presented in real terms in a 2023 price base.
- **Discounting to 2023:** All future costs and benefits are discounted to the 2023 base year using a 3.5% annual rate in line with DfT TAG and HM Treasury's Green Book. This standard approach ensures consistency with UK public sector investment appraisal by reflecting the time value of money. All future costs and benefits are therefore discounted to 2023 values at this annual rate, as required by TAG.
- **Treatment of tax:** All costs and benefits are assessed exclusive of VAT, unless irrecoverable, per Treasury rules.
- **Optimism bias (OB):** An OB of 48% is applied to the capital costs which include primarily depot acquisition, construction and fit-out costs, consistent with Stage 2 business case guidance in TAG Unit A1.2 for building projects.

7.4. Monetised appraisal

7.4.1. Each of the monetised appraisal approaches set out in Table 7 is explained in further detail below.

Benefit per trip – network cuts

7.4.2. Franchising will deliver travel time savings to bus users relative to the EP due to the higher bus km assumed to be operated (as there will be a slower rate of network cuts as set out in Table 6). An average generalised journey time (GJT)¹⁸ per trip has been calculated per annum under both the EP and franchising scenarios, with the average GJT being higher under the EP due to the assumed longer wait times resulting from fewer bus km operated. The difference in GJT between the two represents a travel time saving to bus passengers under franchising relative to the EP. It is important to note that much of the recent reduction in operated bus mileage has resulted from cuts to service frequency rather than the complete withdrawal of routes, which leads to increased waiting times for passengers even where routes remain in operation.

7.4.3. This difference has been monetised using TAG values of time¹⁹ according to journey purpose.

Benefit per trip – franchise interventions

7.4.4. The interventions in the franchising scenario relative to the EP are valued by both existing and new users. These are typically valued in minutes per bus trip and based on users' willingness to pay for various aspects of the journey e.g. simplified ticketing, branding, or on the actual change in GJT of the bus trip e.g. improvements in reliability and punctuality.

7.4.5. The valuation in minutes of the improvements and interventions under franchising are presented in Table 8.

Table 8: Values of per trip by franchising scenario element

Franchise intervention	Value per trip (min)	Source
Simplified ticketing	0.84	TAG Databook M3.2.1.
Ticketing interoperability	0.10	TfGM Interoperability study.
Improved reliability and punctuality	0.34	Department for Transport — "The Impact of Punctuality on Bus Passenger Numbers" (2014, Atkins for DfT). The Impact of Congestion on Bus Passengers (Prof David Begg, Greener Journeys).
Branding	1.60	Marketing and the British Bus Industry (Enoch and Potter 2002) + more studies provided in the Assumptions Log.
Marketing	0.34	As Branding.

¹⁸ GJT is a composite measure including walking to/from bus stop, wait time, in-vehicle time and interchange time (if applicable) with different weightings applied to each component to account for differences in passenger perceptions.

¹⁹ TAG Databook Table A 1.3.1

Passenger information	0.17	TAG Databook M3.2.1, DfT) + further studies as provided in the Assumptions Log.

7.4.6. The value per trip has been monetised using TAG values of time¹⁹ according to journey purpose. Existing users receive the full benefit whilst new users receive half of the benefit in line with the ‘rule of a half’ economic principle as set out in TAG Unit A1.3.

Marginal external costs

7.4.7. Under both franchising and EP scenarios, bus demand is forecast to decline. A proportion of the bus demand ‘lost’ will divert to road vehicles resulting in an increase in vehicle kilometres. However, under franchising the level of decline is lower than under the EP (38% reduction between 2024/25 and 2058/59 compared to 52% under the EP). With the higher bus demand under franchising, the increase in total vehicle kilometres will be lower than under the EP because fewer users switch from bus to car.

7.4.8. There will therefore be road decongestion benefits associated with franchising relative to the EP. In the absence of a region-wide multi-modal model to estimate such decongestion benefits, the MECs method is considered appropriate and proportionate. MECs relate to the external costs of road vehicles borne by non-road users. These include:

- Congestion
- Greenhouse gas emissions
- Air quality impacts
- Accidents
- Noise
- Infrastructure costs
- Indirect tax

7.4.9. Franchising will therefore reduce the MECs of road travel in the North East relative to the EP. For all MECs except indirect tax, this will be a benefit to society. The reduction in indirect tax will result in a disbenefit to the Treasury as there will be decrease in fuel duty and VAT paid.

7.4.10. The valuation of MECs has been determined by assessing the increase in vehicle km under the EP and franchising. This has been estimated using an assumed average bus trip length in the North East of 8.21km²⁰ and as the assumption is that less people will use the bus and shift to car. As the car trips replacing bus trips are generally shorter the 8.21Km have been divided by 1.5 resulting to a car trip length of 5.47km. This is a rather conservative value and approach. Furthermore, a bus diversion factor of 25% for ‘Metropolitan’ areas from TAG²¹ (this is judged the most appropriate market for the North

²⁰ NTS 2023 (Mode share by mode and duration)

²¹ TAG Databook Table A5.4.6 (Source mode: Car; Area: Metropolitan)

East region with analysis showing 90% of bus demand is in urban or semi-urban areas). The difference in the change in vehicle km under both the EP and franchising has then been monetised using TAG MEC parameters for inner and outer conurbations²² (similarly, this is judged the most appropriate market considering the North East bus market is predominantly in the major urban areas).

Wider economic impacts

7.4.11. WEIs arise from transport improvements creating positive spillovers in the local economy. These typically include:

- **Agglomeration benefits:** Improved bus services contribute to regional agglomeration by making journeys for work and business more efficient, encouraging clustering of businesses and workforce. The widespread impact across the North East generates a material agglomeration benefit.
- **Productivity:** Better transport connectivity can lower barriers to market entry, fostering new suppliers and increased competition leading to higher economic output.
- **Labour supply impacts:** Enhanced public transport improves access to employment, supporting increased labour market participation, especially from areas previously less well connected. This improves the match between available work and jobseekers' skills.

7.4.12. The agglomeration benefits and productivity impacts have been monetised as set out in Table 9. Labour supply impacts have been assessed qualitatively in line with TAG.

Table 9: WEIs monetisation approach

WEIs element	Monetisation approach
Agglomeration benefits	Following units TAG A2.1-A2.4 and the GVA-based approach adapted for the available modelling outputs an effective density is calculated as a proxy measure for agglomeration benefits: • Effective density by local authority under the EP and franchising calculated according to: no. jobs in local authority X e (decay parameter x average bus journey time) • Increase in effective density under franchising (due to lower average bus journey times) used to estimate uplift in GVA by local authority according to: % change in effective density x GVA (local authority) x agglomeration elasticity. • GVA uplift calculated for 2029, 2044 and 2058 and interpolated for other appraisal years. Values then converted to 2023 prices using the TAG GDP deflator and discounted to 2023. Sum of GDP uplift across all seven local authorities represents total agglomeration benefit.

²² TAG Databook Table A5.4.2 (Area: Inner and outer conurbations)

Productivity	Increased in productivity calculated according to Feldman et al (2008) as quoted in TAG A2.4 of the 10-30% of TEE benefits adjusted for the mode share (6%) of buses as presented in NTS 2023: Present value of total TEE benefits x 10% (lower end of range provided in Feldman et al) x 6% (bus mode share)

7.4.13. All WEIs have been assessed at the Level 2 analysis (as defined in TAG Unit A2.1) which assumes a fixed land use i.e. WEIs arise from franchising solely maintaining connectivity rather than resulting in land use change.

7.4.14. The WEIs are reported through an adjusted BCR metric (see Table 18).

7.5. Non-monetised impacts

7.5.1. As set out in Table 7, many impacts have not been monetised and instead a qualitative assessment approach has been undertaken. This is either because no formal monetisation approach exists and/or these impacts are judged to be negligible or so minor that monetisation would not be proportionate.

7.5.2. This assessment has been conducted in line with the relevant TAG unit as follows:

- Economy (Regeneration): TAG Unit A2.2 Induced Investment.
- Environmental (Landscape, Townscape, Historic Environment, Water Environment): TAG Unit A3 Environmental Impact Appraisal.
- Social (Physical activity, Access to services, Affordability, Severance, Option and non-use values): TAG Unit A4.1 Social Impact Appraisal.

7.5.3. Each impact has been assessed using the following seven-point scale qualitative scale: large beneficial / moderate beneficial / slight beneficial / neutral / slight adverse / moderate adverse / large adverse.

7.6. Distributional impacts and place-based analysis

7.6.1. Distributional impacts (DI) consider the variance of transport intervention impacts across different social groups including older people and ethnic minorities. Both beneficial and/or adverse DIs need to be considered, along with the identification of social groups likely to be affected. The analysis needs to consider eight identified indicators where DIs may apply: user benefits, noise, air quality, accidents, security, severance, accessibility and personal affordability. A proportionate qualitative DI assessment in line with TAG Unit A4-2 has been undertaken. This is presented in section 12.5. The assessment recognises that the magnitude and nature of impacts may differ between local markets; accordingly, the approach seeks to ensure that both urban and rural areas, as well as varying market characteristics, are appropriately reflected in the analysis.

7.6.2. Place-based analysis considers the potential impacts of a transport intervention on different geographical areas. This involves spatially disaggregating the scheme's likely outcomes in terms of social welfare impacts and distributional impacts. However, as the

franchising interventions considered in this economic case will cover the whole bus network in the North East (rather than target specific routes, corridors or communities), the economic, social, and environmental impacts on a per passenger basis are not expected to vary significantly across different areas in the North East, both urban and rural areas.

- 7.6.3. The purpose of place-based analysis is to ensure that benefits from a scheme are not achieved simply through the displacement of activity or investment from other areas, particularly those which may already be disadvantaged. This analysis is typically used to assess whether improvements in one location are offset by negative impacts elsewhere. However, in this case, the scheme is being implemented across the entirety of the North East, so any scheme benefits are not expected to arise from displacement within the region. A detailed place-based analysis is therefore not judged proportionate for this assessment.

7.7. Sensitivity tests

- 7.7.1. Sensitivity tests have been undertaken to test the robustness of the appraisal and to check how the BCR and VfM category respond to changes in key appraisal parameters.
- 7.7.2. A range of sensitivity tests have been undertaken as set out in Table 10. These vary the key appraisal parameters including the main cost drivers (depot capital costs, operator margin and operating costs) and the largest franchise-specific demand driver (branding and marketing).
- 7.7.3. The sensitivity test results showing the impact on the key appraisal metrics including the BCR are presented in section 12.3.

Table 10: Sensitivity tests

Sensitivity	Name	Description
Sensitivity 1a	Depot capital cost	Capital costs of depot construction / acquisition are 10% higher than in the Core.
Sensitivity 1b	Depot capital cost	Capital costs of depot construction / acquisition are 10% lower than in the Core.
Sensitivity 2	Operator margin	Higher operator profit margin than in the Core (7.5% instead of the 5% in the Core).
Sensitivity 3	Operating costs	Overall operating costs of the network are 0.5% per annum higher than in the Core.
Sensitivity 4	Branding and Marketing	Demand uplift due to branding and marketing is 50% of Core assumptions (2.5% branding and 0.5% for marketing).
Sensitivity 5	Existing Funding	Existing funding remains flat in real terms (does not grow in line with inflation).

8. Impacts on the economy

This section will:

- Set out the impacts on the economy of the franchising option relative to the EP including on business users and transport providers, and wider economic impacts.

8.1. Introduction

8.1.1. The impacts on the economy include those that affect economic outputs. These include productivity impacts such as time savings to transport users, impacts on private sector operators and the wider economic impacts associated with transport improvements.

8.1.2. All monetary values presented in this section are in 2023 prices for the 30-year appraisal period, and represent the incremental benefit of franchising relative to the EP.

8.2. Business users and transport providers (TEE benefits)

Business users – travel time

8.2.1. Franchising will deliver travel time savings to business bus users relative to the EP due to the higher bus km assumed to be operated. This will translate into more frequent services and will reduce users' GJT through reduced wait times. This impact has been monetised using values of time as set out in section 7.4. This has been valued at **£39,066,000 for business users.**

8.2.2. Franchising will also deliver road decongestion benefits creating travel time savings for business road users. This is because under franchising there will be a smaller increase in vehicle km resulting from 'lost' bus demand relative to the EP (as the decline in bus demand will be slower under franchising than under the EP). The decongestion impacts have been monetised using the MECs method as set out in section 7.4. This has been valued at **£1,439,000 for business users.**

Business users – user charges

8.2.3. Franchising will deliver user charge benefits to business bus users relative to the EP due to the lower fares increases assumed (as set out in section 4.4). This impact has been monetised using the average difference in fare (for fare-paying passengers) over the franchise period. This has been valued at **£2,451,000 for business users.**

Transport providers

8.2.4. Under franchising, operators shift largely to a contract payment basis, as fare revenue is collected by operators and paid to the MSA/DB by way of reduction in contract payment. The overall margin for operators under the EP and franchising reflects this change in business model and risk exposure; margins will typically be lower than under the EP, but financial risks will also be lower.

8.2.5. Table 11 below shows the aggregate effect on operators over the appraisal period under each option.

Table 11: Summary of aggregate operator impacts

Impact	£k 2023 PV
Revenue	£354,872
Operating Costs	-£487,742
Grant/subsidy	£164,742
Net Impact	£31,872

8.3. Regeneration

8.3.1. The interventions assumed under the franchising options are not expected to directly support or enhance public transport accessibility to new developments; as noted in section 2.3.7, only small-scale network and timetable changes are expected initially. No material regeneration impacts are therefore anticipated. The impact has therefore been assessed as **Neutral**.

8.3.2. However, as franchising will provide the opportunity for the MSA to have full control over the network, new services, route changes or service enhancements could be introduced in future to support new developments which may result in regeneration benefits.

8.4. Wider Economic Impacts

8.4.1. Two types of WEIs have been monetised as set out in section 7.4:

- Agglomeration benefits: **£73,826,000**
- Productivity: **£8,235,000**
- Total WEIs: **£82,060,000**

8.4.2. The monetised WEIs represent 5.3% of conventional i.e. Level 1 benefits. Agglomeration benefits represent 90% of all WEIs.

8.4.3. Labour supply impacts have been qualitatively assessed. Franchising will support access to employment through the higher bus km operated relative to the EP. This will better support labour market participation. This impact has therefore been assessed as **Slight Beneficial**.

8.5. Impacts on the economy: conclusions

8.5.1. The summary of the impacts on the economy under the franchising scenario is presented in Table 12 below.

Table 12: Summary of impacts on the economy

Impact	£k / Qualitative assessment
Business users	£41,517
Transport providers	£31,872

Reliability impact on business users (part of business users' overall impact)	£2,574
Regeneration	Neutral
WEIs	£82,060

8.5.2. Franchising will deliver notable benefits to business users of bus services (through travel time savings) and road users (through decongestion benefits). For transport operators, there will be a small positive impact.

8.5.3. Franchising will also deliver £82,060,000 in WEIs which represents 5.3% of conventional transport user benefits.

9. Impacts on the Environment

This section will:

- Set out the impacts on the environment of the franchising option relative to the EP including noise, air quality and greenhouse gases.

9.1. Introduction

9.1.1. The economic case for bus franchising in the North East considers both the benefits and potential disbenefits of proposed interventions on the natural and built environment. Unlike infrastructure-heavy transport schemes, environmental impacts here are mostly attributable to changes in vehicle use, primarily emissions from road traffic. As such, there is significant overlap between environmental and social impacts. The assessment of environmental impacts draws on, and is consistent with, the findings of the sustainability appraisal undertaken for the Transport Plan²³ Delivery Plan.

9.1.2. All monetary values presented in this section are in 2023 prices for the 30-year appraisal period, and represent the incremental benefit of franchising relative to the EP.

9.2. Noise

9.2.1. Franchising will result in a reduction in noise pollution from other road vehicles relative to the EP. This is because under franchising there will be a smaller increase in vehicle km resulting from 'lost' bus demand relative to the EP (as the decline in bus demand will be slower under franchising than under the EP). The noise impacts have been monetised using the MECs method as set out in section 7.4. This has been valued at **£639,000**.

9.2.2. Whilst the bus km travelled will be higher under franchising relative to the EP (due to the lower network cuts), this is not expected to have a material impact on noise pollution from buses due to the rollout of ZEBs under both franchising and the EP (the roll out of ZEBs under franchising have been assumed to follow the same timescales as under the EP); these are significantly quieter than diesel buses.

9.3. Air quality

9.3.1. Franchising will result in an improvement in local air quality through a reduction in particulate matter and nitrogen dioxide emitted from other road vehicles relative to the EP. This is because under franchising there will be a smaller increase in vehicle km resulting from 'lost' bus demand relative to the EP (as the decline in bus demand will be slower under franchising than under the EP). The air quality impacts have been monetised using the MECs method as set out in section 7.4. This has been valued at **£476,000**.

9.3.2. Whilst the bus km travelled will be higher under franchising relative to the EP (due to the lower network cuts), this is not expected to have a material impact on air pollution from buses due to the rollout of ZEBs under both scenarios which eliminate tailpipe emissions. The MEC method used in this assessment incorporates assumptions about the evolving

²³ "[North East Local Transport Plan: Delivering Green Transport](#)". North East Mayoral Strategic Authority. 2025.

car fleet mix, including the expected increase in electric vehicle uptake over the appraisal period. Therefore, any emission benefits associated with substituting car travel for bus journeys take into account improvements in both bus and car emission profiles.

9.4. Greenhouse gases (GHG)

9.4.1. Franchising will result in a reduction in GHG from other road vehicles relative to the EP.

This is because under franchising there will be a smaller increase in vehicle km resulting from 'lost' bus demand relative to the EP (as the decline in bus demand will be slower under franchising than under the EP). The GHG impacts have been monetised using the MECs method as set out in section 7.4. This has been valued at **£6,736,000**.

9.4.2. As with air quality, whilst the bus km travelled will be higher under franchising relative to the EP (due to the lower network cuts), this is not expected to have a material impact on GHG from buses due to the rollout of ZEBs which eliminate tailpipe emissions following the same timescales under both scenarios, and any differences in GHG associated with power generation between the EP and franchising are not judged to be material.

9.5. Other environmental indicators

9.5.1. In line with TAG, appraisal should review landscape, townscape, historic environment, biodiversity, and water environment. These will not be impacted by franchising and so have been scored as 'neutral' in the assessment. Where local infrastructure investments are required to support franchising, such as bus priority schemes or depot upgrades, relevant environmental considerations will be addressed at a project level.

9.6. Impacts on the environment: conclusions

9.6.1. Direct environmental impacts from franchising are associated with the impact on other road vehicles due to the smaller increase in vehicle km resulting from 'lost' bus demand relative to the EP. This will lead to a reduction in noise pollution and GHG, and an improvement in local air quality.

9.6.2. No material environmental impacts due to the rollout of ZEBs are expected as this will occur in both scenarios, franchising and the EP.

9.6.3. A summary of impacts relative to the EP is detailed in Table 13 below.

Table 13: Summary of impacts on the environment

Impact	£k 2023 PV / Qualitative assessment
Noise	£639
Air quality	£476
Greenhouse gases	£6,736
Landscape	Neutral
Townscape	Neutral
Historic environment	Neutral
Biodiversity	Neutral
Water environment	Neutral

9.6.4. The introduction of franchising will therefore make a greater contribution to achieving climate change and air quality objectives at the local, regional and national levels than would be possible under the EP. This directly aligns with government policy on net zero carbon emissions and improved air quality, as outlined in the UK's National Bus Strategy, Bus Back Better²⁴.

²⁴ “[Bus Back Better: National Bus Strategy for England](#)”. Department for Transport. 2021.

10. Impacts on Society

This section will:

- Set out the impacts on society of the franchising option relative to the EP including travel time savings for non-business users and other social welfare impacts such as physical activity, accidents and security.

10.1. Introduction

10.1.1. The societal impacts of bus reform in the North East relate to first-order effects on transport users travelling for non-business purposes, including commuters and other users such as leisure travellers. These benefits do not directly contribute to economic output, but they have notable social welfare impacts, affecting bus users, other road users, and active mode travellers.

10.1.2. All monetary values presented in this section are in 2023 prices for the 30-year appraisal period, and represent the incremental benefit of franchising relative to the EP.

10.2. Commuting and other users (TEE benefits)

Travel time

10.2.1. Franchising will deliver travel time savings to non-business bus users relative to the EP due to the higher bus km assumed to be operated through reduced wait times. This will translate into more frequent services and will reduce users' GJT through time savings. This impact has been monetised using values of time as set out in section 7.4. This has been valued at **£181,639,000 for commuters** and **£369,115,000 for other users**. Additionally, franchising will add other user benefits through improved passenger information, branding, marketing, and punctuality and reliability through the monetisation of time savings. This impact has been valued at **£179,219,000** and **£364,198,000**. In total, the impact of user benefits has been valued at **£360,858,000 for commuters** and **£733,313,000 for other users**.

10.2.2. Franchising will also deliver road decongestion benefits creating travel time savings for non-business road users. This is because under franchising there will be a smaller increase in vehicle km resulting from 'lost' bus demand relative to the EP (as the decline in bus demand will be slower under franchising than under the EP). The decongestion impacts have been monetised using the MECs method as set out in section 7.4. This has been valued at **£13,903,000 for commuters** and **£61,899,000 for other users**.

User charges

10.2.3. Franchising will deliver user charge benefits to bus users relative to the EP due to the lower fares increases assumed (as set out in section 4.4). This impact has been monetised using the average difference in fare (for fare-paying passengers) over the franchise period. This has been valued at **£23,671,000 for commuters** and **£105,390,000 for other users**.

10.3. Reliability impact on commuting and other users

10.3.1. Franchising will deliver reliability impacts due to the performance regime to be implemented expected to see a betterment in terms of bus punctuality and journey time reliability. This is the case even with the same bus priority measures assumed in both the EP and franchising scenarios, as franchising gives the MSA greater network control. This will translate into more buses being on time which will increase the confidence people have to using the bus. This has been modelled and considered in the economic appraisal through users' GJT reduced wait times. This impact has been monetised using values of time as set out in section 7.4. This has been valued at **£24,689,000 for commuters** and **£50,172,000 for other users** and it is part of the overall journey time saving reported above.

10.4. Physical activity

10.4.1. Franchising will result in a slower decline in bus demand relative to the EP. This will therefore mean there are more trips taken by bus under franchising. The level of physical activity associated with bus travel is typically higher than with private vehicles e.g. walking to/from bus stops. Improved bus access to leisure facilities e.g. sports centres or more rural areas may also encourage more physical activity. Therefore, impacts on physical activity levels (as related to bus usage) are expected to be **Slight Beneficial** under franchising.

10.5. Journey quality

10.5.1. Journey quality for bus passengers will be enhanced under franchising relative to the EP due to a range of soft measure interventions including simplified ticketing and ticketing interoperability.

10.5.2. The journey quality impacts have been monetised using a benefit per trip (in minutes) and applying values of time as set out in section 7.4. This has been valued at **£146,702,000** for all users.

10.5.3. Franchising will also offer further opportunities in future to enhance journey quality e.g. better integration between bus and other modes.

10.6. Accidents

10.6.1. Franchising will result in a reduction in highway accidents, this is because under franchising there will be a smaller increase in vehicle km resulting from 'lost' bus demand relative to the EP (as the decline in bus demand will be slower under franchising than under the EP). The appraisal considers both the reduction in car accidents due to fewer journeys transferring from bus to car, and the potential change in bus accident risk associated with retaining more bus journeys under franchising. The accident impacts have been monetised using the MECs method as set out in section 7.4. This has been valued at **£9,041,000**.

10.7. Security

10.7.1. The interventions and improvements currently assumed under franchising are expected to have an impact on the perception of security for bus users or on the likely incidence of crime especially as formal and informal surveillance is to be improved with the presence of safety team on the network. The coordinated deployment of dedicated safety teams is more practical under franchising, as it allows the authority to set and enforce network-wide requirements, whereas in a deregulated market such initiatives would rely on cooperation from multiple operators. The impact is therefore assessed as **Slight Beneficial** for franchising.

10.7.2. Franchising also presents opportunities in future to enhance security for users (particularly for women and girls), through improvements such as lighting, CCTV, and access to emergency help and information at stops and on vehicles. While improvements such as CCTV and enhanced lighting are included in operator requirements, their impact has been reflected qualitatively in the assessment of journey quality and perceived security due to the lack of established quantification methods for security improvements.

10.8. Access to services

10.8.1. A central aim of bus reform is to improve access for North East residents to education, health, retail, and leisure facilities, whether locally or across the wider region. The current assumptions under franchising including investment to maintain the network over the first ten years, more affordable fares, simplified ticketing, ticketing interoperability and improved information provision will all help deliver improved access. The impact is therefore assessed as **Slight Beneficial** under franchising.

10.8.2. Franchising will also enable further improvements to access to services in future through e.g. better network coordination.

10.9. Affordability

10.9.1. Changes to fares and ticketing under franchising are expected to make bus services more affordable relative to the EP (e.g. it is assumed that bus fares will rise by RPI +0% under the first ten years of franchising instead of RPI +2% under the EP). The quantification of this has been captured through the user charges benefits set out in sections 8.2 and 10.3 (£2,451,000 for business users, £23,671,000 for commuters and £105,390,000 for other users).

10.9.2. More affordable fares will have the largest impact on residents in deprived and lower-income areas where car ownership is typically low and public transport costs can account for a high proportion of disposable incomes. As such groups represent a high proportion of bus users, affordability impacts are assessed as **Moderate Beneficial** under franchising.

10.10. Severance

10.10.1. Severance refers to the barrier effect created when transport infrastructure or changes to services divide communities or hinder ease of movement, making it more difficult for people to access jobs, services, or social opportunities. Franchising will not significantly alter existing public transport infrastructure or routes, so there will be no major changes to

severance issues relating to access. Therefore, impacts on severance are assessed as **Neutral** under franchising.

10.11. Option and non-use values

10.11.1. Franchising is not expected to bring about substantial changes to the availability of transport services. Non-use values reflect the benefits that individuals or communities may derive from the existence, availability, or improvement of public transport services, even if they do not directly use them themselves. The impact on option and non-use values is therefore assessed as **Neutral** under franchising.

10.12. Impact on society: conclusions

10.12.1. The summary of the impacts on society under the franchising scenario is presented in Table 14 below.

Table 14: Summary of impacts on society

Impact		£k 2023 PV / Qualitative assessment
Commuting and other users	Travel time	£1,169,973
	User charges	£129,061
Reliability impact on commuting and other users		£74,861
Physical activity		Slight Beneficial
Journey quality (all users)		£146,702
Accidents		£9,041
Security		Slight Beneficial
Access to services		Slight Beneficial
Affordability		Moderate Beneficial
Severance		Neutral
Option and non-use values		Neutral

10.12.2. Franchising will deliver additional social benefits relative to the EP in terms of monetised benefits and qualitative assessment.

10.12.3. The monetised benefits primarily relate to TEE benefits (£1,170 million travel time + £129 million user charges = £1,299 million) to non-business bus passengers through travel time savings and cheaper fares. There will also be minor benefits to road users through decongestion. The TEE benefits are significantly more than to business users (section 8) owing to the predominance of non-business bus travel in the North East.

10.12.4. Improved journey quality (£147 million) will benefit all bus users (all journey purpose types) through the interventions associated with franchising such as simplified ticketing, ticketing interoperability and branding.

10.12.5. As well as the non-monetised benefits, the qualitative assessment has shown that franchising will result in more affordable bus travel, will improve access to services and will make travelling by bus safer and more secure.

11. Impacts on public accounts

This section will:

- Set out the impacts on local and central government funding of the franchising option relative to the EP.

11.1. Costs to broad transport budget

11.1.1. All monetary values presented in this section are in 2023 prices for the 30-year appraisal period, and represent the incremental benefit of franchising relative to the EP.

11.1.2. Table 15 below presents the impact on public accounts of the implementation of franchising option, incremental against the current EP context. Under franchising, services are specified, funded, and all revenue is collected by the DB. **Additional revenue collected under franchising is £183,911,000**, while **operator contract payments by DB and DB operating costs are £725,485,000**. **Initial and continuous investment costs of £33,868,000 and grant/subsidy payments of £202,574,000**. **A small saving of £402,000 of road infrastructure maintenance** is also calculated via MECs. This results in a **net cost impact of £778,015,000 over the appraisal period**. This includes both previously commercial and supported services.

11.1.3. For the EP, only supported services require direct funding from Nexus, DCC and NCC; these are reflected in the public accounts impacts.

11.1.4. Both a continuation of the EP and the implementation of a franchising scheme involve ongoing operating costs for the local public sector, including costs for staff, transition, renegotiation, and tendering. For the **EP, these total £3,574,058,000** over the appraisal period, while **for franchising, the total is £4,299,543,000**, an increase of £725,485,000 as shown in Table 15. This is attributed mainly to having to maintain a larger network and higher PVR.

11.1.5. Investment costs are also included in the public accounts summary. Investment figures are shown net of DfT funding, and it is assumed central government would provide the same level of support under both approaches so there is no net incremental impact for either the EP or franchising and no additional cost is reported in the table.

11.1.6. In addition to these costs, there are indirect public sector impacts from changes in demand for other public transport modes, and from reduced costs due to modal shift away from private car use.

11.1.7. Revenue on other public transport modes, such as rail and Tyne and Wear Metro services in the North East are not expected to be significantly impacted as bus demand increases and some passengers are drawn away from these modes. Abstraction from Metro services, including any associated impact on Nexus revenue and the local transport levy, has been considered, with current modelling indicating that increased bus patronage under franchising is not expected to result in a material reduction in Metro revenue.

11.2. Indirect tax revenues

11.2.1. The lower increase in vehicle km under franchising will affect the indirect tax collected by the government relative to the EP as fewer car journeys impact tax income from reduced fuel consumption resulting in lower duty and VAT to the Treasury. The net impact on central government accounts is estimated to be £-2,816,000 for franchising.

11.3. Summary tables

Table 15: Summary of impact on public accounts

North East MSA	£k 2023 PV
Revenue	-£183,911
Operating costs	£725,485
Investment costs	£33,868
Grant / subsidy payments	£202,574
Sub-total (net impact)	£778,015
Central Government: Transport	£k 2023 PV
Revenue	£0
Operating costs	£0
Investment costs	£0
Developer and other contributions	£0
ZEB subsidy	£0
Subsidy (BSOG)	£0
Sub-total	£0
Total (North East MSA & Central Government)	£778,015

Central Government: Non-Transport	£k 2023 PV
Indirect Tax Revenues	-£2,816

Totals	£k 2023 PV
Broad Transport Budget	£778,015
Wider Public Finances	-£2,816

12. Economic appraisal outputs

This section will:

- Provide a summary of the economic appraisal through the standard TAG reporting tables.
- Present and discuss the BCR and VfM of the franchising option relative to the EP.
- Present the sensitivity tests results.
- Assess the franchising option against the strategic objectives for bus reform.
- Present the distributional impacts analysis.

12.1. Introduction

12.1.1. The economic appraisal outputs set out in sections 8 to 11 are summarised through the standard TAG reporting tables including the Analysis of Monetised Costs and Benefits (AMCB) table, along with key metrics such as Net Present Value (NPV) and Benefit Cost Ratio (BCR).

12.1.2. All monetary values presented in this section are in 2023 prices for the 30-year appraisal period, and represent the incremental benefit of franchising relative to the EP.

12.2. Economic appraisal of scenarios

12.2.1. Table 16 shows the Transport Economic Efficiency (TEE) table which summarises the impact on transport users and private sector providers.

Table 16: Transport Economic Efficiency (TEE) Table

Non-Business	£k 2023 PV
Commuting	£398,432
Other	£900,602

Business	£k 2023 PV
User benefits	£41,517
Private sector provider impacts	£31,872
Other business impacts	£0
Net business impact	£73,389
Total benefits (TEE)	£1,372,423

12.2.2. The following tables present the AMCB Tables which summarise all the monetised impacts of a scheme that are considered sufficiently robust for inclusion in the NPV and BCR of the scheme, including TEE. The AMCB presents both the 'Initial' BCR which excludes consideration of WEIs (Table 17) and the 'Adjusted' BCR which includes WEIs (Table 18).

Table 17: Analysis of Monetised Cost and Benefits (AMCB) Table – Initial

	£k 2023 PV
Noise	£639
Local air quality	£476
Greenhouse gases	£6,736
Journey quality	£146,702
Physical activity	-
Accidents	£9,041
Economic efficiency: consumer users (Commuting)	£398,432
Economic efficiency: consumer users (Other)	£900,602
Economic efficiency: business users and providers	£73,389
Wider public finances (indirect taxation revenues)	£2,816
Present value of benefits (PVB)	£1,538,833
Broad transport budget	£778,015
Present value of costs (PVC)	£778,015
Net Present Value (NPV)	£760,818
Benefit Cost Ratio (BCR)	1.98

Table 18: Analysis of Monetised Cost and Benefits (AMCB) Table – Adjusted BCR

	£k 2023 PV
Noise	£639
Local air quality	£476
Greenhouse gases	£6,736
Journey quality	£146,702
Physical activity	-
Accidents	£9,041
Economic efficiency: consumer users (commuting)	£398,432
Economic efficiency: consumer users (other)	£900,602
Economic efficiency: business users and providers	£73,389
Wider public finances (indirect taxation revenues)	£2,816
Wider economic impacts	£82,060
Present value of benefits (PVB)	£1,620,894
Broad transport budget	£778,015
Present value of costs (PVC)	£778,015
Net Present Value (NPV)	£842,879
Benefit Cost Ratio (BCR)	2.08

12.2.3. The initial BCR of 1.98 shows that franchising would deliver ‘Medium’ VfM (where the BCR is between 1.5 and 2.0). Including WEIs in the Adjusted BCR would increase the BCR marginally to 2.08, indicating ‘High’ VfM (where the BCR is greater than 2.0).

12.2.4. However, within the context of this assessment, greater emphasis is placed on the NPV rather than the BCR. This is due in part to the fact that transferring costs and revenues between the private and public sectors can limit the usefulness of the BCR as a comparative measure of an option’s economic performance. This is due to private sector costs and revenues being included in the PVB, and public sector costs and revenues being included in the PVC in the standard TAG definition of BCR. Additionally, costs and revenues of running the service over 30 years will be much greater than the benefits or costs of introducing a new way of running the service and therefore even small changes in those factors can create swings in the BCR in either direction.

12.2.5. To address this, an alternative BCR, a ‘social BCR’, has been calculated. This treats public and private sector costs equally and allows for a like-for-like comparison between options. The social BCR is widely used in the context of bus policy appraisal and is recognised by the DfT²⁵ as an established measure. This measure represents the benefit ‘return’ from spending the costs of the scheme and allows a comparison between different uses of the same resources. Although similar to a DfT ‘NATA’²⁶ BCR in concept, the calculation comprises the total present value benefits and revenues divided by costs (rather than the ratio of net private sector to net public sector impact).

²⁵ “[Value for money: supplemental guidance on categories](#)”. Department for Transport. 2024.

²⁶ NATA (New Approach to Appraisal) is the Department for Transport’s framework for assessing transport projects against economic, environmental, and social criteria [Department for Transport, 2022]

12.2.6. The alternative assessment in the form of a 'social BCR' is presented in Table 19 including how the different components have been derived from the conventional components presented in previous tables. This results in franchising being classed as 'High' VfM based on the 'social BCR'. This is because the capital investment is relatively low resulting in a low PVC with the bigger cost being the additional operating cost as a result of a more extensive network being operated in the franchising scenario.

Table 19 : Analysis of Monetised Cost and Benefits (AMCB) Table – Social BCR

	£k 2023 PV	Conventional BCR components
User benefits	£1,519,125	Economic efficient benefits + journey quality (Table 17)
Non-user benefits	£16,892	Noise + air quality + accidents (Table 17)
Change in bus revenue	£183,911	Change in bus revenue (Table 15)
Present Value of Benefits (PVB)	£1,719,928	
Operators' operating costs	£487,742	Change in bus operators' operating costs (Table 11)
Public sector operating costs	£43,139	Change in MSA operating costs (see Financial Case)
Tax impacts	£2,816	Indirect tax revenue (Table 15)
Capital expenditure	£33,868	Investment costs (Table 15)
Present Value of Costs (PVC)	£567,566	
Net Present Value (NPV)	£1,152,362	
Benefit Cost Ratio (BCR)	3.03	

12.3. Sensitivity tests

12.3.1. This section outlines the results of the sensitivity tests as outlined in Table 10 that were performed in addition to the core analysis, to test the robustness of the modelling and the BCR sensitivity to changes in some of the key assumptions. All sensitivity tests present the key appraisal metrics i.e. PVC, PVB, NPV and BCR and the resultant VfM category against those for the Core scenario (BCR of 1.98 and 'Medium' VfM).

12.3.2. Sensitivity test 1 reflects a variation of capital costs in the form of 10% change in the depot purchase and refurbishment costs. This does not materially change the BCR and does not impact the VfM of the scheme.

12.3.3. Sensitivity test 2 presents a fluctuation in the operators' margin resulting in higher PVB and PVC yet the same NPV. The initial BCR moves downwards as the costs are now higher for the same NPV, the VfM category remains 'Medium' in this instance.

12.3.4. Sensitivity test 3 presents an increase in operating costs and therefore costs to the MSA. The PVC is increased and PVB is decreased reflecting a reduction in the NPV from both the costs and the benefits. The BCR drops to 1.77, also indicating 'Medium' VfM.

12.3.5. Sensitivity test 4 presents a reduced direct demand uplift of 2.5% for branding and 0.5% for marketing. This results in a BCR of 1.57 indicating 'Medium' VfM.

12.3.6. Sensitivity test 5 reflects existing funding remaining flat in real terms (does not grow with inflation). This test is only relevant to the financial case to investigate the possible impact on funding gap and therefore results are not included here.

12.3.7. In summary, under all sensitivity tests, based on the initial BCR, the VfM category of 'Medium' is maintained. This demonstrates resilience in the VfM for franchising to

variations in the core appraisal assumptions and provides confidence in the ability of franchising to deliver the desired economic outcomes.

Table 20 Sensitivity tests results (AMCB)

£k 2023 PV	Core	1a: +10% depot capital costs	1b: -10% depot capital costs	2: Higher operator margin	3: Increase in operating costs	4: Lower branding and marketing demand uplift
Noise	£639	£639	£639	£639	£639	£563
Local air quality	£476	£476	£476	£476	£476	£419
Greenhouse gases	£6,736	£6,736	£6,736	£6,736	£6,736	£5,905
Journey quality	£146,702	£146,702	£146,702	£146,702	£146,702	£142,298
Physical activity	0	£0	0	0	0	0
Accidents	£9,041	£9,041	£9,041	£9,041	£9,041	£7,972
Economic efficiency: consumer users (commuting)	£398,432	£398,432	£398,432	£398,432	£398,432	£322,932
Economic efficiency: consumer users (other)	£900,602	£900,602	£900,602	£900,602	£900,602	£742,337
Economic efficiency: business users and providers	£73,389	£73,389	£72,792	£207,532	£57,955	£9,986
Wider public finances (indirect taxation revenues)	£2,816	£2,816	£2,816	£2,816	£2,816	£2,523
Present value of benefits (PVB)	£1,538,833	£1,538,833	£1,538,236	£1,672,976	£1,523,399	£1,234,934
Broad transport budget	£778,015	£781,600	£774,440	£912,158	£862,240	£787,724
Present value of costs (PVC)	£778,015	£781,600	£774,440	£912,158	£862,240	£787,724

Net Present Value (NPV)	£760,818	£757,831	£763,797	£760,818	£661,159	£447,210
Benefit Cost Ratio (BCR)	1.98	1.97	1.99	1.83	1.77	1.57

Table 21 Sensitivity tests results (Summary)

£k 2023 PV	Initial BCR				Adjusted BCR			
	PVC	PVB	NPV	BCR	PVC	PVB	NPV	BCR
Core	£778,015	£1,538,833	£760,818	1.98	£778,015	£1,620,894	£842,897	2.08
1a: +10% depot capital costs	£781,600	£1,539,430	£757,831	1.97	£781,600	£1,621,494	£839,895	2.07
1b: -10% depot capital costs	£774,440	£1,538,236	£763,797	1.99	£774,440	£1,620,293	£845,854	2.09
2: Higher operator margin	£912,158	£1,672,976	£760,818	1.83	£912,158	£1,755,841	£843,683	1.92
3: Increase in operating costs	£862,240	£1,523,399	£661,159	1.77	£862,240	£1,605,367	£743,127	1.86
4: Lower branding and marketing demand uplift	£787,724	£1,234,934	£447,210	1.57	£787,724	£1,315,211	£527,488	1.67
5: Existing funding remains flat	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

12.4. Performance against strategic objectives

- 12.4.1. A key element of the economic case is the assessment of the franchising option against the strategic objectives for bus reform as set out in section 2.1.
- 12.4.2. Table 22 shows the relevant measures for each objective (as set out in the strategic case) and how franchising will help achieve the measure. This is supported by the monetary and/or qualitative assessment previously set out in sections 8 to 11 above.
- 12.4.3. This assessment shows that franchising will make a stronger contribution to achieving all six bus reform strategic objectives compared to the EP.

Table 22 Performance against strategic objectives

Strategic objective	Relevant measure(s)	How franchising will contribute to achievement of objective	Economic assessment (monetary or qualitative)
Buses at the heart of an integrated transport network: 'The Angel Network'	Increase in real time information provision within the three years of implementation.	Franchising will make digital information available to all passengers through a single website and mobile application, providing passengers with a single source of truth. Passengers will be able to access timetables, view real-time vehicle locations and purchase ticketing products via the website and app.	Improved information provision has been valued at 0.17 min per trip (see Table 8). This provides a monetary benefit of £38,967,000 (2023 PV) (this is included in the economic efficiency benefits presented in Table 17).
	Angel brand applied to all buses within first three years of implementation.	A consistent livery design will be introduced across the fleet of vehicles operating franchised bus services. Branding will also be updated across the region's 13,000 bus stops to further communicate that buses are part of the integrated transport network. Existing bus stop flags will be replaced with new flags featuring the integrated transport network branding. Timetable information displayed at bus stops will also be updated to incorporate the integrated transport brand.	The branding effect has been valued at 1.60 min per trip (see Table 8). This provides a monetary benefit of £368,267,000 (2023 PV) (this is included in the economic efficiency benefits presented in Table 17).
	Sustain or improve perception of value for money within first five years of implementation.	Changes to fares and ticketing under franchising are expected to make bus services more affordable relative to the EP: it is assumed that bus fares will rise by RPI +0% under the first ten years of	Moderate beneficial impact on 'Affordability'.

		franchising instead of RPI +2% under the EP.	
	Improved simplicity in fare structure within first year of implementation.	Under franchising, period ticketing products will be harmonised and rationalised into a much smaller number of products. Period tickets will also become multi-operator, offering more convenient and better value travel for passengers served by more than one operator.	Simplified ticketing and ticketing interoperability have been valued at 0.84 and 0.10 min per trip respectively (see Table 8). This provides a monetary benefit of £146,702,000 (2023 PV) (see 'Journey quality' in Table 17).
	Higher relative bus ridership than reference case.	The proposals associated with franchising are expected to generate bus demand relative to the EP.	Bus demand will be higher than under the EP over the 30-year appraisal period. By 2058/59, bus demand is forecast to be 15.7 million passenger journeys higher relative to the EP (see section 6.1).
Improve bus punctuality and reliability	Improved punctuality and reliability within the first five years of implementation, working towards the traffic commissioners' targets for bus performance.	Franchising will align operator incentives directly with public sector objectives on reliability and punctuality, enabling contractual enforcement of performance targets. This will support progress towards punctuality levels set by the MSA.	Improved punctuality and reliability is expected to reduce bus journey times by 0.34 min per trip on average (see Table 8). This provides a monetary benefit of £2,574,000 for business users and £74,861,000 for non-business users (2023 PV) (this is included in the economic efficiency benefits presented in Table 17).
Make the bus network resilient.	On a long-term basis, the North East's bus network will be financially stable and affordable, allowing for financial planning of the bus network.	The proposals associated with franchising are expected to generate bus demand and revenue relative to the EP.	Bus passenger revenue will be higher than under the EP over the 30-year appraisal period. By 2058/59, revenue is forecast to be £93,627,000 (nominal) which is

	Bus ridership should be stabilised leading to financial resilience.		£14,981,000 (nominal) higher relative to the EP (see section 6.2).
Make the bus network accessible and inclusive to all	The reduction in bus mileage should be stabilised and new services should be introduced where financially possible.	Under franchising, service coverage will be planned and maintained by the authority. As shown in Table 6 It is assumed that there will be investment in the bus network over the first ten years to maintain the network. Beyond this period, it is assumed network cuts will be required to limit public subsidy. Overall, however, franchising will limit the reductions in bus mileage relative to the EP.	The higher bus km assumed to be operated under franchising will translate into more frequent services and will reduce users' GJT through reduced wait times. This will deliver travel time savings relative to the EP. This provides a monetary benefit of £39,066,000 for business users and £1,169,973,000 for non-business users (2023 PV) (this is included in the economic efficiency benefits presented in Table 17).
Ensure that everyone feels safe when travelling, especially women and girls	Perceptions of safety should be improved, especially for women, girls and other vulnerable groups.	The interventions and improvements currently assumed under franchising are expected to have an impact on the perception of security for bus users or on the likely incidence of crime especially as formal and informal surveillance is to be improved with the presence of safety team on the network. Franchising also presents opportunities in future to enhance security for users particularly for women and girls e.g. improved lighting, CCTV, and access to emergency help and information at stops and on vehicles.	Slight beneficial impact on 'Security'.

Create regional pride in its buses	The North East bus network KPIs should benchmark well against comparable networks. (comparison of KPIs such as patronage per capita, passenger satisfaction drawn from transport focus and bus performance).	Franchising will contribute to economic growth through WEIs (agglomeration benefits, productivity growth and increased labour market participation). Franchising will also deliver environmental benefits due to the smaller increase in road vehicle km resulting from 'lost' bus demand relative to the EP. This will lead to a reduction in noise pollution and GHG, and an improvement in local air quality.	WEIs will provide a monetary benefit of £82,060,000 (2023 PV) (see Table 18). Environmental impacts (noise, air quality and GHG) will provide a monetary benefit of £7,851,000 (2023 PV) (see Table 17).

12.5. Distributional impacts

12.5.1. **Table 23** assesses the distributional impacts of franchising against the eight indicators where different impacts may apply.

Table 23: Distributional impact assessment for franchising

Indicator	Qualitative assessment	Impact category
User benefits	Franchising will result in a reduction in GJT relative to the EP due to the higher bus km assumed to be operated. The VfM assessment set out in section 10 demonstrates this will have a positive impact on non-business bus users.	Significant beneficial
Noise	Franchising will not result in any change in alignment of transport corridors or road layout, or result in significant changes in vehicle flow, speed or proportion of HGVs which may have positive or negative noise impacts. However, as there will be a smaller increase in road vehicle km under franchising relative to the EP, there will be a minor reduction in noise pollution from other road vehicles.	Slight beneficial
Air quality	Franchising will not result in any change in alignment of transport corridors or road layout, or result in significant changes in vehicle flow, speed or proportion of HGVs which may have positive or negative air quality impacts. However, as there will be a smaller increase in road vehicle km under franchising relative to the EP, there will be a minor reduction in particulate matter and nitrogen dioxide emitted from other road vehicles. This is likely to be particularly beneficial to vulnerable groups such as children and older people.	Slight beneficial
Accidents	Franchising will not result in any change in alignment of transport corridors or road layout, or result in significant changes in vehicle flow, speed or proportion of HGVs which may have positive or negative safety impacts. However, as there will be a smaller increase in road vehicle km under franchising relative to the EP, there will be a minor reduction in highway accidents. This is likely to be particularly beneficial to vulnerable groups such as children, older people and young males.	Slight beneficial
Security	The interventions and improvements currently assumed under franchising are expected to have an impact on the perception of security for bus users or on the likely incidence of crime especially as formal and informal surveillance is to be improved with the presence of safety team on the network.	Slight beneficial

	Improved security is likely to be particularly beneficial to more vulnerable groups including women and older people.	
Severance	Franchising will not significantly alter existing public transport infrastructure or routes, so there will be no major changes to severance issues relating to access.	Neutral
Accessibility	Franchising is expected to improve the accessibility of bus through simplified ticketing, ticketing interoperability and improved information provision. This is likely to encourage use by social groups such as older people that may find the complexity of the current arrangements a barrier to travel.	Slight Beneficial
Affordability	Changes to fares and ticketing under franchising are expected to make bus services more affordable relative to the EP. This is likely to have the most significant beneficial impact on residents in deprived and lower-income areas.	Moderate beneficial

12.5.2. Rural residents may experience distributional impacts that vary from those in urban areas. Given the typically lower levels of public transport provision and longer travel distances in rural communities, bus franchising could in principle influence accessibility and travel costs for these residents. However, in this context, no specific differential impacts on rural areas are anticipated or directly assessed. The approach nonetheless recognises the importance of considering the reach and accessibility of any service changes across diverse geographic areas, including rural communities.

12.5.3. The expected outcomes of franchising are anticipated to have an overall positive impact on all different social groups. Within each indicator, no social groups are expected to be negatively impacted with a beneficial impact expected in all except for severance (neutral impact). Certain social groups may benefit particularly from specific elements of franchising e.g. lower income residents will benefit the most from more affordable fares.

13. Conclusion and value for money statement

This section will:

- Present an overview of the economic appraisal of franchising relative to the EP.
- Provide a VfM statement.

13.1. Introduction

13.1.1. This section presents an overview of the economic performance of franchising relative to the EP. The key impacts are detailed in an options appraisal summary table, covering both monetised and non-monetised effects. These findings are subsequently reflected in the VfM statement for the options assessed.

13.1.2. All monetary values presented in this section are in 2023 prices for the 30-year appraisal period, and represent the incremental benefit of franchising relative to the EP.

13.2. Option appraisal summary

Economy	£k 2023 PV
Business users	£41,517
Transport providers	£31,872
Reliability impact on business users (part of Business users' overall impact)	£2,574
Regeneration	Neutral
WEIs	£82,060

Environment	£k 2023 PV
Noise	£639
Air quality	£476
Greenhouse gases	£6,736
Landscape	Neutral
Townscape	Neutral
Historic environment	Neutral
Biodiversity	Neutral
Water environment	Neutral

Society	£k 2023 PV
Commuting & other users	£1,299,034
Reliability (Commuting & other users)	£74,861
Physical activity	Slight Beneficial
Journey quality	Slight Beneficial
Accidents	£9,041
Security	Slight Beneficial
Access to services	Slight Beneficial
Affordability	Moderate Beneficial
Severance	Neutral

Option and non-use values	Neutral

Public Accounts	£k 2023 PV
Cost to broad transport budget	£778,015
Indirect tax revenues	-£2,816

13.3. Value for Money statement

- 13.3.1. Franchising provides the MSA with a range of advantages over continuation of the EP, notably by delivering a broader scope and scale of non-monetised benefits. Franchising also offers the MSA greater ability to shape distributional outcomes through its direct role in specifying the bus network, enabling resources and improvements to be targeted towards those areas and communities that need them most.
- 13.3.2. Franchising presents clear benefits over the continuation of the EP, with the value of investment expected to be exceeded by the resulting benefits as demonstrated by the ‘Medium’ VfM assessment (initial BCR of 1.98). This assessment also identified a social BCR of 3.03, indicating a ‘High’ VfM due to the low capital investment required under franchising. Franchising demonstrates a net benefit overall, particularly due to the additional influence it gives the MSA over how and where benefits are distributed across the region. While both approaches involve a degree of uncertainty, franchising is likely to experience more short-term uncertainty related to the transition, whereas the EP may face greater longer-term uncertainty as operating agreements and partnerships require renegotiation over time in response to changing circumstances.
- 13.3.3. Subsequent sections of this franchising scheme assessment consider further key factors that the MSA must weigh when determining which option to pursue, including affordability, deliverability, and the respective risks associated with each option.

Franchising Scheme Assessment:

Financial Case

March 2026

1. Introduction

1.1. Purpose of the financial case

- 1.1.1. Section 123B(3) Transport Act 2000 requires an assessment to consider whether the franchising authority would be able to afford to make and to operate the proposed franchising scheme, a requirement repeated in the statutory franchising guidance. This requirement is fulfilled through the financial case.
- 1.1.2. The purpose of this financial case is to assess the financial implications for the North East Mayoral Strategic Authority of the two shortlisted bus delivery options: the continuation of the current Enhanced Partnership (EP); or making the proposed franchising scheme, with reference to the bus franchising scheme guidance requirements.
- 1.1.3. The delivery arrangements under the proposed franchising scheme have not yet been finalised, therefore for the purposes of the financial case the term 'Delivery Body' (DB) has been used throughout, even though there could be one or more delivery bodies. This is discussed further in section 3 of the assessment framework.
- 1.1.4. Appendix B outlines how the financial case addresses the specific requirements set out in the statutory guidance.

1.2. Structure of the financial case

- 1.2.1. **Section 1 – Introduction:** The financial case outlines the affordability of the proposed franchising scheme and assesses the funding sources available. It details the capital and revenue costs associated with the options and highlights the financial risks involved. This financial case is structured to provide clarity on the financial implications of the proposed scheme.
- 1.2.2. **Section 2 - Overview of the North East MSA financial position:** The financial landscape of the MSA is multifaceted, owing to the role of local authorities Durham County Council (DCC), Northumberland County Council (NCC), and Nexus in delivering public transport services in the region together with the MSA. This section outlines the MSA's overall financial position detailing the financial status of bus services, current revenue expenditure of DCC, Nexus and NCC, and a breakdown of the transport levy and other income sources.
 - Transport-related expenditure: The total expenditure on transport services, including bus operations, maintenance, and infrastructure improvements.
 - Budget and income figures: A breakdown of the income sources, including government grants, fare box revenue, and other financial contributions.
- 1.2.3. **Section 3 - Funding and financing options:** Section 3 discusses potential capital and revenue funding options available for the proposed interventions and their implications. Key considerations include:

- Borrowing for capital expenditure: Analysis of the implications of borrowing for capital projects, including interest rate fluctuations.
- Transport levies for revenue expenditure: Examination of the potential for transport levies to support ongoing operational costs.
- Government grants: Overview of available government funding schemes that may support the franchising scheme.

1.2.4. **Section 4 - Modelling principles and approach:** Section 4 outlines the modelling approach for the financial case, focusing on operating costs, revenues for bus services, operator margins, and assumptions like inflation. It also details the principles and methodologies for financial modelling related to the proposed franchising scheme, including key assumptions about future revenue and costs.

1.2.5. **Section 5 - Financial assessment of the current Enhanced Partnership:** Section 5 presents the results for the current EP, detailing the net public sector costs, affordability analysis, capital investment needs, implementation costs, and additional financial considerations like VAT and long-term liabilities. This section evaluates the financial implications of the current EP option. It also proposes funding sources, including borrowing arrangements and devolved BSOG funding, and assess risks with mitigation plans and sensitivity analysis. Key points include:

- Funding sources: Analysis of the financial resources available for the EP model.
- Cost implications: Examination of operational costs and potential savings associated with the EP.
- Sources of income: Detailed analysis of expected income from farebox revenue, government grants, and other funding sources.
- Proposed borrowing: Examination of any borrowing required for implementation, including assumptions on interest rates and repayment arrangements.

1.2.6. **Section 6 - Financial assessment of franchising:** Section 6 presents the results for franchising, including various costs and financing and the funding sources, in a structure that is aligned to section 5, and risk assessment with mitigation plans and sensitivity analysis. Section 6 provides a year-by-year forecast of future revenues and costs associated with the franchising scheme. Key components include:

- Transitional and implementation costs: Overview of costs associated with the transition to the franchising model.
- Franchising BAU costs

1.2.7. **Section 7 – Investment needed for franchising Including risk, sensitivities, and affordability:** Section 7 presents the financial implications of franchising, including the net costs to the public sector and how much investment will be needed for franchising. This section also includes sensitivity analysis to evaluate the impact of various risks and assumptions on the financial outlook. Section 7 provides a year-by-year analysis of

projected revenues and costs associated with the franchising scheme. Key components include:

- Net cost of franchising: Overview of the total costs and revenues associated with the franchising model, including an affordability analysis.
- Investment analysis: Examination of the investment needed for franchising, its key drivers, and long-term financial implications.
- Sensitivity analysis: Assessment of how variations in key assumptions affect the overall financial viability of the franchising scheme.
- Potential funding sources: Identification of various funding options available to address the investment needed and ensure the affordability of the franchising initiative.

2. Overview of the North East MSA financial position and funding for bus services

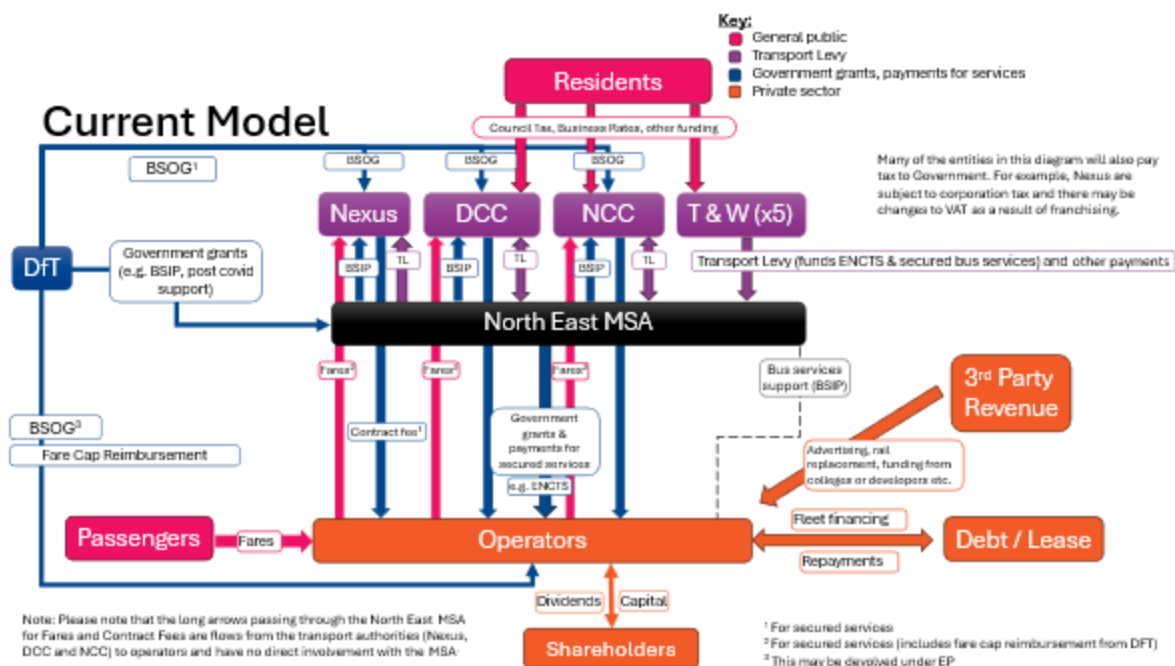
This section will:

- Set out the details of the current financial position of the North East MSA for FY24/25, based on draft unaudited financial statements and operator data.
- Provide information on revenue, expenditure, transport levy, and other forms of funding across bus and other transport types.
- Include the overall funding position for bus services in the North East and current public funding for bus services.

2.1. Overall funding position for bus services in the North East

2.1.1. The diagram below in Figure 1 outlines the existing funding architecture supporting bus services across the North East. It illustrates how financial contributions flow from central government, local authorities, passengers, and third-party sources to bus operators. Key funding streams include government grants (e.g. BSIP, BSOG), transport levy, concessionary travel reimbursements, fare revenue, and contract fees (for secured services). Nexus, DCC and NCC pay contract fees to operators for secured services, partially with their own transport levy funding and partially with BSIP funding that comes from central government and is distributed by the MSA to Nexus, DCC and NCC. The current bus funding model also incorporates private sector inputs such as advertising income and fleet financing arrangements, reflecting the multifaceted nature of local bus service funding in the region. In addition, funding contributions from public sector partners such as schools, the NHS, town and parish councils, and neighbouring authorities play a role in supporting specific services, highlighting the interdependencies that exist within the wider public sector. This third-party funding can be direct to the bus operator or via Nexus / NCC / DCC.

Figure 1: Current flow of funds



2.1.2. As can be seen from Figure 1, the current funding model is a complex picture with different sources and destinations for funding. It is worth noting that:

- The reference to T&W x5 indicates that Tyne & Wear consists of five metropolitan boroughs: Gateshead, Newcastle upon Tyne, Sunderland, North Tyneside, and South Tyneside.
- Regarding BSIP, the disbursement mechanism in the North East is structured such that the MSA receives BSIP funding from the DfT and subsequently allocates it to Nexus, DCC and NCC, who decide how the funds are spent, before distributing to operators in respect of the services they run.
- The transport levy funds (which cover concessionary (ENCTS) funding and funding for services run by DCC and NCC in addition to the private market) flow from NCC and DCC to the MSA and then back to those authorities. The MSA is the transport authority and transport functions are delegated to NCC and DCC. For Tyne and Wear, the MSA funds Nexus as the Passenger Transport Executive (PTE) for the area, in the form of a revenue grant that pays for statutory ENCTS, discretionary concessions, secured bus services, bus infrastructure and the provision of customer information.

2.1.3. Other funding flows: Other funding flows not captured in the above diagram include:

- Reimbursement for under 22 products.
- Bus station departure charges imposed on operators by Nexus, DCC and NCC.
- Third party funding for specific secured services to Nexus, DCC, NCC, and Operators (e.g. funding from employers, colleges, NHS and s106).

- Nexus, DCC, and NCC smaller expenditure on infrastructure (e.g. bus stops and bus stations) alongside operational expenditure (e.g. ENCTS administration with responsibilities varying between Nexus, DCC, and NCC).
- Payments between Nexus, DCC, NCC and neighbouring authorities for secured services that run cross-boundary (contribution paid by the other party to the procuring party).
- BSIP spend on cleaners and staff.
- BSIP capital and capability funding.
- Capital income from funds such as ZEBRA and LUF (Levelling Up Fund) to operators for vehicle procurement.

2.2. Current public expenditure on buses

2.2.1. The MSA, acting as the local transport authority for the region, places levies for transport expenditure on its constituent authorities. The majority of this income is then passed in the form of revenue grants to the delivery bodies of Northumberland and Durham County Councils and Nexus for direct spending on public transport services. Table 1 shows details of levy-funded expenditure on buses amounting to £96.6 million for FY25/26, although in practice each of the delivery bodies may augment each budget line using other grant income from central government, fares and commercial revenues.

2.2.2. The table below shows the FY25/26 transport levy budget:

Table 1: FY25/26 Transport Levy budget

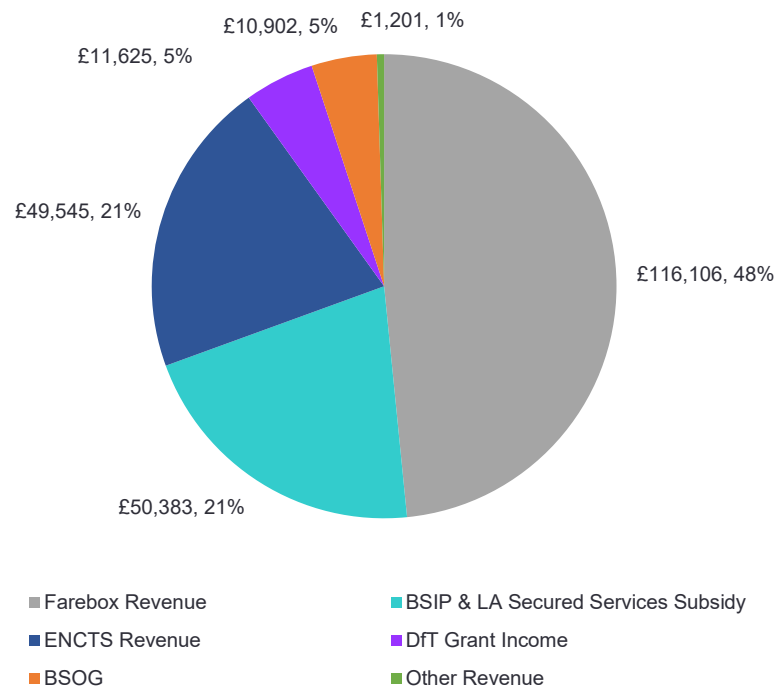
FY25/26 Levies Budget	Durham (£ million)	Northumberland (£ million)	Tyne and Wear (£ million)	Total (£ million)
Statutory concessionary travel	11.8	5.1	34.3	51.2
Discretionary concessionary travel		-	2.4	2.4
Subsidised bus service	4.0	1.5	11.0	16.4
Bus stations/ infrastructure	0.6	0.0	2.6	3.3
Public transport information	0.1	0.0	1.3	1.4
Metro (inc. discretionary Travel)	-	-	27.2	27.2
Ferry	-	-	2.0	2.0
Staffing in Durham/ Northumberland	0.9	0.2	-	1.1

FY25/26 Levies Budget	Durham (£ million)	Northumberland (£ million)	Tyne and Wear (£ million)	Total (£ million)
Reserves funding	-	-	(10.5)	(10.5)
Transport grant (sub-total)	17.4	6.7	70.2	94.4
Central Costs/former TWITA	0.0	0.0	2.2	2.2
Transport levies (total)	17.4	6.7	72.4	96.6

- 2.2.3. BSIP funding of £23.7 million is used to reimburse bus operators for the difference between the shadow fare (what bus users would be charged in the absence of this BSIP scheme) and the passenger-facing cost of the product from The Mayor's Fares range (the bus fares set in the relevant scheme) on the commercial network. A further £11.2 million is used to operate and subsidise services that are not seen as commercially viable by the commercial operators. This funding runs to 31 March 2026. Beyond this date, funding will be received by the MSA from central government through a bus grant, forming part of the MSA's Integrated Settlement award (see 3.2.7). The current BSIP funding is a material component of the funding used to support secured bus services and maintain the network in the region.
- 2.2.4. The Local Authority Bus Service Operators Grant (LA BSOG) is allocated to procurers of secured services in Tyne and Wear and Durham. However, this is not the case in Northumberland, where the BSOG allocation is used to supplement the NCC supported service core budget. LA BSOG will also be included in the MSA's Integrated Settlement from April 2026.
- 2.2.5. DfT pays commercial BSOG directly to operators of bus services. For this reason, BSOG is modelled as a contra cost, in that it is a reduction to costs.
- 2.2.6. A key assumption in the modelling for the financial case is that public sector funding—such as BSIP funding from central government and support from local authorities—continues throughout the appraisal period to FY58/59 in both the current EP and franchising cases. It is assumed that overall public funding for the North East bus sector grows in line with inflation, without separating it into individual funding streams. This assumption reflects recent funding trends, but it is recognised that there is uncertainty around it. Because of this, a scenario has been tested whereby funding does not grow with inflation in sensitivity 7.
- 2.2.7. The pie chart below shows the total funding for bus services by different sources. This shows total revenue into the franchised bus network is forecast to be £240 million per annum and that 51% of this is funded through public sector sources (BSIP & LA secured services subsidy (21%), ENCTS revenue (21%), BSOG (5%) and DfT grant income (5%).

Figure 2: Total revenue into the bus network that would be franchised for FY24/25

Total Revenue of Franchised Bus Network for FY 24/25 - in £million



All figures are in nominal prices unless stated otherwise.

3. Funding and financing options

This section will:

- Consider funding and financing aspects, including sources of funding and financing mechanisms.
- Outline potential capital and revenue funding options available for any intervention.
- Describe the current delivery structure of the North East's bus network, including roles of Nexus, DCC, and NCC, and their delegated transport functions.

3.1. Funding and financing

- 3.1.1. A clear distinction must be established between the definitions of funding and financing, as these terms are often used interchangeably despite their fundamentally different meanings.
- 3.1.2. **Funding** is the source of income that pays, in this case, for bus services. At present the sources of funding for the MSA's bus service interventions are the transport levies, farebox revenue from supported services, drawings on reserves and grants from central government (such as BSIP funding).
- 3.1.3. **Financing** (borrowing or saving) is used to deal with any mismatch between the profile of funding available and spending requirements for ongoing costs or capital expenditure and requires repayment.
- 3.1.4. Under franchising, the MSA will have an additional funding source (a much higher level of farebox revenue across all franchised services). The DB will have its budget set by the MSA. However, it will also have greater ongoing obligations (the costs of contracting for all franchised services and additional management costs) and additional upfront transition costs which will need to be funded and potentially financed. These costs include:
- Transitional costs (including early management costs); and
 - Asset costs (e.g. depots, Intelligent Transport Systems etc)
- 3.1.5. A substantial amount of these upfront costs will be incurred before the DB has access to farebox revenues - meaning that they will either have to be financed or an alternative funding source identified.

3.2. Sources of funding

- 3.2.1. This section considers the sources of funding which are available to the MSA in two parts:
- **Existing sources:** those that are currently used by the MSA, and would continue to be used under franchising; and
 - **Alternative sources:** that could be used to fund improved bus services, some of which are currently adopted and some which may be considered by the MSA are detailed within the two following categories of funding:

- Central government funding, including the Integrated Settlement which allows funding to be moved between ‘pillars’ which include local transport, adult skills, and housing and regeneration)
- Other mechanisms (see section 3.2.16, e.g. road user charging and a workplace parking levy)

Transport Levy

3.2.2. The transport levies are an important source of funding for bus services in the North East. A key challenge faced by Nexus, DCC and NCC has been the ongoing reduction in the transport levies in real terms, which has limited their ability to continue to fund supported services and to intervene where operators have cut commercial bus services.

Government sources of funding

3.2.3. At present, the MSA and bus operators directly receive specific funding from central government which includes the following:

- ENCTS
- Bus Service Improvement Plan (BSIP) via local authorities
- DfT grant income (Zero Emission Bus Regional Areas (ZEBRA) and reimbursement for participation in DfT capped fare scheme)
- BSOG and BSOG+ – received by Nexus, DCC and NCC

3.2.4. In future other sources of funding may be made available by central government. For the purpose of this assessment, it has been assumed that central government funding for bus continues at its current level, in real terms. From April 2026 this will be in the form of the Integrated Settlement. This funding assumption is tested in Sensitivity 7.

Farebox revenue

3.2.5. The MSA will also receive the farebox revenue in the proposed model of franchising from services that are within the scope of franchising.

City Region Sustainable Transport Settlement (Transforming City Regions from 27/28 onwards)

3.2.6. This grant funding from central government is primarily for capital funding. The majority of the revenue the MSA will use to support the bus network will come from the Integrated Settlement by taking 10% of CRSTS / TCR as revenue.

Integrated Settlement fund

3.2.7. The MSA has been designated as an established Mayoral Strategic Authority (MSA) by HM Government, which means it is eligible for an integrated settlement from April 2026.

3.2.8. The integrated settlement brings together a range of previously discrete Government funding streams into themes which align with an MSAs’ functional responsibilities. These responsibilities include transport and local infrastructure, housing and strategic planning, and economic development and regeneration.

- 3.2.9. The integrated settlement provides several flexibilities to move funding both within and between themes, supporting the delivery of local priorities.
- 3.2.10. The MSA will have full flexibility to move funding within the themes of the integrated settlement to meet the outcomes mutually agreed with HMG. This includes full flexibility to move funding to future years within the Spending Review period.
- 3.2.11. The MSA will also be able to move 10% of funding between one theme and another, except the economic development and regeneration theme, where there is no cap on moving funding into other themes. Other themes include local growth and place, adult skills and housing and regeneration. The integrated settlement also allows for up to 10% of capital departmental expenditure limit (CDEL) funding within each theme to be moved to resource departmental expenditure limit (RDEL), and 100% of RDEL funding within each theme to CDEL.
- 3.2.12. In particular, the MSA will agree transport outcomes that are consistent with the LTP and the outcomes that franchising enables.

Reserves

- 3.2.13. In general, reserves act as a safeguard against unexpected financial pressures or shocks. The MSA holds reserves that could, in principle, be used for this purpose, as do Nexus, NCC and DCC. These reserves have been built up over time, and the MSA Cabinet has agreed that they may be allocated to support transport.
- 3.2.14. It should be noted that in order to maintain delivery of services at the same level, in recent years, cost increases have outstripped income increases and so Nexus and other authorities are operating with a structural budget deficit which has resulted in £10.5 million of its 2025/26 budget being funded by reserves. In the current medium term financial plan, Nexus uses reserves for several years to support the delivery of services at the same level, but ultimately the budget deficit needs to be eliminated as the reserves run out. Whilst acknowledged in the FSA here, it is noted that Nexus' structural deficit is not individually relevant for this FSA and does not solely relate to the bus network. The modelling approach for the FSA has been to pool all current bus funding together. Preparation and planning for how the DB will be structured and funded is underway, is considered separately to this FSA and will take into account Nexus' structural deficit.

Other mechanisms

- 3.2.15. A mayoral precept would be a separate charge on the council tax bill of council taxpayers. As an example, a mayoral general precept was used in Greater Manchester in FY23/24 where it supported the reform of bus services and the development of the 'Bee Network'. The Mayor has however confirmed that she will not charge a mayoral precept during her first term. Therefore, while precept is an additional potential source of funding from residents in the North East (via local authorities), any precept funding would only be available from May 2028 at the earliest and at this time there is no ambition to use it. This is discussed in the context of bus franchising in Table 18.
- 3.2.16. Other mechanisms are also available to local authorities, such as:

- Road user charging
- Workplace parking levy
- Tolls e.g. Tyne Tunnel
- Car parking charges

3.2.17. These are discussed in more detail in the context of franchising at section 7.4.

3.3. Financing

3.3.1. When determining whether expenditure associated with the options can be financed, the MSA needs to consider affordability including the MSA's debt cap which has been set and the ongoing revenue impact of borrowing. The MSA should evaluate the impact on the debt cap and affordability rather than costs in isolation and whether additional borrowing will breach those limits. The current limit for the MSA's debt cap is £238 million which is subject to regular renegotiation with HM Treasury should increases be required to facilitate capital financing.

3.3.2. Financing is best applied to upfront costs which facilitate changes, where there is an ongoing income stream or revenue saving to help repay the costs of capital financing and where there is an asset that can be depreciated over time. For the DB this will be the purchase of depots. Most transitional costs are not appropriate to be funded through Prudential Borrowing (see 3.3.3), so these are typically funded from other revenue funding sources or reserves.

Prudential Borrowing

3.3.3. Local authority prudential borrowing has a set of rules for borrowing, i.e. the framework under the Local Government Finance Act 2003. Under this prudential borrowing framework, local authorities (including strategic authorities) must follow the prudential code which requires them to make sure the borrowing undertaken is both affordable and prudential. The MSA is a relevant body under section 23 of that Act, whether the franchising DB is, will depend upon the nature of the final DB. Sources for prudential borrowing are described below:

Public Works Loan Body (PWLB)

3.3.4. The PWLB provides loans to local authorities from the National Loans Fund. The PWLB has been administered by the Debt Management Office (DMO) since 2002 and works within a framework set by HM Treasury, which includes lending terms, eligibility, and oversight.

3.3.5. PWLB interest rates are determined by HM Treasury in accordance with section 5 of the National Loans Act 1968. PWLB is a low-cost source of finance, accessible by the MSA.

3.3.6. However, PWLB can be less flexible than other sources of prudential borrowing, especially in terms of a grace period when farebox income may not have built up to steady state levels. A grace period is a designated timespan following a payment due date, allowing borrowers to make payments without incurring penalties. As of the latest guidance (updated November 2023), the maximum grace period remains two years, which may be

restrictive during early operational phases when farebox income has not yet stabilised¹. Authorities must also submit a PWLB lending access form via the DELTA platform to access borrowing, and this form must reflect current capital plans.

National Wealth Fund (NWF)

3.3.7. A new source of financing available to the MSA / DB for capital costs is the National Wealth Fund (formerly the UK Infrastructure Bank), which serves as a mechanism for funding in line with existing regulations.

3.3.8. This route is relatively new for financing in the bus market and therefore has not been extensively used to date (although it is similar to the European Investment Bank which other CAs have made use of), but it has the potential to offer several key benefits over PWLB:

- NWF borrowing rates are marginally less than PWLB and it could offer more flexible lending terms - for example, offering sculpted repayment terms and longer grace periods.
- NWF will carry out due diligence on the specific lending proposition. Whilst this will be more onerous in the short term, it provides the MSA with a second opinion on the viability of repayment of the loans.
- Unlike some other lenders, NWF does not charge arrangement or commitment fees, reducing overall borrowing costs.
- The NWF is particularly aligned with net zero and green infrastructure goals, making it especially suitable for projects like bus fleet electrification, depot upgrades, or green transport hubs, but loans do not have to be for this purpose.
- The NWF aims to crowd in private investment, potentially unlocking co-financing opportunities that PWLB does not facilitate.

Private Sector

3.3.9. Under prudential borrowing, local authorities can borrow through private institutions.

3.3.10. These loans could offer more flexible borrowing terms but would likely charge higher margins than PWLB and therefore potentially offer lower value for money (depending on the benefits of the flexibilities available).

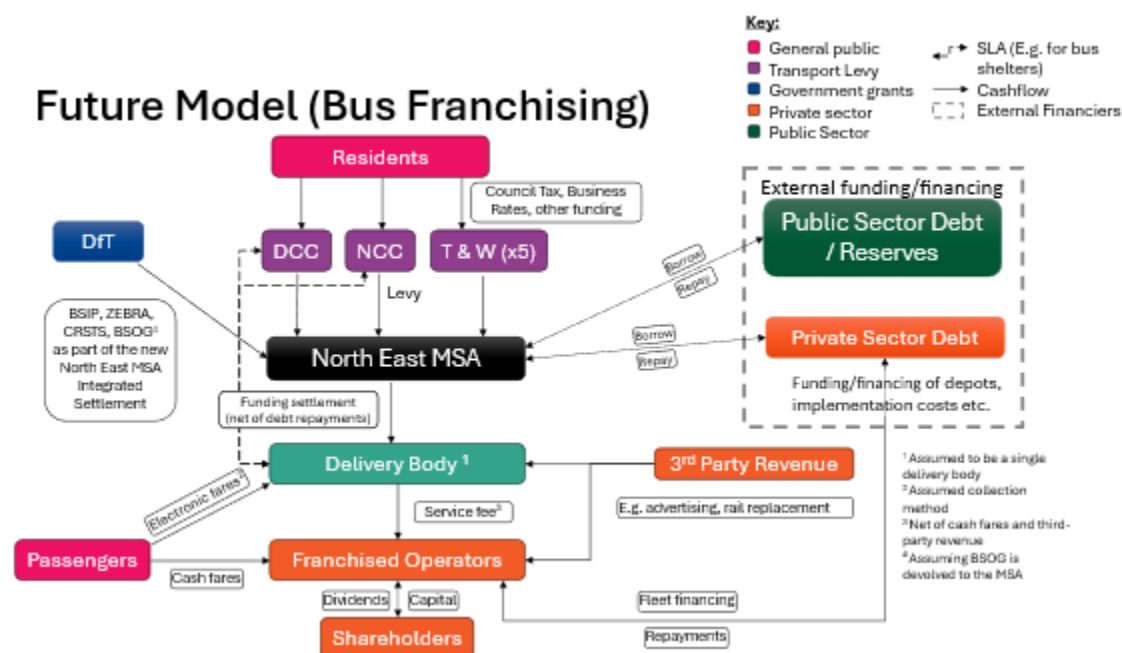
3.4. The potential capital and revenue funding options available for any intervention

3.4.1. Figure 3 outlines how the future funding flows are likely to support bus services across the North East. It presents a structured view of how financial contributions will flow from central government, local authorities, passengers, and third-party sources through a designated delivery body to bus operators and associated stakeholders.

¹ [“PWLB lending facility”](#). United Kingdom Debt Management Office. 2023.

- 3.4.2. Key funding streams include anticipated government grants, concessionary travel reimbursements, fare revenue, and service fees. The model also incorporates private sector inputs such as advertising income and fleet financing arrangements.
- 3.4.3. The DB would play a central role in coordinating these flows, engaging with local councils, transport authorities, and commercial partners to ensure funding is directed towards infrastructure enhancements, fleet upgrades, and the sustainable delivery of bus services across the region.
- 3.4.4. Implementing a bus franchising scheme will simplify the funding flows in the North East and make them more transparent, which will facilitate better understanding and oversight, whilst fostering trust amongst stakeholders and contributing to more effective financial management and decision-making by the DB.

Figure 3: Future flow of funds



3.4.5. Other funding flows: Examples of other funding flows not shown in the diagram include:

- Third party funding for specific bus services to Nexus, DCC, NCC, and operators (e.g. funding from employers, colleges, the NHS and section 106 contributions).
- Smaller expenditure on infrastructure by Nexus, DCC, and NCC (e.g. bus stops and bus stations) alongside operational expenditure (e.g. grant administration with responsibilities varying between Nexus, DCC, and NCC).

4. Modelling principles and approach

This section will:

- Set out the approach adopted for modelling the financial impact of the delivery options, building on the economic case modelling approach.
- Provide an overview of the modelling approach employed in this financial case and the different scenarios developed.
- Describe how operating costs and revenues for services are treated in the financial model.
- Outline other modelling assumptions, such as the approach to inflation and comparison of shortlisted options.
- Explain the iterative modelling process, including successive model runs (MR1, MR2, MR3) that refined inputs and outputs based on new data and stakeholder feedback.

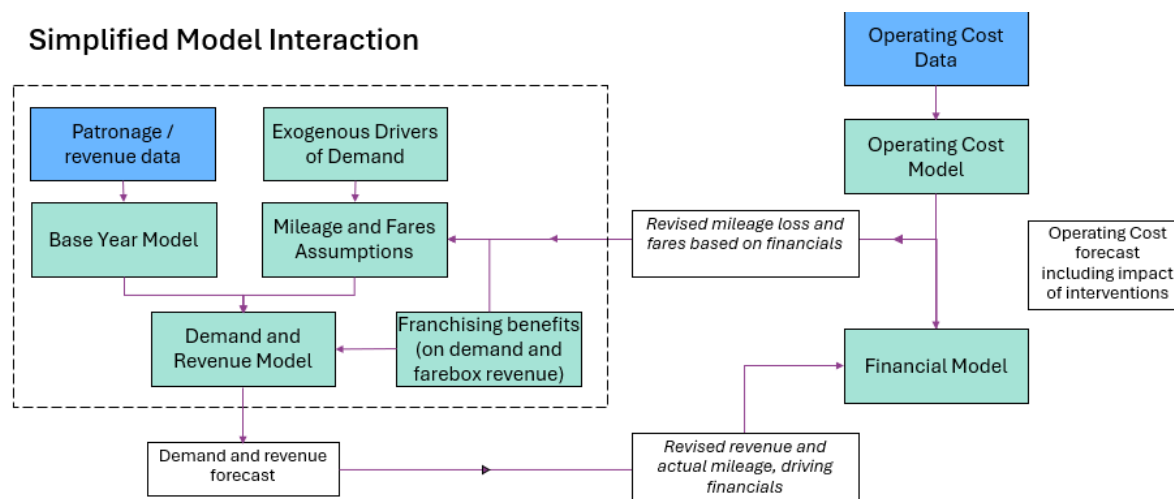
4.1. Structure of the financial model

4.1.1. The financial model used in this financial case relies on a number of inputs:

- The budget available for bus (assuming current funding continues and grows in line with inflation over the appraisal period).
- The internal costs for the DB to manage services or make and operate the scheme.
- The costs and revenues associated with operating services in the current deregulated market.
- Margins earned by the operators, which is an output in the EP case and an input into the franchising case.
- Indexation of costs and revenues.
- The costs of servicing debt associated with each of the delivery options.
- The cost of transitioning to the delivery options.
- Appraisal period and timing.

4.1.2. These are combined in the financial model, the structure of which is described in Figure 4.

Figure 4: Financial Model Interaction



4.1.3. As described in the economic case, the financial model establishes a baseline 'reference case' that outlines the expected market dynamics in the absence of franchising interventions. The Demand and Revenue Model (DRM) incorporates key exogenous factors such as car ownership and population growth, which influence patronage levels. The outputs of the DRM (farebox revenue, mileage, concessionary patronage) are then input into the financial model alongside projected cost changes over time. A review of a number of current operator's financial statements indicates that some operators in the North East area are making margins below the desired 10% threshold. Therefore, it is assumed that operators acting rationally would look to improve their profitability and achieve a competitive operating margin of 10% (see 4.1.4) by reducing mileage by curtailing or cutting services. Through the analysis of these variables, the model generates a forecast of the bus market, focusing on operator margins, mileage, and patronage.

4.1.4. Utilising a 10% operator profit margin as the benchmark for the deregulated network aligns with pre-Covid commercial norms and is supported by recent industry disclosures and TfGM's previous assessments. TfGM's written evidence to Parliament (June 2025) indicates that long-term deregulated margins typically range from 7% to 10%². During the Covid period, however, margins were significantly impacted; for instance, Go-Ahead's bus division reported an operating margin of approximately 6.8% for FY2020, with regional bus operations breaking even from March 2020, supported by emergency funding. The DfT's annual bus statistics (27 March 2025) further illustrate the sector-wide demand shock and increased reliance on public support, which suppressed commercial returns. Additionally, pre-Covid evidence supports the 10% assumption, as detailed in the Urban Transport Group's briefing³ and PTE area bus operator profitability analysis⁴ and the recent article "A Case Analysis of Bus Operator Viability in a Post-Covid World" by Sweco UK⁵. To

² "[Written evidence submitted by Transport for Greater Manchester \(LBS0021\)](#)". Transport for Greater Manchester. 2025.

³ "[Bus regulation myths and facts](#)". Urban Transport Group. No date.

⁴ "[PTE area bus operator profitability analysis](#)". PTEG. 2014.

⁵ "[A case analysis of bus operator viability in a post-Covid world](#)". Sweco UK. 2023.

summarise, margins will need to revert to pre-Covid levels in order for bus operators to continue operating.

4.1.5. Building on the reference case, which is the current EP, the model then incorporates various assumptions related to the franchising case. This includes adjustments to fare structures, reflecting that a public sector decision-maker may make different choices about fares than commercial operators, and mileage assumptions that consider the public sector's role in maintaining or restoring service levels. Furthermore, the model explores the impact of targeted public sector investments aimed at enhancing patronage, such as interoperability improvements, branding initiatives, and better information provision. The outputs provide insights into mileage, patronage levels, and the financial surplus or deficit for the DB.

4.2. Overview of modelling approach

4.2.1. The modelling approach is designed to provide a fair and transparent comparison between delivery options, ensuring that:

- Funding assumptions are applied equally to each option, where relevant.
- The financial impacts of EP and franchising are compared on a like-for-like basis.
- The model incorporates scenario development, sensitivity analysis, and iterative refinement through successive model runs.

Model Interaction

- Patronage and revenue data feed into the operating cost model and financial model from the DRM.
- Mileage and fares assumptions drive demand and revenue forecasts.
- Exogenous drivers (e.g., car ownership, population) and franchising benefits (e.g., branding, interoperability) are layered in to assess their impact on demand and financials.
- The process for this is explained in more detail in the economic case.

Overall Process

- Establish a baseline 'reference case' (the current EP) driven by cost changes, and anticipated operator actions (fare increases, mileage cuts).
- Adjust assumptions for franchising, including different fares, mileage, and targeted investments to improve patronage.
- Add in new costs for franchising and adjust operator costs based on the changes in mileage and Peak Vehicle Requirement (PVR).
- Outputs include mileage, patronage, and investment needed for franchising.

Equal funding and cost of each option

- 4.2.2. This financial case compares the impacts on the DB of the two agreed options (current EP and franchising).
- 4.2.3. To make this comparison, it is important to consider that each delivery option will deliver different outcomes i.e. the DB will have different priorities to operators and the differing levels of control that the DB has under each delivery option. Therefore, it is not possible to compare identical bus networks and offerings between the different delivery options.
- 4.2.4. While the franchising scheme is different and may have some increase in costs compared to the current EP, the modelling of the scheme has not assumed an ongoing higher level of additional funding. In the franchising case this means that while fare rises and mileage cuts can be avoided for a period, this cannot continue indefinitely.
- 4.2.5. This financial case does not attempt to quantify any benefits from the additional control that the DB would have as the potential benefits are described in the economic case.
- 4.2.6. The guidance requires a year-by-year cost analysis, broken down by capital and revenue expenditure, for the DB, with an explanation of how these have been built up. A year-by-year income forecast for the delivery body is also included in this financial case.
- 4.2.7. This financial case establishes the baseline revenue and costs of the network in the current EP. This determines the baseline against which an intervention, such as franchising, is compared.

4.3. The operating costs and revenues for bus services and how these are treated in the financial model (including operator margin)

- 4.3.1. The financial case does not solely own the majority of inputs and assumptions that inform the financial model, as many of these inputs are derived from other cases and decisions made throughout the FSA development process. Key financial case assumptions include operator margin and indexation/inflation.
- 4.3.2. Several key inputs have been sourced from other cases:
- Commercial case: Incremental asset costs (depots, fleet, Intelligent Transport Systems), scheme definition, and associated network costs.
 - Management case: Mobilisation costs (procurement, change, project management); organisational cost inputs such as staff costs (including TUPE and pension considerations) and other admin/management costs.
 - Economic case: Farebox revenue and mileage.
- 4.3.3. These other cases have been responsible for developing appropriate assumptions and providing these into the modelling process via an Excel input template.
- 4.3.4. To develop the financial modelling for this FSA for both the current EP and franchising cases, the following key assumptions have been made:
- April to March financial year, aligned to MSA reporting and budget period.
 - Appraisal period of 30 years from the anticipated start of franchising.

- Operator margin is incorporated as a key assumption in the franchising case, with sensitivity analysis to test the impact if this increases.
- Indexation/Inflation has been applied to all cost and revenue lines, with differentiated rates for staff, fuel, maintenance, etc.
- During the transition period, funding and accounting treatment of transition costs are considered, with contingency and risk quantification included.

4.3.5. The HM Treasury Green Book specifies that the base year should be the first year of the proposal. It advises that costs and benefits should be calculated over the lifetime of the proposal. Where a short commercial contract is involved (e.g., five years), it is necessary to understand and plan for service delivery over a longer period.

4.3.6. Based on the indicative project timeline, the Mayor's decision on whether to make a franchising scheme is currently expected in Q1 2027. If a decision to franchise is made, this will be followed by preferred option mobilisation, transition, and implementation from March 2027 to September 2029. The first franchised bus services are assumed to start in FY29/30. Therefore, the appraisal period starts on 1st April 2029.

4.4. Other modelling assumptions employed, such as the approach to inflation and comparison of options.

4.4.1. The financial model applies different indexation rates to various cost categories, reflecting both historical trends and sector-specific drivers. This ensures that the model captures the real-terms evolution of costs over the appraisal period.

4.4.2. Selecting an assumption for forecast indexation to apply to costs is inherently uncertain. Historic cost increases have been highly variable across different regions of the UK and in different years.

4.4.3. For prudence, the modelling forecasts that costs will rise above indexation for the full appraisal period. The assumption is that certain costs will grow by RPI + 0.8% (e.g. driver and engineering staff costs) and that other operating costs will grow at CPI + 0.8%.

4.4.4. This assumption is constant in the EP and franchising cases and therefore is not a differentiator between the two.

4.4.5. The Confederation of Passenger Transport (CPT) surveys its members via the CPT cost monitor, designed to collate information on trends in bus operating costs. A report was published post-covid ('Changes in bus industry costs 2019-2022') setting out movements in the cost base of the industry over time.

4.4.6. CPT data is based on industry operating costs published by DfT and is therefore a reliable source of data. The table below shows an index of bus operating costs in real prices between 2005 and 2022.

Table 2: Index of bus operating costs in real prices

Year	English Metropolitan Areas	English Shire Areas	England outside London	Great Britain outside London
2005	100	100	100	100
2006	100	101	101	100
2007	108	110	109	109
2008	106	113	110	109
2009	109	115	112	113
2010	114	117	116	116
2011	114	116	115	116
2012	112	121	117	121
2013	114	120	117	121
2014	113	121	117	121
2015	117	120	118	122
2016	116	125	121	123
2017	117	123	120	122
2018	118	129	124	125
2019	119	131	126	128
2020	129	126	126	130
2021	133	149	142	143
2022	129	144	137	138

4.4.7. This shows that prices have grown by c.37% above inflation (CPI) in England outside of London from 2005 to 2022. When the Covid period is excluded, prices had grown 26% since 2005. This represents an annual increase of c.1.65% above inflation.

4.4.8. This is not directly comparable with the assumption used in the model however, as the data provided by CPT is deflated to 2005 prices using a GDP deflator. This measures the price change of all domestically produced goods and services and therefore is a different measure than CPI and RPI.

4.4.9. Historically it has tracked below CPI and RPI, meaning that the CPT figures report a higher increase above indexation than they would if they were in the context of CPI and/or RPI.

4.4.10. When set against CPI and RPI, prices have increased 21% and 10% above CPI and RPI respectively in the period from 2005 – 2019. This gives an implied annual increase of 1.35% and 0.68% above inflation respectively.

4.4.11. The assumption used in the modelling is within this range – which is appropriate given the blended CPI/RPI approach used in the modelling.

4.4.12. It should also be noted that RPI is being phased out and will be replaced by the Consumer Prices Index including owner occupiers' housing costs (CPIH) by February

2030. However, by this point the CPI and RPI forecasts have converged and hence there is no impact on the modelling of the phasing out of RPI.

Table 3: Cost Inflation Assumptions

Cost category	Indexation	Rationale
Driver staff costs	RPI + 0.8%	Unionised staff typically receive pay increases linked to RPI.
Engineering/maintenance Staff	RPI + 0.8%	As per driver staff costs.
Fuel (diesel & AdBlue)	CPI + 0.8%	Other operating costs assumed to be in line with CPI.
Electricity (vehicle/depot/total)	CPI + 0.8%	As above.
Tyres	CPI + 0.8%	As above.
Vehicles depreciation/lease	CPI + 0.8%	As above.
Vehicle/depot/personal insurance	CPI + 0.8%	As above.
Depot costs	CPI + 0.8%	As above.
Overhead costs/other costs	CPI + 0.8%	As above.

4.4.13. Comparative modelling compares the financial impact of the EP and franchising options, using a consistent set of assumptions and inputs where appropriate:

- Operating costs: Variable operating costs move in line with changes in service mileage.
- Funding: Same funding (e.g., BSIP) under EP assumed to continue for franchising.
- Financing: Only depot acquisition costs are financed, with a 40-year PWLB loan for franchising.
- Network mileage: for the first ten years of franchising, it is assumed that an explicit policy will be taken to keep network mileage constant, whereas the policy and economic environment beyond that point is too uncertain and so there is no basis to make any assumptions that differ from the current EP.
- Fares: Under franchising, fares are held at RPI+0% against the current capped fares for 10 years, then revert to RPI+2.0% (assumed EP level).
- ENCTS Revenue growth is linked to the fares policy (e.g. RPI or RPI+2%) and the change in ENCTS patronage over the appraisal period (ENCTS patronage is forecast to reduce by 22%).
- LA secured services subsidy is assumed to grow in line with RPI.

5. Financial assessment of the current Enhanced Partnership

This section will:

- Confirm the current EP as the reference case for the FSA, providing the baseline for comparison with other scenarios.
- Describe income from services under the EP for the MSA, including fare revenue, concessionary reimbursement, and applicable grants or subsidies.
- Detail expenditure under the EP for the MSA, covering operating costs, maintenance, and payments to operators.
- Present the projected financial impact on the MSA (net position) over the 30-year appraisal period, outlining key assumptions, trends, and implications for long-term viability.

5.1. The MSA and local authorities income – current EP

- 5.1.1. In the current EP, farebox revenue is retained by bus operators and revenue risk is held by the private sector. Therefore, farebox revenue is not usually income to the MSA or local authorities.
- 5.1.2. However, local authorities (colleges, supermarkets etc also financially support services) tender part of the network. Some secured services are let on a gross cost basis, so DCC/NCC/Nexus pay the operator the full cost of running the service plus a profit margin, and in return receive all farebox revenue collected by the operator, meaning that the local authority is taking the risk. Others are let on a net cost basis, where DCC/NCC/Nexus fund the gap between revenues from that service and it being sufficiently profitable for the operator. Operators retain farebox revenue, pay operating costs, and DCC/NCC/Nexus pay a subsidy for the difference, meaning that the operator is taking the risk. Approximately 60% of contracts are gross cost across the region. Additionally, Nexus obtains revenue from NetworkOne Limited for accepting certain season tickets on gross cost contracts. It should also be noted that operators might receive other revenue such as advertising in order to run a profitable service.
- 5.1.3. Table 4 below outlines existing funding streams for the North East bus network under the current EP (in nominal terms). BSIP fares (£23.7 million) and BSIP services (£13.5 million) are funded by central government and do not draw on the transport levy. BSIP fares are known as the 'The Mayor's Fares' to the public. The MSA intend to keep The Mayor's Fares in place until March 2028 and are developing a funding plan for this which assumes that shadow fares rise by RPI+2%. BSIP services and secured services refers to services run that would not be run by private sector bus operators in a commercial market. Secured Services comes from local authorities funding whereas BSIP services funding comes from central government. Secured services (£13.2 million, net of revenue taken) are levy-funded across Durham, Northumberland and Tyne & Wear. ENCTS reimbursement totals £49.5 million (nominal) and is sourced from the transport levy. Existing funding is a key assumption in the current EP case and the funding for the most recent year (FY24/25) is set out in the table below:

Table 4: Existing funding

Funding type	Amount £million p.a.	Description
BSIP fares	23.7	Reimbursement to bus operators for difference between the shadow fare (what bus users would be charged in the absence of this BSIP scheme) and the BSIP fare.
BSIP services	13.5	Reimbursement to bus operators, to run services not seen as commercially viable.
Secured services outturn for the region	13.2	Amount that local authorities contribute to secured services that would be in the scope of franchising (net of revenue taken).
ENCTS revenue	49.5	Total concessionary reimbursement paid to operators.

All figures are in nominal prices unless stated otherwise.

5.1.4. Table 5 provides a detailed financial projection of income (nominal) into the bus network that would be franchised (covering operators, the MSA and local authorities) under the current EP over the financial years FY24/25 to FY58/59. It outlines various revenue streams, including farebox revenue, ENCTS revenue, DfT grant income, other revenue, and the BSIP & LA secured services subsidy. This comprehensive overview highlights the anticipated total income of £11,017.6 million, with an average annual income of £314.8 million.

Table 5: Current EP income

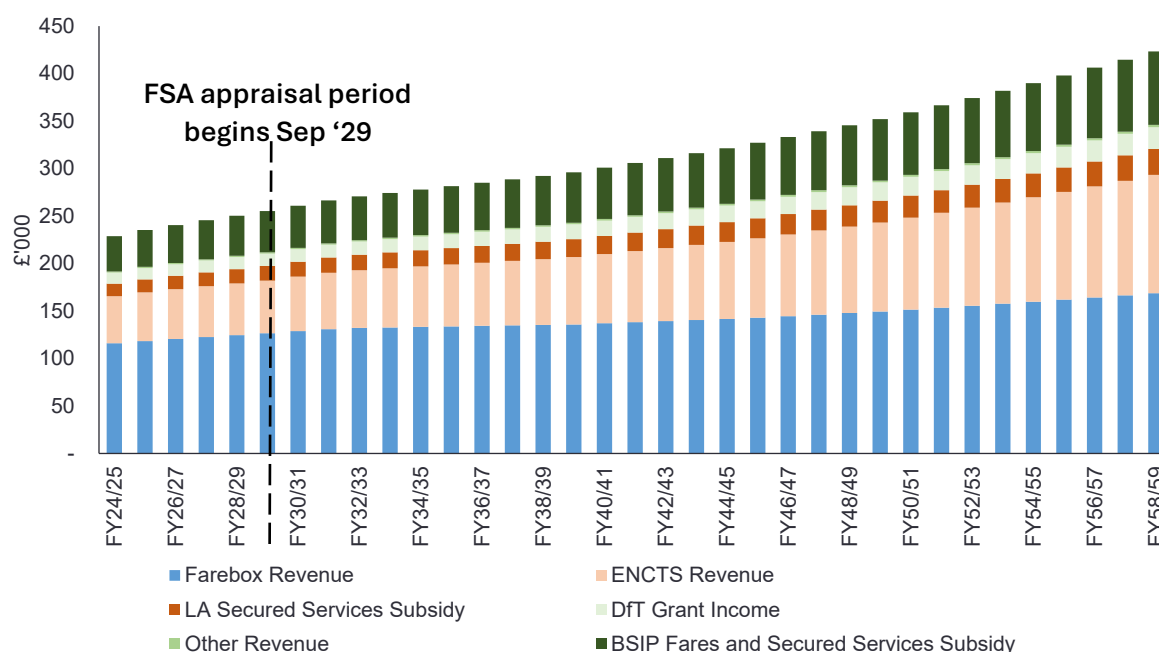
Income (£million)	FY24/ 25	FY25/ 26	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY38/ 39	FY48/ 49	FY58/ 59	Average	Total
Farebox Revenue	116.1	118.3	120.5	122.7	124.7	126.7	128.9	131.0	132.2	132.8	135.3	147.8	168.7	140.8	4,929.5
ENCTS Revenue	49.5	51.3	52.4	53.5	54.4	55.4	57.3	59.3	60.9	62.3	69.4	91.2	124.6	79.4	2,780.4
DfT Grant Income	11.6	12.0	12.2	12.5	12.7	13.0	13.2	13.5	13.8	14.0	15.5	18.9	23.0	16.8	587.4
Other Revenue	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.6	2.0	2.4	1.7	60.7
BSIP & LA Secured Services Subsidy	50.4	52.5	54.1	55.7	57.3	58.9	60.1	61.3	62.5	63.8	70.4	85.8	104.6	76.0	2,659.6
Total	228.9	235.3	240.5	245.7	250.4	255.3	260.9	266.5	270.8	274.3	292.2	345.7	423.3	314.8	11,017.6

All figures are in nominal prices unless stated otherwise.

5.1.5. Figure 5 below shows the income breakdown within the EP. ENCTS revenue (light orange) growth is linked to the fares policy (RPI+2%) and the change in ENCTS patronage over the appraisal period (ENCTS patronage is forecast to reduce by 33%). LA secured services subsidy (dark orange) is assumed to grow in line with RPI.

5.1.6. It is assumed that bidding and administration costs – to bid for, award and manage contracts and operate EP arrangements are included in these funding figures.

Figure 5: EP revenue breakdown



All figures are in nominal prices unless stated otherwise.

5.2. The MSA and local authorities expenditure – current EP

5.2.1. In the current EP, the authorities' expenditure is made up of the following items:

- Supported services payments to the operators.
- Concessionary travel payments to the operators (ENCTS).
- Overheads (including BSIP Website and App, consultancy fees, software, management and staff costs).

5.2.2. In modelling operating costs, the cost data received from operators is divided into fixed and variable, and then the variable costs move in line with the mileage and PVR forecasts from the DRM. Fixed costs are only subject to annual inflation and have not been modelled to reduce as a result of material shrinkage of the network.

5.2.3. Table 6 presents a comprehensive overview of projected expenditure under EP from FY24/25 to FY58/59 for the MSA. It details various cost components, including operator costs, BSOG, and MSA and local authorities' costs. When all of these costs are combined, this shows the total costs associated with the whole bus system in the North East that is in the scope of franchising. The total projected expenditure amounts to £9,918.5 million (nominal) over the 30-year appraisal period, with an average annual cost of £283.4 million (nominal).

Table 6: Enhanced Partnership Expenditure

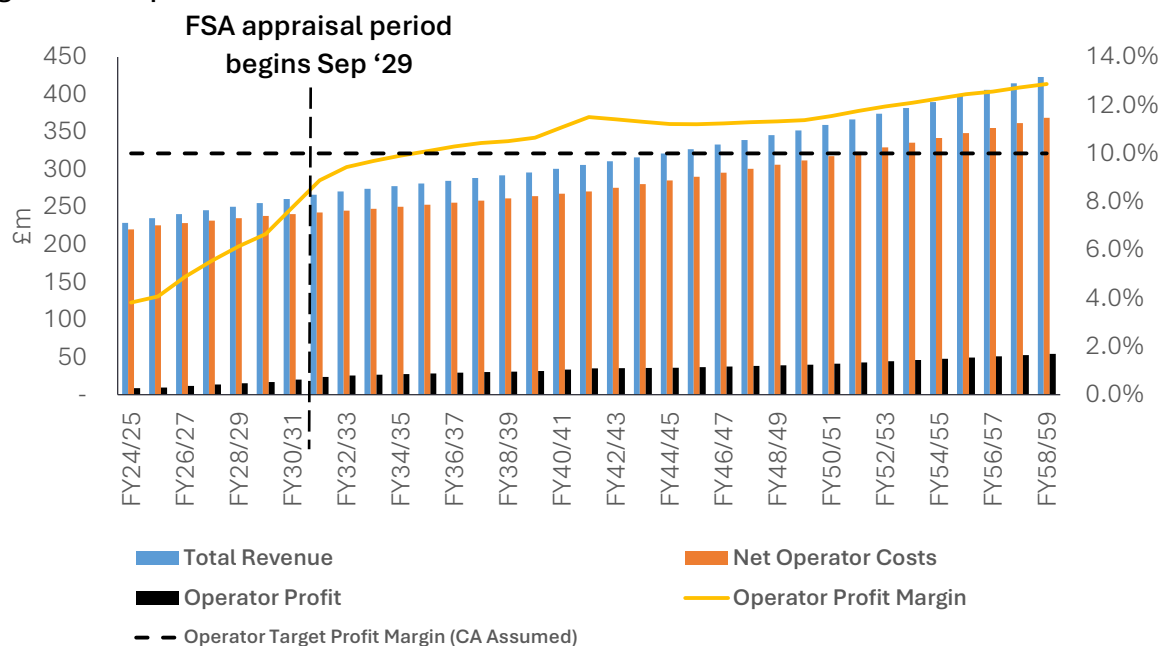
Expenditure (£million)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	FY38/39	FY48/49	FY58/59	Average	Total
Operator Costs	231.0	236.7	239.8	243.0	246.1	249.3	251.6	253.9	256.3	258.9	272.7	318.7	382.5	293.7	10,280.9
BSOG	10.9	11.0	11.0	11.0	11.0	11.1	11.1	11.1	11.1	11.1	11.2	12.2	13.7	11.8	412.2
Net Operator Costs	220.1	225.7	228.8	232.0	235.0	238.3	240.6	242.8	245.3	247.7	261.5	306.5	368.8	282.0	9,868.8
CA Costs - paid as incurred	-	-	1.3	1.3	1.1	1.1	1.2	1.2	1.2	1.2	1.4	1.7	2.0	1.4	49.7
Total Costs	220.1	225.7	230.0	233.3	236.2	239.4	241.7	244.0	246.5	249.0	262.9	308.2	370.8	283.4	9,918.5

All figures are in nominal prices unless stated otherwise.

5.3. The net cost of the current EP to the public sector, including an affordability analysis featuring a year-by-year assessment of costs, income, and budget

5.3.1. Figure 6 displays operator revenues, costs, and profits over time in the EP case. The network reductions and fare increases assumed in the initial years are expected to restore the operator profit margin to 10%. However, ongoing fare increases, and network cuts will be necessary for operators to sustain their target margin. The rationale for the 10% operator target profit margin is included in section 4.1.4.

Figure 6: EP – performance forecast



All figures are in nominal prices unless stated otherwise.

5.3.2. The key fares and network assumptions are shown in Table 7 below and assumes operators take more aggressive action in the early years (through higher fare increases and cutting less profitable mileage) to get the network back to profitability. Once profitability and their target margin has been restored, in this approach, the model assumes reduced cuts to the network. Patronage under the EP has been considered in more detail in the economic case.

Table 7: Key fares and network assumptions under the EP case

	Reference Case	
	FY25/26-FY41/42	FY42/43-FY58/59
Fares	RPI +2%	RPI +2%
Network	-3.0% p.a.	-2.0% p.a.

5.4. Requirements for capital investment for depots and infrastructure or revenue needs such as for additional staff, including associated TUPE/Pensions

5.4.1. Under the current EP, there is expected to be no acquisition of fleet by the authority and fleet will remain with the private sector, therefore no capital costs are expected in this case. Costs to introduce new ticketing systems or other infrastructure that could improve bus reliability / journey times are included in transition costs.

5.4.2. There is expected to be no acquisition of depots as depots remain owned by operators.

5.4.3. The management case has determined that there is no need for additional staff.

5.5. EP implementation costs

5.5.1. No fundamental changes are proposed to the current EP that would necessitate additional costs to implement.

5.6. Proposed funding sources, such as borrowing arrangements and any associated terms, including the utilisation of devolved BSOG funding

5.6.1. The EP model assumes that the current funding sources mentioned in Table 4 continue and rise in line with inflation. Decarbonisation costs have not been included as they are considered to be the same under the current EP and franchising cases and are not directly attributable to franchising.

5.7. Risk in the current EP

5.7.1. Risks that the operators and the MSA and local authorities are exposed to under the current EP are well known as this is the current long term operating model for the sector in the North East. In this system, the operators take both revenue and operational risks in normal circumstances.

5.7.2. Under the current EP, the authority takes risk on what it spends its budget on, and this is primarily the secured services. The public sector remains indirectly exposed to revenue risk, as declining profitability and associated commercial network cuts generate public pressure for DCC/NCC/Nexus to provide a replacement secured service. Risk and risk management are discussed in further detail in section 8 of the management case.

5.8. Current EP conclusion

5.8.1. **Table 8** summarises the financial projections in nominal terms under the EP, detailing income, expenditure, and surplus / deficit of the whole network that would be franchised from FY24/25 to FY58/59. Total income is projected at £11,017.6 million, with an average annual income of £314.8 million. Expenditure is anticipated to reach £9,918.5 million, averaging £283.4 million annually. Note that this is all public sector revenue expenditure. The net surplus / deficit of the whole network figures reflect the difference between income and expenditure, with a total of £1,099.1 million surplus over the period.

Table 8: EP summary

Summary (£million)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	FY34/35	FY35/36	FY36/37	FY37/38	FY38/39	FY48/49	FY58/59	Average	Total
Income	228.9	235.3	240.5	245.7	250.4	255.3	260.9	266.5	270.8	274.3	277.9	281.5	285.0	288.6	292.2	345.7	423.3	314.8	11,017.6
Net Operating Costs	(220.1)	(225.7)	(228.8)	(232.0)	(235.0)	(238.3)	(240.6)	(242.8)	(245.3)	(247.7)	(250.3)	(253.0)	(255.7)	(258.5)	(261.5)	(306.5)	(368.8)	(282.0)	(9,868.8)
Operator Profit	8.7	9.6	11.8	13.6	15.4	17.0	20.3	23.7	25.5	26.6	27.5	28.4	29.3	30.1	30.7	39.2	54.5	32.8	1,148.8
Operator Profit Margin	3.8%	4.1%	4.9%	5.6%	6.2%	6.7%	7.8%	8.9%	9.4%	9.7%	9.9%	10.1%	10.3%	10.4%	10.5%	11.3%	12.9%	-	-
CA Cost	-	-	(1.3)	(1.3)	(1.1)	(1.1)	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	(1.3)	(1.3)	(1.3)	(1.4)	(1.7)	(2.0)	(1.4)	(49.7)
Total Costs	(220.1)	(225.7)	(230.0)	(233.3)	(236.2)	(239.4)	(241.7)	(244.0)	(246.5)	(249.0)	(251.6)	(254.3)	(257.0)	(259.8)	(262.9)	(308.2)	(370.8)	(283.4)	(9,918.5)
Whole network Surplus/ deficit	8.7	9.6	10.5	12.3	14.3	15.9	19.1	22.5	24.3	25.4	26.3	27.1	28.0	28.8	29.4	37.5	52.5	31.4	1,099.1

Summary (£million)	FY24/25	FY25/26	FY26/27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY34/ 35	FY35/ 36	FY36/ 37	FY37/ 38	FY38/ 39	FY48/ 49	FY58/ 59	Average	Total
Income	228.9	235.3	240.5	245.7	250.4	255.3	260.9	266.5	270.8	274.3	277.9	281.5	285.0	288.6	292.2	345.7	423.3	314.8	11,017.6
Expenditure	220.1	225.7	230.0	233.3	236.2	239.4	241.7	244.0	246.5	249.0	251.6	254.3	257.0	259.8	262.9	308.2	370.8	283.4	9,918.5
Net Revenue/ Cost	8.7	9.6	10.5	12.3	14.3	15.9	19.1	22.5	24.3	25.4	26.3	27.1	28.0	28.8	29.4	37.5	52.5	31.4	1,099.1

All figures are in nominal prices unless stated otherwise.

5.8.2. The primary conclusion is that for the current EP to continue, the public sector funding would need to increase from £123 million in FY24/25 to £266 million in FY58/59 (equivalent to a 116% increase due to compound growth, which is an average annual increase of 2.3%). Costs would rise as the assumption that costs rise by CPI+0.8% outweighs the reduced costs of a smaller network. The North East would see a reduction in network mileage of 51% from 94 million kms to 46 million kms, in order for operators to make the target 10% operating profit. The strategic case sets out the current EP in the context of the Local Transport Plan (LTP) and the North East bus reform objectives.

6. Financial assessment of franchising

This section will:

- Present DB income from bus services under franchising, including fare revenue and any applicable funding streams.
- Detail DB costs associated with bus services under franchising, covering operating expenses, contractual payments, and overheads.
- Provide the projected financial impact on the DB (net position) over the 30-year appraisal period, highlighting assumptions and trends.
- Address additional financial considerations specific to franchising, such as VAT treatment, working capital requirements, and accounting implications.

6.1. DB income – franchising

6.1.1. Under the franchising option, the DB will be assumed to collect passenger farebox revenue from those services which are franchised in line with the model outlined in the commercial case. The DB will also be expected to pay operators to run services in accordance with the contracts agreed.

6.1.2. The DB's income sources under franchising include:

- Farebox income from franchised services
- Additional income (sundry income) that the DB earns
- A funding settlement from the MSA

6.1.3. It is assumed that under franchising, the MSA would continue to receive the transport levies from local authorities, and this would then be passed on to the DB. The approach to modelling the franchising option is to cap fare increases at RPI and maintain the size of the network for the first 10 years of franchising. These fares and network assumptions are shown in Table 9 below, the corresponding table for the EP case can be found at Table 7.

Table 9: Key fares and network assumptions under franchising

	Franchising			
	FY25/26-FY28/29	FY29/30-FY38/39	FY39/40-FY41/42	FY42/43-FY58/59
Fares	RPI +2%	RPI +0%	RPI +2%	RPI +2%
Network	-3.0% p.a.	0% p.a.	-3.0% p.a.	-2.0% p.a.

6.1.4. Existing funding streams under franchising are assumed to be the same as those in the current EP and are described in section 5.1.3. The only exception to this is that ENCTS is assumed to grow in line with the ENCTS patronage figures; and fares assumptions which differ between the cases. ENCTS patronage does not decline as much in the franchising case, this is explained further in the economic case.

6.1.5. A detailed financial projection of income from franchising for the DB, covering the financial years FY24/25 to FY58/59 is shown below (see Table 10). Total revenue is projected to

reach £11,689.5 million (nominal), with an average annual revenue of £334.0 million (nominal). Key components of income include farebox revenue, which shows a steady increase from £116.1 million (nominal) in FY24/25 to £200.8 million by FY58/59 (nominal). It should also be noted that as franchising is implemented between September 2029 and September 2031, this income shifts from being revenue flowing to operators to being revenue flowing to the DB.

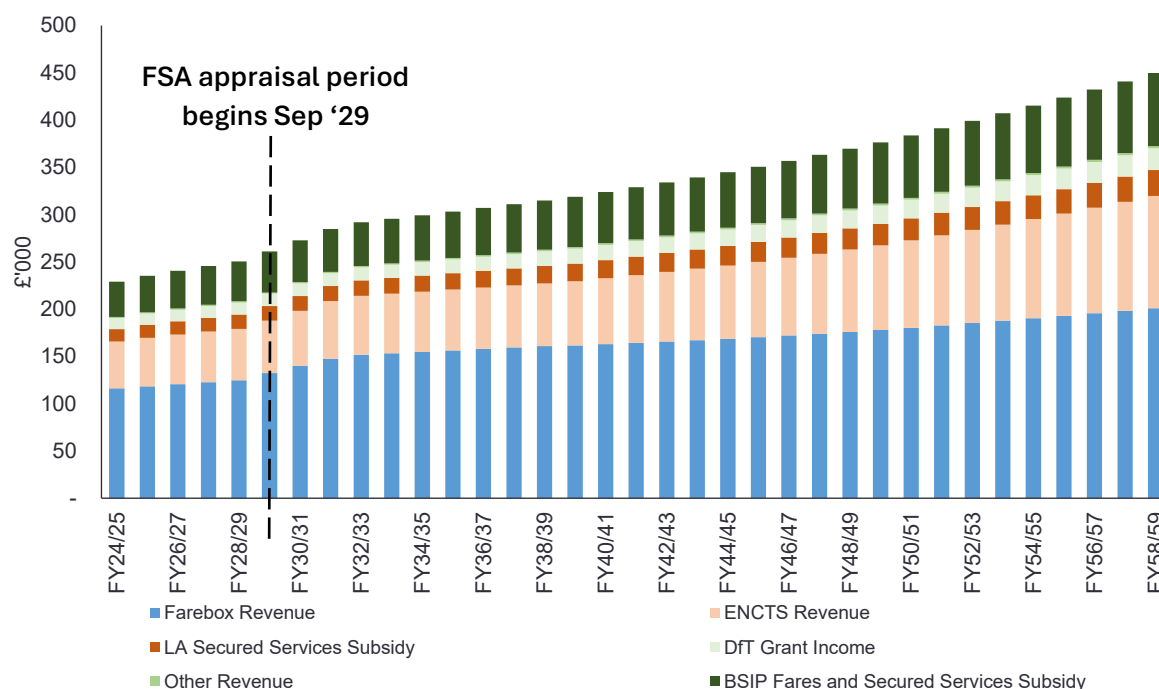
Table 10: Comprehensive income summary for the period FY24/25 to FY58/59

Income (£million)	FY24/ 25	FY25/ 26	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY38/ 39	FY48/ 49	FY58/ 59	Average	Total
Farebox Revenue	116.1	118.3	120.5	122.7	124.7	132.3	139.9	147.5	151.7	153.2	160.9	175.9	200.8	162.6	5,689.4
ENCTS Revenue	49.5	51.3	52.4	53.5	54.4	55.5	58.2	60.9	62.4	63.1	66.3	87.1	118.9	76.9	2,692.4
DfT Grant Income	11.6	12.0	12.2	12.5	12.7	13.0	13.2	13.5	13.8	14.0	15.5	18.9	23.0	16.8	587.4
Other Revenue	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.6	2.0	2.4	1.7	60.7
BSIP & LA Secured Services Subsidy	50.4	52.5	54.1	55.7	57.3	58.9	60.1	61.3	62.5	63.8	70.4	85.8	104.6	76.0	2,659.6
Total Revenue	228.9	235.3	240.5	245.7	250.4	261.0	272.8	284.6	291.8	295.5	314.7	369.6	449.7	334.0	11,689.5

All figures are in nominal prices unless stated otherwise.

6.1.6. Figure 7 shows the revenue breakdown within the franchising case. ENCTS revenue (light orange) growth is linked to the fares policy (RPI+2% except for the first 10 years of franchising where it is RPI) and the change in ENCTS patronage over the appraisal period (ENCTS patronage is forecast to reduce by 22%). LA secured services subsidy (dark orange) is assumed to grow in line with RPI.

Figure 7: Franchising revenue breakdown



All figures are in nominal prices unless stated otherwise.

6.2. Delivery Body expenditure – franchising

6.2.1. This section presents the expenditure line items under the franchising case. Under franchising, the expenditure profile for the DB is different to that under the current EP. Specifically under franchising there would be franchise contract payments, additional management costs in running the network, capital investment in depots, and the costs of transition.

6.2.2. Transitional costs, unlike depot investment, would not qualify for Prudential Borrowing. Therefore, it is assumed that these are met through grants, reserves or other revenue sources as incurred.

Operating costs

6.2.3. The modelling approach for operating costs assumes that the costs for the DB have a 5% margin that is paid to the operator (in addition to reimbursing operating costs) as part of contract payments in the franchise contract. Whereas the costs for the current EP do not include an assumed margin but have that as an output of the financial model. In the modelling for the current EP, there is no operator margin included in the costs, rather the result is shown as an assumed target 10% profit margin. Whereas the modelling for franchising does the opposite, in that it includes a margin on costs because under franchising, the operators profit margin is a cost to the DB as the bid margin will be reimbursed to operators.

- 6.2.4. The assumption that operators will bid a 5% profit margin in franchising is based on professional experience in the bus franchising markets and a review of bus operators who are already operating in franchised markets such as Greater Manchester.
- 6.2.5. In modelling operating costs, the cost data received from operators is divided into fixed and variable, and then the variable costs move in line with the mileage from the DRM as well as annual inflation. Fixed costs are only subject to annual inflation.
- 6.2.6. Service payments to operators have been calculated on the basis of the costs that operators incur, and include:
- Driver costs
 - Fuel costs
 - Depreciation (including fleet)
 - Insurance
 - Maintenance
 - Overheads
 - Operator margin
- 6.2.7. Patronage is also an output from the DRM which is then input into the Financial Model.
- 6.2.8. Table 11 provides a comprehensive overview of projected expenditure related to franchising, spanning the financial years FY24/25 to FY58/59. Total costs are anticipated to reach £11,934.8 million (nominal), with an average annual expenditure of £341.0 million (nominal). The primary cost component is operator costs, which increase steadily from £231.0 million in FY24/25 to £442.1 million by FY58/59 (nominal). These are the costs incurred by bus operators to run the services. It is assumed that operators would apply a 5% margin to these costs in their bids to run the franchised services and it is these operator costs plus the margin that would make up the service payments made to operators under the franchise contracts. It should also be noted that as franchising is implemented between September 2029 and September 2031, the operating costs begin being reimbursed by the DB to operators in the form of service payments from 1st September 2029.
- 6.2.9. Additional costs include netting off BSOG and various costs incurred by the DB in running franchise contracts. The table also accounts for interest expenses associated with financing depots and contingency costs (covered in section 6.3.4), reflecting the comprehensive financial commitments necessary to sustain the franchising model.

Table 11: Whole network operating costs (franchising)

Expenditure (£million)	FY24/25	FY25/26	FY26/27	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	FY38/39	FY48/49	FY58/59	Average	Total
Operator Costs	231.0	236.7	239.8	243.1	246.1	254.1	261.2	268.5	276.0	283.7	325.7	374.0	442.1	333.6	11,675.9
Margin	-	-	-	-	-	2.6	7.2	12.2	14.5	14.9	17.1	19.7	23.3	15.2	532.3
BSOG	10.9	11.0	11.0	11.0	11.0	11.4	11.7	12.0	12.3	12.7	14.6	15.7	17.5	14.3	500.7
Net Operator Costs	220.1	225.7	228.8	232.0	235.1	245.3	256.7	268.6	278.2	286.0	328.3	378.0	447.9	334.5	11,707.5
CA Costs - financed	-	-	-	-	-	0.1	0.2	0.2	0.3	0.3	0.4	0.6	1.1	0.5	16.0
CA Costs - paid as incurred	-	-	1.3	2.3	2.9	9.2	9.8	10.2	4.4	4.5	3.4	4.1	5.0	4.1	144.9
Interest Expense	-	-	-	-	-	0.5	1.1	1.7	1.6	1.6	1.5	1.3	0.8	1.1	39.3
Contingency	-	-	27.1	-	-	-	-	-	-	-	-	-	-	0.8	27.1
Total Costs	220.1	225.7	257.2	234.3	238.0	255.1	267.8	280.8	284.5	292.4	333.6	384.0	454.8	341.0	11,934.8

All figures are in nominal prices unless stated otherwise.

6.3. Implementation costs for the option (franchising transition costs)

6.3.1. The transition period is defined as the period from when a decision to franchise is made until the whole bus network is franchised. Franchising requires the DB to make funds available for transition costs during this period.

6.3.2. These costs typically cover the preparation and running of operators' procurements and other associated procurements; costs to the DB of mobilising the contracts together with costs associated with assets, systems and internal change to prepare the DB for franchise operations.

6.3.3. **Table 11** sets out the assumed costs associated with the implementation and ongoing administration costs of franchising, giving a detailed breakdown of the projected implementation costs for franchising, covering the financial years FY26/27 to FY33/34. These costs are essential for facilitating a smooth transition and ensuring operational readiness of franchised services commencing in September 2029. Key expenditure includes the costs of acquiring depots, estimated to be £27.53 million (FY25/26 prices) and is outlined in the commercial case and risk quantification as described below. The other assumed costs have been estimated by the MSA using various methods such as calculation of staff costs based on the number of staff needed and pay bands as well as TUPE and pension considerations, obtaining quotes and applying previous experience.

6.3.4. The risk quantification process is designed to derive the risk amounts to be included in the model, with a total contingency of £26.6 million (FY25/26 prices) incorporated in the financial model in today's prices. Initially, 'high' risks are assigned a risk owner, who completes a risk input template that outlines the associated risks. More details on this process are included in section 6.4. Risk will be provided for as a provision in FY26/27

when the decision to franchise is taken. This provision will then either be spent as the risks materialise or unwound if a particular risk does not materialise.

6.3.5. Of the costs in the below table, depot acquisition costs would be capitalised and replaced by an annual depreciation charge. To reflect this, in the financial model depot acquisition costs are financed so that these costs and the associated interest expense are spread over the loan term of 40 years.

6.3.6. Note that some of these costs may be paid through the service fee to operators, rather than directly by the DB.

6.3.7. Bidding and administration costs to bid for, award and manage contracts and operate franchise contracts are included in the other transition line of the table below and will be internal costs to the DB.

6.3.8. The table below also includes costs for new ticketing systems and infrastructure that could improve bus reliability / journey times, this is discussed in more detail in the economic case.

6.3.9. As part of franchising, the MSA will mandate that employees working on franchise contracts are paid the Real Living Wage. This is a permanent adjustment to the cost base as a result of franchising which will continue beyond the timeline of this table and across the appraisal period.

Table 11: Assumed transition costs for franchising

Implementation costs £million	FY26/27	FY27/28	FY 28/29	FY29/30	FY30/31	FY31/32	FY32/33	FY33/34	Total (£million)	Financed
Operational Continuity	-	-	-	1.67	1.67	1.67	-	-	5.00	-
Brand / Marketing	-	0.14	0.84	1.46	2.63	2.63	1.81	1.81	11.33	-
Passenger Information	-	0.81	0.81	0.81	0.13	0.13	0.13	0.13	2.94	-
Depot Provision	-	-	-	9.18	9.37	9.37	0.19	0.19	28.31	✓
ITS	-	-	-	1.65	1.21	1.21	-	-	4.06	-
Operational Performance Regime	-	-	-	0.10	0.26	0.43	0.50	0.50	1.79	-
Risk Quantification	26.61	-	-	-	-	-	-	-	26.61	-
Other Transition	-	0.01	-	1.63	1.63	1.63	0.05	0.05	4.99	-
Real Living Wage minimum standard	-	-	-	0.12	0.12	0.12	0.12	0.12	0.58	-
Total	26.61	0.96	1.64	16.59	17.01	17.18	2.80	2.80	85.60	

Figures in the table are in today's (FY25/26) prices.

6.3.10. Table 12 shows the incremental staff costs i.e. staff not already captured in the operator base cost and not in current organisation that are in-scope for franchising. The workings behind these staff costs are covered in more detail in the management case, including the consideration of TUPE and pension arrangements.

Table 12: Additional staffing requirement

Additional staffing requirement cost during transition (£'000)	FY 27/28	FY28/29	FY 29/30	FY 30/31	FY 31/32 onwards
Incremental staff cost of Franchising	700	1,345	2,340	2,246	2,343

All figures are in nominal prices unless stated otherwise.

Capital investments – depots

6.3.11. The franchising option assumes that the DB makes capital investments in depots. Having control over depots allows the DB to establish a level playing field for competition between incumbents and new market entrants as outlined in the commercial case.

6.3.12. The MSA has identified provision of depots for the medium franchise contracts as an intervention as part of franchising to support its wider commercial objectives, such as encouraging a competitive market and levelling the playing field for new entrants. This is described in further detail in the commercial case.

6.3.13. As a result, the franchising case assumes investment in depots based on the following assumptions:

- 12 strategic depots will be provided by the DB or the MSA.
- Each site is available c. 6 months prior to when it is required operationally with all depots available by 2031.
- Costs are based on a third-party valuation.
- The overall required investment in the depots is assumed to be c. £27.53 million in today's prices, and all depots will be purchased by the time the whole network is franchised in 2031. Further information on this assumption is included in the commercial case.

Financing of depot costs

6.3.14. The MSA expects that capital expenditure associated with franchising will need to be supported through financing, such as PWLB borrowing.

6.3.15. Table 13 sets out the proposed borrowing arrangements in relation to depot acquisition.

Table 13: Financing summary

Investment	Borrowing requirement/ drawn over years	Term (years)	All in rate	Total interest
Depots	£30.4 million / 3 years	40	5.5%	£43.9 million

All figures are in nominal prices unless stated otherwise.

6.3.16. Under the franchising option, the DB assumes that the depots will be financed through borrowing. The MSA will consider all options and select the most appropriate source of financing at the point in time that it is taken out, but any method of public sector borrowing selected is expected to be less costly than private borrowing.

Fleet investment

6.3.17. Fleet investment in the franchising case is assumed to be the same as in the current EP case 5.4.1. Ongoing investment in fleet is assumed to be included in the operator costs.

6.4. Financial risks

6.4.1. To comply with the requirements outlined in the franchising guidance, this assessment must be comprehensive and thoroughly evaluate the risks associated with franchising. The franchising guidance:

- Mandates that the assessment includes a detailed evaluation of the various options, accompanied by comprehensive economic and financial appraisals, which should incorporate appropriate sensitivity analyses.
- Indicates that the relevant authority or authorities should present the net present value of each option, calculated from the present value of the associated costs and benefits. Additionally, it is essential to conduct multiple sensitivity tests to generate a range of outcomes for each option, thereby addressing uncertainties and optimistic projections.
- Emphasises the necessity of conducting a sensitivity analysis that reflects the spectrum of financial risks involved.

6.4.2. The guidance requires that the FSA includes a summary of the key financial risks, particularly to any forecast income to the authority, including quantified impacts and high-level mitigation plans.

6.4.3. A quantified risk exercise (or similar exercise) is needed to help inform appropriate levels of contingency. Contingency is additional funds that MSA needs to hold in the event risks materialise. This will help support the continuation or implementation in the event of delays, cost increases, etc.

6.4.4. Potential risks associated with the delivery options have emerged from all cases in the FSA. The MSA has maintained a risk register to capture all risks associated with the options. A risk matrix, which combines the likelihood and severity of risks, is a common approach with pre- and post-mitigation risk assessments.

6.4.5. The financial workstream has taken the lead in quantifying the identified financial risks, focusing on critical areas such as funding volatility, inflationary pressures, and other economic factors that could adversely affect the financial stability of the authority.

6.5. Risk development

6.5.1. The financial risks outlined in this assessment largely stem from the findings and positions established in other related cases, particularly the commercial case. The Financial Workstream has collaborated closely with case leads to support the financial quantification of these risks, ensuring a holistic approach to risk management.

6.5.2. Each case lead was responsible for developing their respective risks, which have been systematically integrated into the overarching risk register (refer to section 8.6 of the management case for further details). The register includes assessment of the likelihood and severity of each risk, along with corresponding mitigation strategies tailored to address specific challenges.

- 6.5.3. A risk workshop was conducted with the MSA and relevant workstreams including case leads, during which several risks were identified and classified as 'high.'
- 6.5.4. It was determined that these 21 'high' risks (listed in Table 14) warrant quantification due to their potential significant impact on the successful implementation of the franchising scheme. Consequently, these risks have been quantified to facilitate a comprehensive assessment of the franchising scheme. Quantifying these risks is essential to ensure that appropriate mitigation strategies can be developed and to provide a clearer understanding of their implications for the overall financial and operational viability of the initiative. These risks can be seen in the table below.
- 6.5.5. The risk quantification process is designed to derive the risk amounts included in the model, with a total contingency of £26.6 million incorporated in the financial model. 'High' risks were assigned a risk owner, who completed a risk input template that outlined the associated risks.
- 6.5.6. For each identified risk, both pre-mitigation and post-mitigation contingency amounts are calculated. The costs of mitigation and the post-mitigation contingency amounts for each high risk are then aggregated. Throughout this process, a comprehensive review of the risks was conducted to eliminate any potential double counting, thereby ensuring the accuracy and reliability of the risk quantification.
- 6.5.7. It should be noted that this risk quantification exercise is distinct from the sensitivities which are included in section 7.3. Optimism bias (OB) has been applied in the economic case. Opex and Capex costs in this financial case exclude OB.

Table 14: High-rated risks

No.	High-rated risk
1	Overestimation of operational savings and efficiencies achievable under the franchising model.
2	Government funding for the bus network and improvements is reduced or withdrawn during transition and implementation.
3	The DB is unable to acquire or construct the necessary depot facilities on-time and within budget.
4	Inaccurate patronage and revenue forecasts due to poor data inputs and unrealistic assumptions affecting financial viability.
5	Operators' operational costs exceed those estimated during the procurement process, resulting from aggressive bidding and/or external factors affecting operators.
6	Demographic and/or economic shocks cause significant fluctuations in public transport demand patterns.
7	Service continuity is disrupted as operators wind down operations ahead of franchising commencing.
8	Potential expectation for operators to provide fleet (or the specification of such fleet) limits competition.
9	Public expectations of transport network performance are heightened by franchising, which are not met.

No.	High-rated risk
10	Franchised bus services are not well-integrated with the wider transport network as intended.
11	The MSA/DB does not have sufficient resource and / or knowledge during the transition or implementation periods.
12	SMOs are unsuccessful in securing a proportionate market share in initial franchising contracts.
13	The MSA/DB struggles to recruit sufficient skilled resource to oversee franchising in the BAU environment.
14	The MSA/DB struggles to recruit sufficient skilled resource to oversee the mobilisation of franchising.
15	Limited or no value-for-money bids are received due to an unattractive franchising offer and/or insufficient information for bidders.
16	Operation of the franchised network is inefficient because of a sub-optimal packaging strategy.
17	New Intelligent Transport Systems (ITS) requirements act as barriers to entry for non-incumbent operators.
18	SMO business models are jeopardised following unsuccessful franchised bids and associated loss of income, increasing operational cost for other areas of the business (e.g. private hire for schools).
19	Changes required to facilitate transition to and optimal ways of working in the DB are not delivered.
20	There is not sufficient fleet in the supply chain / used vehicle market, meaning essential assets are not available. Applicable whether fleet is provided by operators or the MSA.
21	The MSA/DB does not engage with affected groups and organisations early enough.

6.5.8. The potential implications of each strategic risk can be seen in the management case.

6.6. Further financial considerations

6.6.1. The following sections set out further financial consideration specific to franchising, including VAT and working capital, accounting Implications.

VAT

6.6.2. Under franchising, the DB would be responsible for payment of contractual service fees to franchised service operators. Bus operators are generally VAT registered and if VAT is levied by franchised operators on services fees, bus operators are generally eligible to recover VAT charged on eligible services from HMRC. VAT charged on service fees is expected to be fully recoverable, as passenger fares revenue is currently expected to remain a zero-rated activity. No material changes are anticipated in relation to VAT exempt business activities.

Working capital

6.6.3. Working capital requirements reflect any short-term timing differences between income and expenditure cash flows (including the timing of payment and recovery of VAT) which

are not captured at the annual forecasting level in the financial model. The precise quantum of working capital requirements will principally depend on any timing differences between payment of service fees and receipt of farebox revenues.

6.6.4. The assessment assumes any working capital requirements to be manageable, based on the following factors and financial management approach if franchising were implemented:

- In the event of a mayoral decision to proceed with franchising, there will be a development, procurement and mobilisation period which will provide the DB a sufficient financial planning period to reserve working capital requirements for earlier contract phases.
- The proposed franchise scheme is based on a phased roll out of contracts across the North East, with a consequent phased build-up of farebox revenue and franchise contract payments relating to franchised services. This will support the DB to ensure sufficient working capital requirements are in place during the transition period.
- Once a franchising decision is made, it is expected that the DB would undertake detailed financial model forecasts to support funding and working capital requirements both during the transition period and once steady state franchised services have been established.
- The MSA, Nexus, and local authorities have experience of managing working capital requirements across its whole transport network and has cash and cash equivalents held to support working capital requirements.

7. Investment needed for franchising including risk, sensitivities and affordability

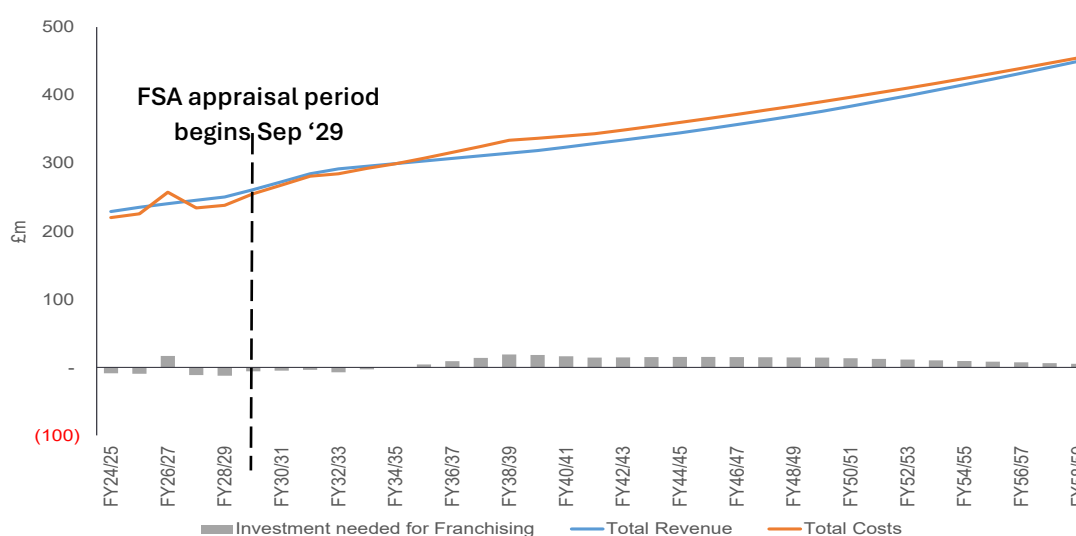
This section will:

- Summarise the net cost of franchising to the public sector and provide an affordability analysis with year-by-year projections.
- Explain the investment required for franchising, its key drivers, and long-term financial implications.
- Present sensitivity analysis results to assess the impact of risks and variations in assumptions.
- Outline potential sources of funding to meet the investment required and ensure affordability.

7.1. The net cost of franchising to the public sector, including an affordability analysis featuring a year-by-year assessment of costs, income, and budget

7.1.1. Figure 8 below shows total revenue which includes farebox revenue, ENCTS revenue, other grant income and BSIP & LA secured services subsidy. Commercial BSOG revenue is currently paid by the DfT to operators of net cost contracts (modelled as a contra-cost, reducing operator's fuel costs). In the franchising case, the contracts will be gross cost and as such, BSOG will be paid by the DfT to the DB. It also shows total costs, which are operator costs plus an assumed 5% operator margin under franchising, MSA costs and any associated interest expense and contingency. The difference between these two lines is the investment required. The investment required is low in the early years of franchising, although is uneven due to transition investment. Key drivers of the total investment required are transition/implementation costs and risk contingency.

Figure 8: Franchising – Financial Position



All figures are in nominal prices unless stated otherwise.

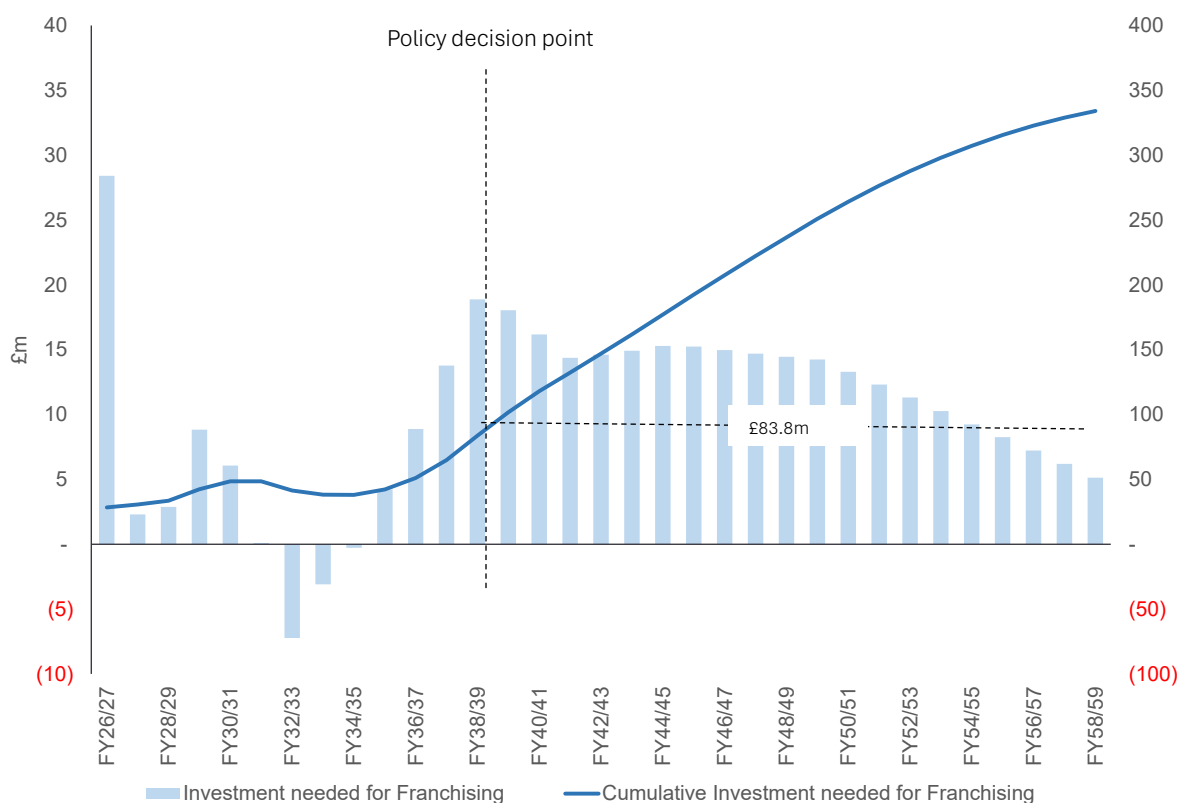
7.1.2. The investment needed for franchising presented above includes total revenue and costs to the whole bus network that would be franchised, regardless of whether the revenue or cost is to the operators or the DB. As franchising goes live, these revenues and costs will transfer from the operators to the DB. The DB investment needed for franchising is presented below.

7.2. Investment needed for franchising

7.2.1. In years 1-10 of franchising the DB has a modest need for investment (between the projected public and private sector income and the cost of running the service, not the gap vs. the EP), an average of c. £6.4 million p.a. There is also £33.6 million of investment needed before the first franchised services go-live as a result of implementation costs which are mentioned in Table 11. The modelling currently reflects a return to EP assumptions after 10 years, with fares increases at RPI+2.0% and network cuts of 3.0% then 2.0% p.a.

7.2.2. Figure 9 below shows the investment needed for franchising which is total revenue to the DB minus total costs to the DB. There is a policy decision point in FY38/39, which is explained in section 7.4.2. The left axis is for the pale blue bars which shows the investment needed for franchising in each year and the right axis is for the dark blue line which shows the cumulative investment needed for franchising and is the sum of the pale blue bars.

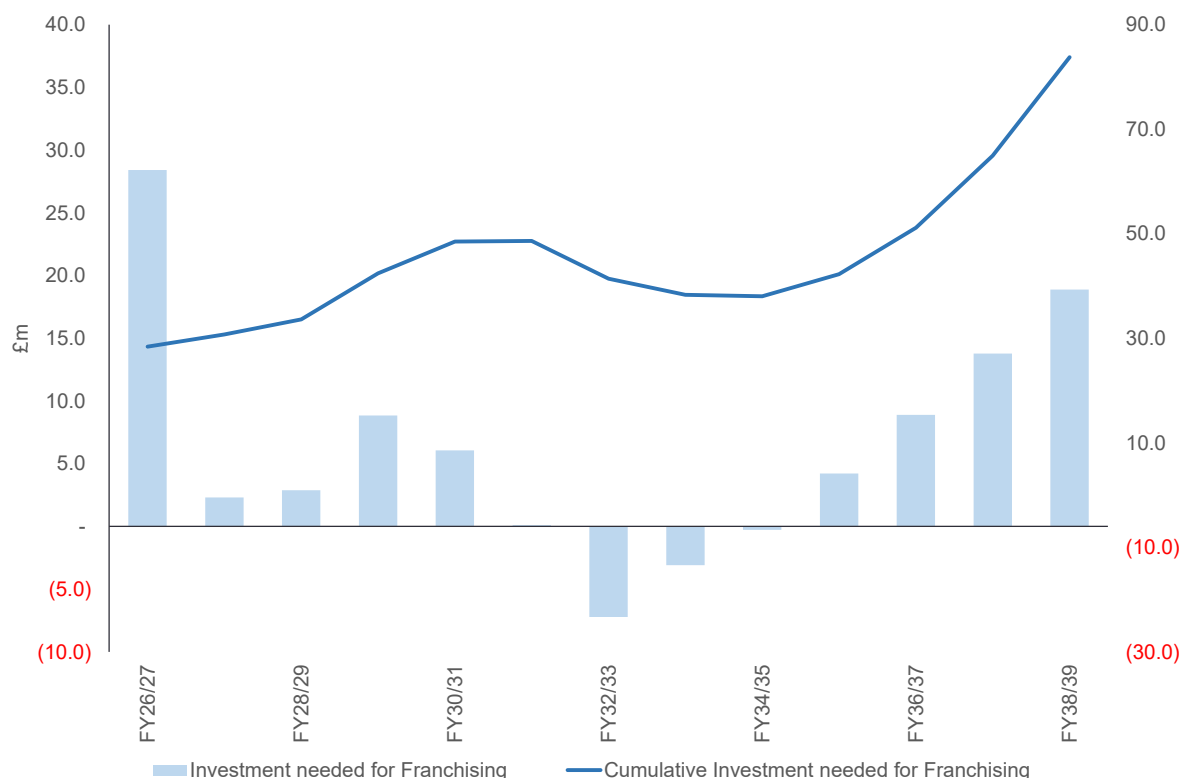
Figure 9: Investment needed for Franchising



All figures are in nominal prices unless stated otherwise.

7.2.3. This shows that 10 years of franchising would cost the delivery body an additional £84 million (shown in figure below separately), whilst also assuming that existing funding continues and grows in line with inflation.

Figure 10: Investment needed for franchising (to FY38/39)



All figures are in nominal prices unless stated otherwise.

7.2.4. There is a small surplus showing in FY31/32 – FY33/34 as this is the time when franchising is going live so revenues have started flowing to the DB rather than operators. Whilst on the cost side, transition costs have started to tail off and there is net revenue (revenue vs service payments) to the DB. In the longer term, costs increase more steeply than revenues, hence the deficit in the later years.

7.3. Sensitivity analysis

7.3.1. This section sets out an analysis of sensitivity tests which have been used to test the robustness of the affordability analysis outlined above, and to quantify the potential financial implications to the DB arising from identified risks occurring. These sensitivity tests have been chosen as they are considered to be the most material and variable assumptions.

7.3.2. Sensitivity analysis, while related to risk, serves a distinct purpose within the financial case. Unlike risk analysis, which identifies and evaluates discrete financial threats, and risk quantification, which assigns numerical probabilities and impacts, sensitivity analysis tests how variations in key assumptions—such as fare levels, patronage, or inflation— affect overall affordability.

7.3.3. The sensitivity tests considered within this section are as detailed below Table 15. It should be noted that these are all individual and not combined sensitivities, as to do so would require the probability of each element of a combined downside to be estimated.

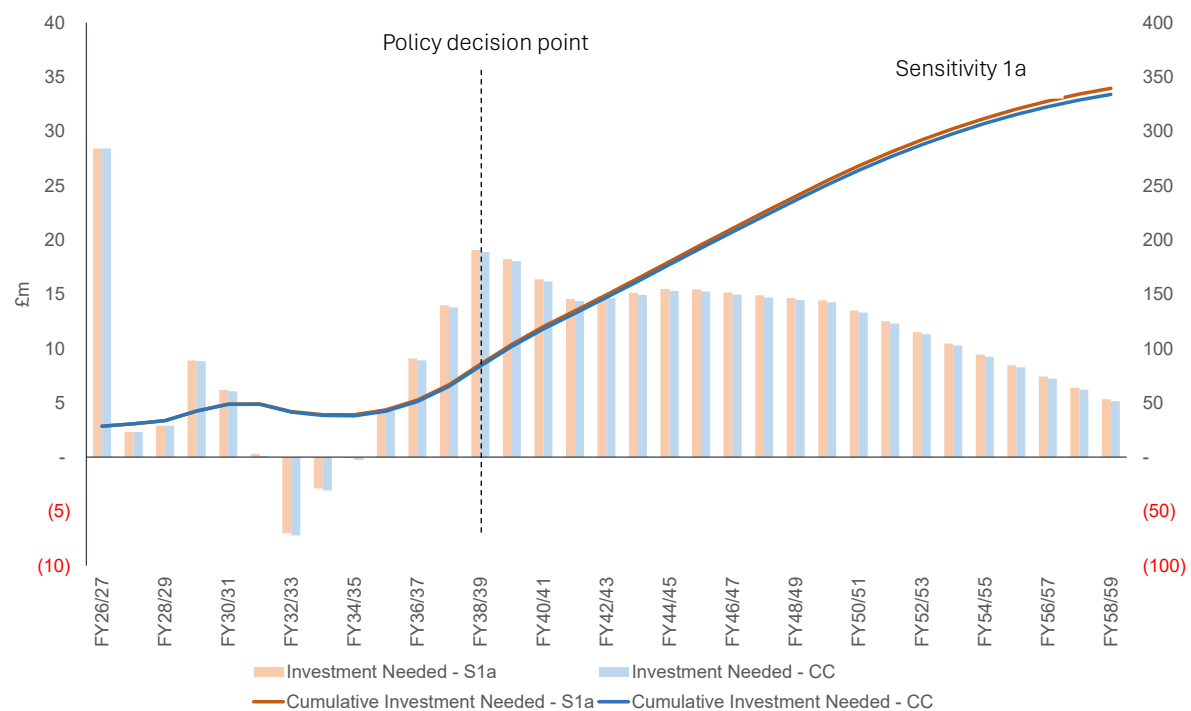
Table 15: Sensitivity scenarios

Sensitivity	Title	Description
Sensitivity 1a	Depot capital cost	+10% in Depot capital costs evaluates the financial and operational impact of variations in depot construction or acquisition capital costs.
Sensitivity 1b	Depot capital cost	-10% in Depot capital costs evaluates the financial and operational impact of variations in depot construction or acquisition capital costs.
Sensitivity 2	Operator margin	This measures the impact of operator profit margins being greater than in the core franchising case, moving from a margin of 5% to 7.5%.
Sensitivity 3	Operating costs	An increase in overall operating costs of the network of 0.5% p.a. (higher inflationary impact than the core scenario).
Sensitivity 4	Branding and marketing	Core assumption is that branding generates a 5% direct demand uplift and marketing 1%. This sensitivity tests a 2.5% uplift for branding and 0.5% for marketing.
Sensitivity 5	Existing funding	Existing funding does not grow in line with inflation and hence decreases in real terms.
Sensitivity 6	Low economy	Low population growth-based scenario which is one of TAG's Common Analytical Scenarios resulting further gradual patronage decline circa 5% by 2058 against the core franchising case.
Sensitivity 7	High economy	High population growth-based scenario which is one of TAG's Common Analytical Scenarios resulting in gradual patronage increase circa 9% by 2058 against the core franchising case.

Sensitivity 1 – Results

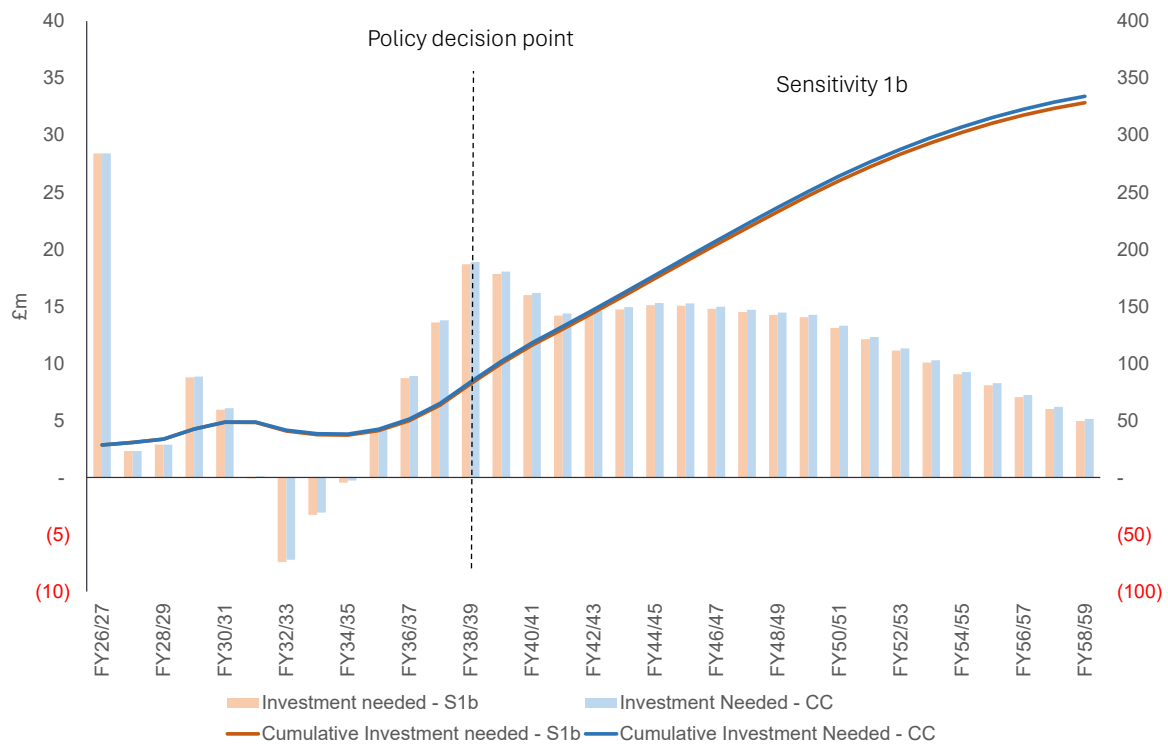
7.3.4. A 10% increase in depot acquisition costs increases the cumulative investment needed for 10 years of franchising by £1.7 million, giving a total investment needed of £85.5 million. A 10% decrease in depot acquisition costs has the opposite effect.

Figure 11: Investment needed over the appraisal period – Sensitivity 1a



All figures are in nominal prices unless stated otherwise.

Figure 12: Investment needed over the appraisal period – Sensitivity 1b

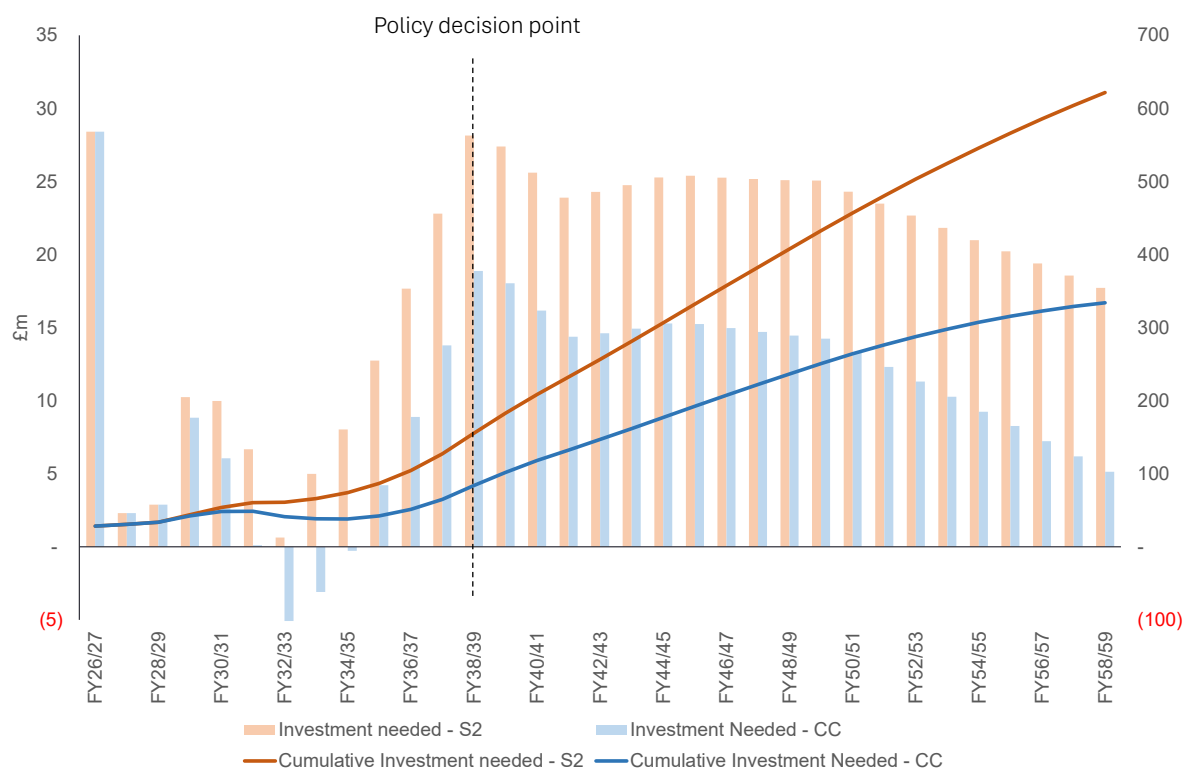


All figures are in nominal prices unless stated otherwise.

Sensitivity 2 – Results

7.3.5. This sensitivity measures the impact of operator profit margins being greater than in the core franchising case, moving from a margin of 5% to 7.5%. This is profit margin that operators would bid back in franchising and hence is the result of a market exercise which the MSA has limited ability to control. This results in an increase to the cumulative investment needed for 10 years of franchising by £71.7 million, giving a total investment needed of £ 155.5 million.

Figure 13: Investment needed over the appraisal period – Sensitivity 2

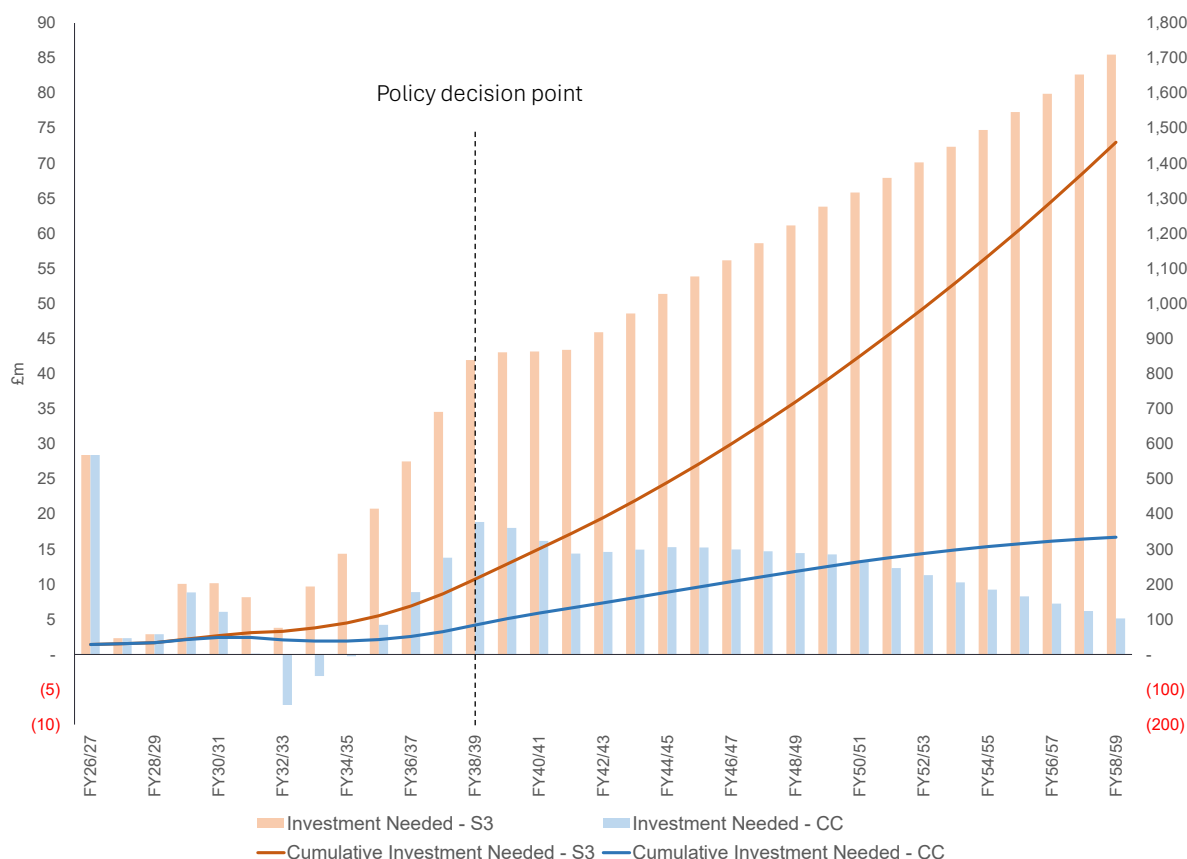


All figures are in nominal prices unless stated otherwise.

Sensitivity 3 – Results

7.3.6. Increasing the inflation on operating costs to CPI/RPI+1.3% from CPI/RPI+0.8% increases the cumulative investment needed for 10 years of franchising by £130.8 million, giving a total investment needed of £214.6 million. See section 4.4 for why CPI/RPI+0.8% has been used in the core franchising case.

Figure 14: Investment needed over the appraisal period – Sensitivity 3

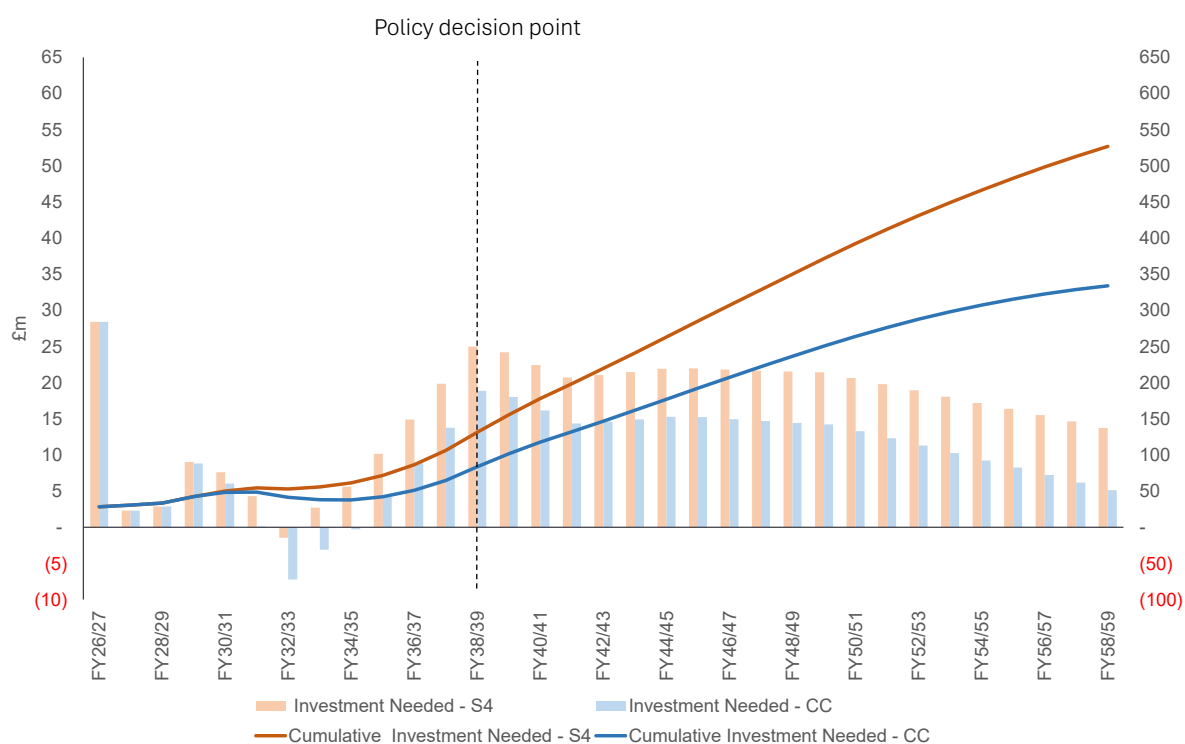


All figures are in nominal prices unless stated otherwise.

Sensitivity 4 – Results

7.3.7. The core assumption is that branding generates a 5% direct demand uplift and marketing 1%. A 2.5% uplift for branding and 0.5% for marketing increases cumulative investment needed for 10 years of franchising to £47.6 million, giving a total investment needed of £131.4 million.

Figure 15: Investment needed over the appraisal period – Sensitivity 4

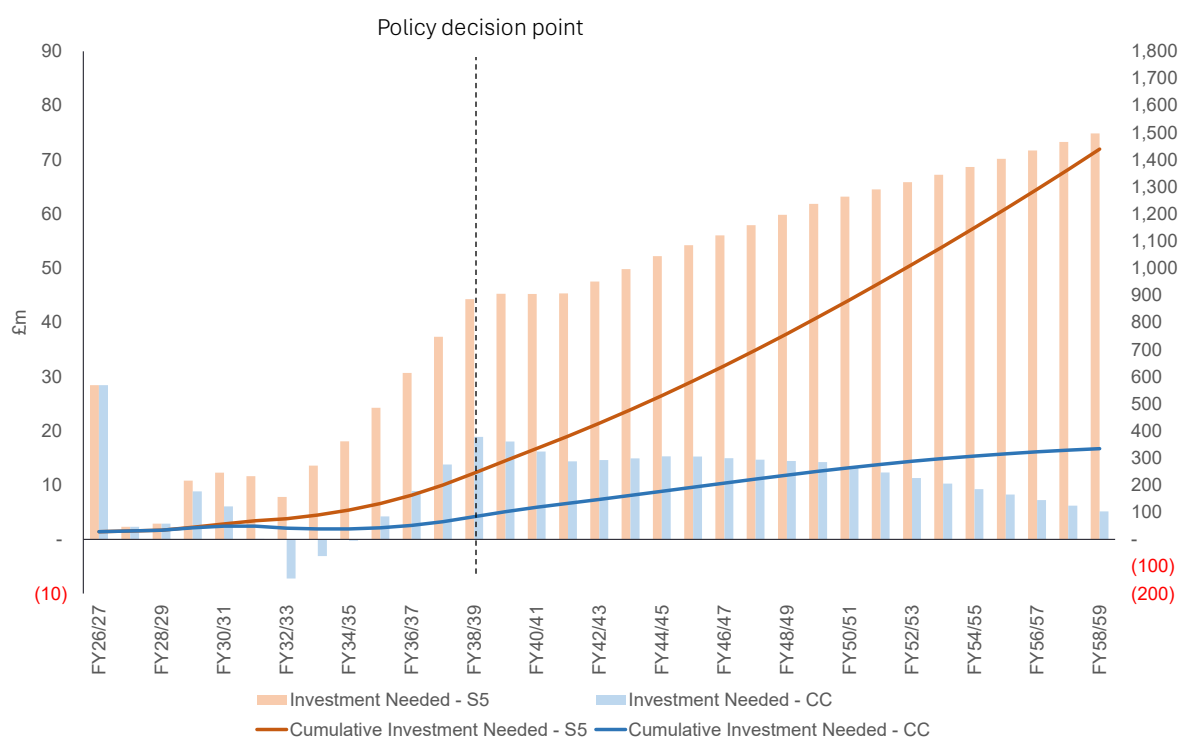


All figures are in nominal prices unless stated otherwise.

Sensitivity 5 – Results

7.3.8. The core assumption is that public sector funding grows in line with inflation. Removing this assumption and assuming that public sector funding remains constant in real terms (and decreases in nominal terms) increases the investment needed for franchising in each year exponentially. This results in an increase of £160.6 million to the cumulative investment needed for 10 years of franchising, giving a total investment needed of £244.4 million. It is worth noting that if this assumption were to change, an equivalent investment need would also be created under the EP case.

Figure 16 : Investment needed over the appraisal period – Sensitivity 5

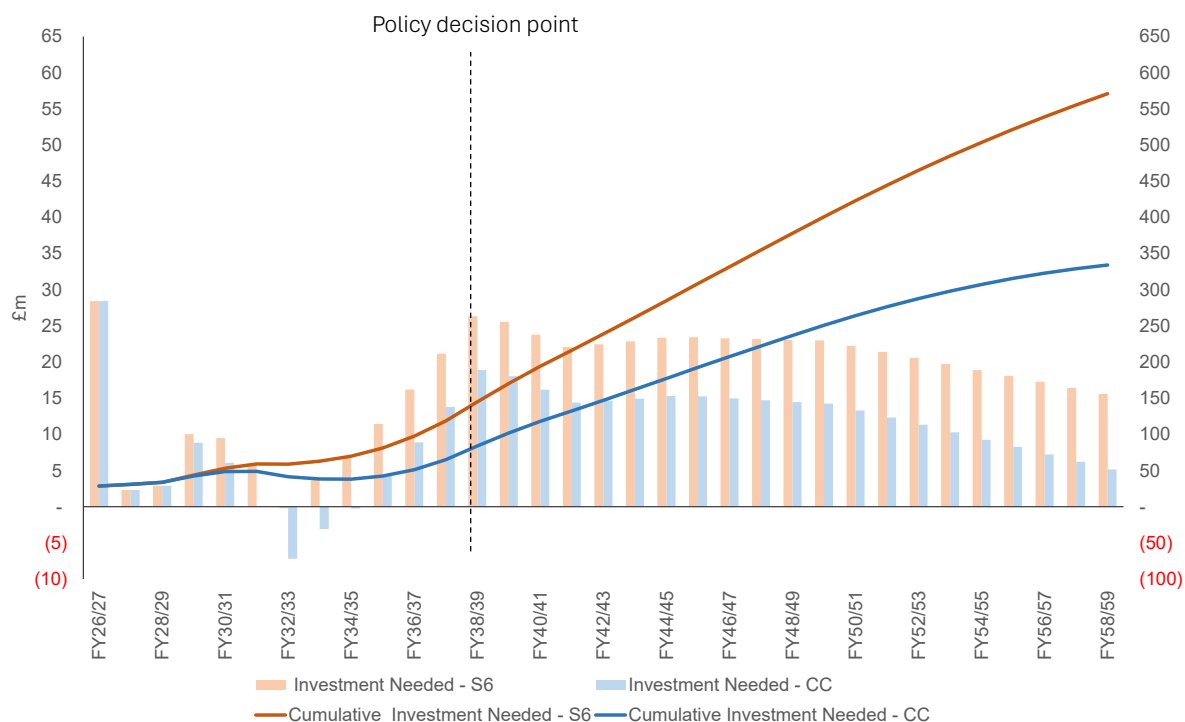


All figures are in nominal prices unless stated otherwise.

Sensitivity 6 – Results

7.3.9. In a low population growth scenario aligned with TAG's Common Analytical Scenarios, patronage is expected to decline by approximately 5% by 2058 compared to the core scenario. This decline would increase the cumulative investment needed for 10 years of franchising by around £60.9 million (nominal), reflecting the impact of reduced demand and slower economic growth on revenue potential and cost assumptions. This gives a total investment needed of £144.8 million.

Figure 17: Investment needed over the appraisal period – Sensitivity 6

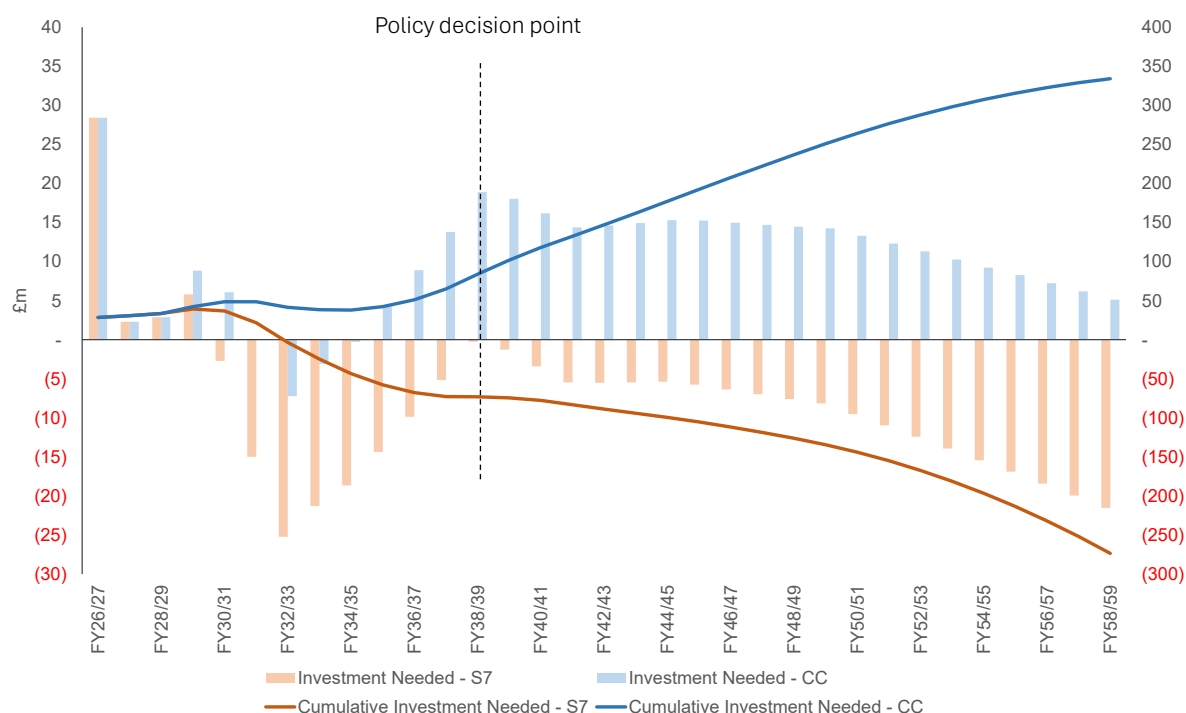


All figures are in nominal prices unless stated otherwise.

Sensitivity 7 – Results

7.3.10. In a high economy scenario based on TAG's Common Analytical Scenarios, high population growth leads to a less gradual patronage decline of approximately 9% by 2058 compared to the core scenario. This improves the investment needed by £156.9 million and therefore results in a cumulative investment surplus of £73.1 million (nominal) over 10 years of franchising, driven by stronger economic conditions and increased demand that enhance revenue potential and reduce the need for additional investment.

Figure 18: Investment needed/surplus over the appraisal period – Sensitivity 7



All figures are in nominal prices unless stated otherwise.

7.3.11. To conclude, the most significant sensitivities are increasing operating costs and operator margins; economic scenarios - both high and low - would have a substantial impact on the investment required for franchising.

7.4. Franchising and call for investment conclusion

7.4.1. This section sets out the franchising case conclusion and the sources of funding that could be used to meet the investment needed for franchising reported in this financial case.

7.4.2. The modelling of the franchising case shows a cumulative investment needed for franchising over assumed existing public sector spend of £83.8 million (nominal, £62.6 million in 23/24 prices) to FY38/39. This covers a period from the start of implementation through to 10 years after the first franchised services go live. This is approximately 12 years

and 9 months following the planned mayoral decision (at the end of financial year FY26/27). This period gives current elected officials visibility of the medium-term investment need, recognising that after this point, policy decisions are likely to change and evolve. The results here show how the evolution is expected to take place.

7.4.3. Table 16 presents the DB's investment needed for franchising on an annual and cumulative basis. The financial model calculates that there is an overall investment requirement over the appraisal period of approximately £334.1 million. There is a cumulative investment need of £33.6 million before the first franchised services would be running due to transition and implementation costs.

Table 16: Franchising summary table

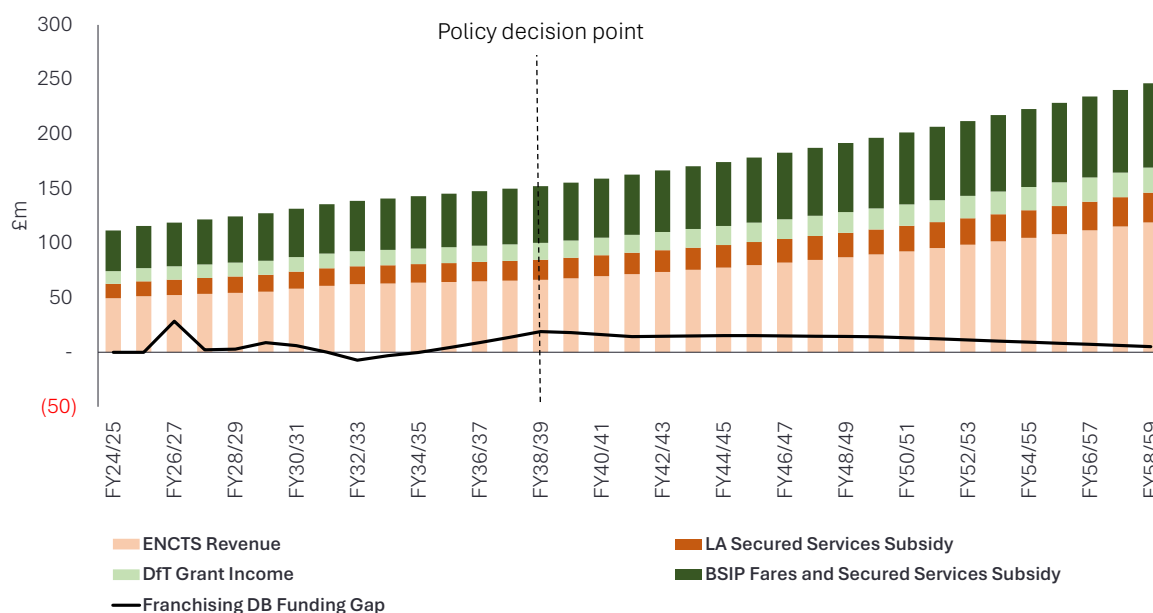
Summary (£million)	FY24/ 25	FY25/ 26	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY34/ 35	FY35/ 36	FY36/ 37	FY37/ 38	FY38/ 39	FY48/ 49	FY58/ 59	Total
Investment needed for Franchising	-	-	28.4	2.3	2.9	8.8	6.1	0.1	(7.2)	(3.1)	(0.3)	4.2	8.9	13.8	18.9	14.5	5.1	334.1
Cumulative Investment needed for Franchising	-	-	28.4	30.7	33.6	42.4	48.5	48.6	41.4	38.3	38.0	42.3	51.1	64.9	83.8	236.6	334.1	

All figures are in nominal prices unless stated otherwise.

7.4.4. The modelled investment needed is a mixture of capital and revenue costs, including assumed interest and repayment costs for the provision of depots. The quantified risk assessment is assumed to be predominantly revenue based, although the actual classification will depend on the form of risks which materialise.

7.4.5. For context, the figure below shows how the investment needed for franchising compares with the existing funding for the bus network included in the financial model. However, under the new integrated settlement, the MSA will have one single transport revenue amount. Therefore, for the purpose of modelling in this FSA, it is assumed that the amount of Integrated Settlement transport RDEL that the MSA will make available for franchising is equal to the existing funding which has been inflated. Compared to current funding, the largest ratio is in FY26/27 where the DB investment need is 23.8% of existing funding, with an average of 6.4% over the transition and appraisal period.

Figure 19: Investment needed for franchising



All figures are in nominal prices unless stated otherwise.

7.4.6. The investment needed for franchising illustrated above includes the impact of several significant interventions that the MSA has decided to make at the point when franchising commences. It should be noted that these interventions reflect additional investment over and above that required to implement franchising (and achieve the associated benefits) as a regulatory change in control of the bus network. The additional investment includes:

- Maintaining the network for 10 years (EP makes cuts)
- Capping fare increases to RPI (EP fare increases above inflation)

7.4.7. The change in regulatory control together with the additional investment creates an increase in annual patronage by 2058/2059 of 15 million – 13% of the current level (patronage refers to the total number of passengers using bus services, while journeys are the individual trips made by passengers and hence patronage can include multiple journeys).

7.4.8. There is a large initial funding ask of £33.6 million for transition, which is largely a provision for risk contingency (discussed in sections 6.3.4 and 6.4) and then modest amounts until FY36/37. The MSA and DB has a number of funding options available, in order to meet the calculated investment need of £83.8 million over the period mentioned in section 7.4.2, whilst acknowledging that the actual investment needed may be more or less than the calculated figure. Note that the funding ask of £33.6 million for transition is included in the total investment needed for 10 years of franchising of £83.8 million.

7.4.9. These funding options are presented on a spectrum of priority in the Table 17 below, which summarises additional capital and revenue-based funding (aside from those already included in the Financial Model) with commentary and an estimate of the value.

Table 17: Planned funding sources

Funding option	Capital or revenue?	Commentary	Amount available
Integrated Settlement (IS), specific grants (i.e. akin to those currently modelled such as BSIP) and general grants e.g. City Region Sustainable Transport Fund (CRSTS) / Transport for City Regions Funding, Local Transport Fund.	Revenue or capital	From April 2027 the MSA will have access to an Integrated Settlement covering the majority of central government funding made available to the MSA. Revenue funding streams will include Local Authority Bus Grant which will replace BSIP funding, and BSOG when franchising commences. The Integrated Settlement (IS) will also include the new Transport for City Regions (TCR) funding from 2027/28 to 2032/33. The TCR settlement is £1.85 billion across the period to 2032, of which £1.69 billion is capital funding for ‘new’ schemes. IS flexibilities provide the ability to move 10% of this to revenue, allowing up to £169 million over the five-year period to be allocated towards revenue expenditure to support services.	Cabinet is expected to agree in March 2026 that £197m of capital will be set aside for delivery of the Angel Network, which could cover some capital costs incurred in the transition towards franchising. Up to £169 million can be taken as revenue from the TCR element of the transport pillar of the Integrated Settlement. Of this, some funding will be needed to cover the difference between existing BSIP and the future Local Authority Bus Grant, to ensure that funding inputs in the FSA remain constant. The remainder will be available to cover the investment needed for franchising.
Use existing reserves	Revenue	On 31 March 2025, the MSA held £482.1 million in usable reserves, of which £465.7 million were earmarked for specific purposes and £16.4 million	£27.8 million (in total as at date of this assessment – not per annum).

Funding option	Capital or revenue?	Commentary	Amount available
		represents the unallocated general fund reserve. The general fund is forecast to be £27.8 million by 31 March 2026.	The MSA is considering creating a specific revenue reserve during the period leading up to transition to cover the £33 million transition costs. Note that this funding option is being considered as a source of funding for transition costs only.
Opportunities to increase sundry income in a franchising scheme: e.g. sales and advertising, rental income.	Revenue	£1.2 million of other revenue to bus operators already included in the financial model. Opportunities to maximise this should be pursued.	£1.2 million already included in the financial model.

7.4.10. As a means of adding context as to the MSA's overall financial position and based on regional priorities, additional funding streams to which it has access are set out below. There are no plans, nor assumptions included in this financial case, to use these sources of funding to pay for bus franchising.

Table 18: Other potential funding sources⁶

Funding option	Capital or revenue?	Commentary	Amount available
30-year Investment Fund	Capital	This is at the Mayor and Cabinet's discretion to use and is worth £1.4 billion. £48 million is received each year from central government across 30 years, which is made up of £14 million capital and £34 million revenue grant. This is the MSA's most flexible funding.	There is a significant pipeline of proposed investment to come through the business case process. Any funding for bus franchising would have to be considered against these other priorities.
Increase annual transport levies on constituent councils or other contributions from constituent councils.	Revenue	The assumption in this FSA is that the levy would not increase above inflation.	Although it is currently not planned that this would be used as a source of revenue funding for buses, each 1% increase above the FY25/26 values would raise £0.961 million per annum.
Mayoral precept on council tax bills.	Revenue	The Mayor has been clear that they will not raise council tax in their current mayoral term. Work commissioned by MSAs on likely revenue to be raised by region through a variety of potential levels of local investment indicate that a £10 Band D nominal precept could raise £4.3 million in total.	This would be used as a source of revenue funding for buses, a £10 Band D nominal precept could raise £4.3 million per annum.
Tyne Tunnel toll income	Revenue	The current Tyne Tunnels PFI contract involves a single contract payment covering both operating costs and private sector debt repayment, using toll income collected by the North East MSA. This arrangement will	This would be used as a source of revenue funding for buses, this could provide up to approximately £1-2 million per annum.

⁶ Note that the above table reflects funding options. The MSA also has choices over how to finance some of the capital costs such as depot acquisition costs such as prudential borrowing, e.g. PWLB, NWF, market loans / private finance.

		end in 2037, by which time the private sector debt will have been repaid. It should be noted that the North East MSA itself will still continue to make repayments towards a separate longer-term public sector debt it incurred directly, and the tunnels' operating costs will still need to be covered.	
Visitor levy	Revenue	The MSA anticipates this being a fiscal lever devolved to the MSA; however, it is recognised that there may be other competing priorities for the use of any funds raised. Work commissioned by MSAs on likely revenue to be raised by region through a variety of potential levels of local investment indicate that a £1 per room per night levy could raise £9.1 million in total.	This would be used as a source of revenue funding for buses, indicatively a £1 per room per night levy could raise £9.1 million per annum.

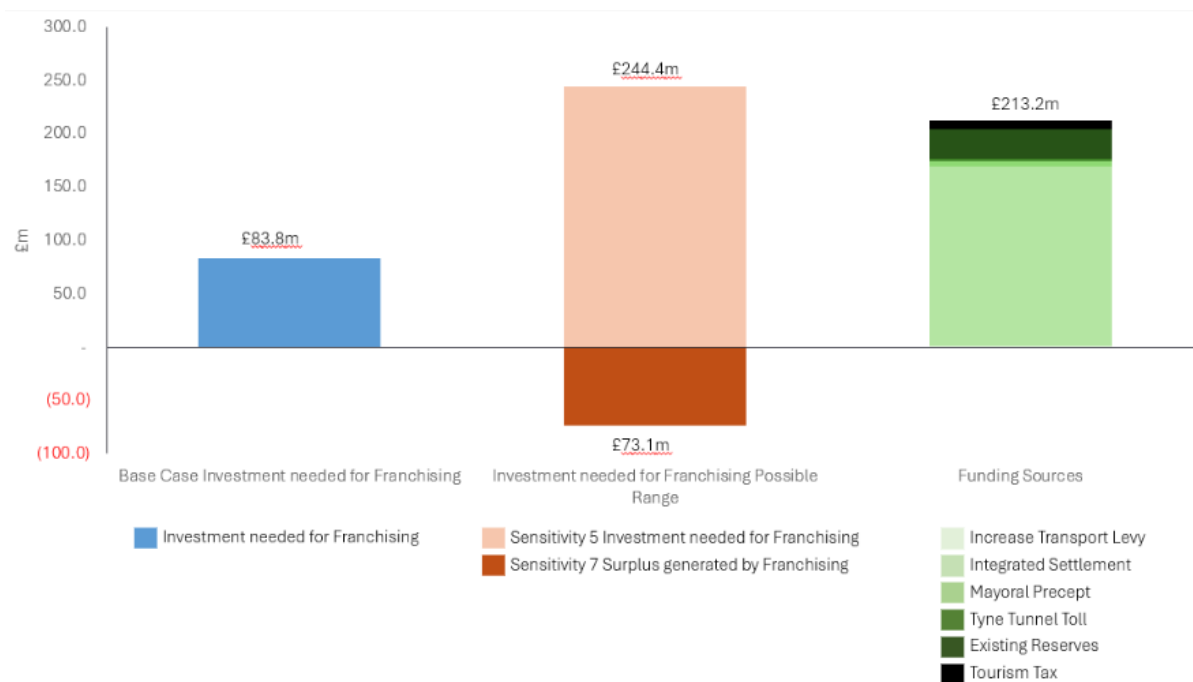
7.4.11. Several other potential policy levers are available to raise additional revenue funding for transport. However, these would involve major policy decisions and would require significant further consideration and investigation, and no such work is currently planned by the MSA. These options are therefore mentioned for completeness, but it is currently not assumed that they would be introduced in association with bus franchising and therefore no income from them will be taken into account in this FSA:

- Introduce a road user charging in certain locations and / or congestion charging zone(s).
- A workplace parking levy.
- Obtain capital funding from government tax increment financing schemes.

7.4.12. Figure 20 below illustrates the £83.8 million investment needed for 10 years of franchising in the blue bar, alongside the possible range of this investment need in the orange bar, based on the sensitivities shown in section 7.3, as well as the funding options from the above table in the green bar. The sensitivities show a possible range from a surplus for the first 10 years of franchising of £73.1 million (Sensitivity 7 – high economy) to total investment needed for 10 years of franchising of £244.4 million (Sensitivity 5 – existing funding does not grow in line with inflation). The Integrated Settlement contributes

the largest amount and covers the investment needed for franchising in the core scenario with the other potential sources of funding set out above contributing smaller amounts.

Figure 20: Projected investment need and funding sources for 10 years of franchising



All figures are in nominal prices unless stated otherwise.

7.4.13. The MSA has a range of funding sources at its disposal (see Table 17 and Table 18) and a combination of them should be able to meet the investment need identified above. A key assumption in this financial case is that the £123 million of existing local and central government funding continues to be made available (consistent with the EP case) and grows in line with inflation. The most appropriate mix will be determined as part of the budget setting process on an annual basis. The introduction of an Integrated Settlement is likely to make this process more straightforward by giving the MSA a degree of flexibility to allocate funding between different priorities. The funding options identified have a potential total value which exceeds the modelled investment needed for the first 10 years of franchising of £83.8 million (nominal) and thus franchising can be considered feasible and affordable in the core scenario.

7.4.14. The sensitivities set out above and the inherent uncertainty in establishing an appropriate contingency for the specific risks that have been identified mean that the actual investment needed in any one year could be higher or lower than the core franchising case. If the investment needed is higher on a consistent basis than the core franchising case presented here, the MSA will be faced with a set of choices – to increase funding for the bus service from the funding sources identified, or, ultimately, to make adjustments to the bus service in terms of network, fares and levels of service to ensure long term affordability. In making adjustments the MSA would have regard to the needs to passengers and minimising impact as well as the financial factors involved.

7.4.15. In conclusion, this financial case highlights a significant cumulative investment needed for franchising of £83.8 million (nominal) over the first 10 years of franchising, necessitating a strategic approach to funding that encompasses both capital and revenue sources. A significant part of the investment needed is driven by the commitment to significant interventions, such as maintaining the network and capping fare increases. The identified funding options provide a robust framework for addressing the investment need while allowing for flexibility in response to evolving financial conditions. Ultimately, while uncertainties remain, the MSA is well-positioned to navigate these challenges.

Franchising Scheme Assessment:

Commercial Case

March 2026

1. Introduction

1.1. Purpose of the commercial case

- 1.1.1. The commercial case defines the commercial model for the proposed franchising scheme and assesses the commercial viability of those arrangements.
- 1.1.2. Section 123B(3) of the Transport Act 2000 (TA2000) requires that an assessment considers *“the extent to which the authority or authorities are likely to be able to secure that local services are operated under local service contracts”* and this is replicated in statutory franchising guidance. This requirement is fulfilled through the commercial case.
- 1.1.3. The commercial case defines the MSA’s proposed commercial model for franchising – developed through workshops with senior transport officials from the MSA and its partner organisations, as well as technical experts – and assesses its performance against commercial objectives adopted for the FSA.
- 1.1.4. During these workshops, choices and models available for key commercial aspects were discussed in the context of global benchmarks and the emerging franchising commercial models in England. These choices were appraised to identify the franchising commercial model most likely to achieve the MSA’s commercial objectives.
- 1.1.5. Further analysis was conducted after these workshops, and the commercial model was a core component of market testing with operators.
- 1.1.6. Appendix B outlines how the commercial case addresses the specific requirements set out in the statutory guidance.

1.2. Structure of the commercial case

- 1.2.1. Following this section, **Section 1 – Introduction**, the commercial case takes the structure set out below – including the summarised key messages from each section:
- 1.2.2. **Section 2 – Commercial objectives** outlines six commercial objectives. These objectives are linked to the strategic objectives set out in the strategic case and have been considered in the development of the commercial model for the proposed franchising scheme.
- 1.2.3. **Section 3 – Overview of the North East bus market** provides a high-level overview of the core characteristics of bus operations in the deregulated market currently in place in the North East. This includes the market share held by different operators, fleet sizes and fleet ages, and the location and capacities of depots.
- 1.2.4. **Section 4 – Commercial assessment of the Enhanced Partnership** describes the commercial arrangements in the EP and analyses the EP against the six commercial objectives identified in section 2. It finds that while the EP avoids potential disruption during a transition (as the current operating model), it is unlikely to meet the objectives around encouraging competition and public sector influence.

- 1.2.5. **Section 5 – Commercial assessment and proposed model for franchising** details the commercial arrangements in the proposed franchising scheme. This describes the intended number and length of local service contracts; the approach to cross-boundary services; the procurement arrangements for local service contracts; and the approach to depot and fleet provision. The proposed franchising scheme is subsequently assessed against the commercial objectives, and this analysis finds that it performs strongly against most commercial objectives and is, therefore, a commercially viable model.
- 1.2.6. **Section 6 – Conclusion** concludes the commercial analysis.

2. Commercial objectives

This section will:

- Detail the six commercial objectives considered during the formulation of the proposed franchising scheme and used for the commercial assessment of the bus reform options in sections 4 and 5.

2.1. Six commercial objectives have been developed for the purposes of Bus Reform Project to inform the development of the commercial model for the proposed franchising scheme and allow for a comparison between the reference case and proposed franchising scheme. These are linked to the MSA's strategic objectives and development of these objectives considered both the commercial objectives set by other MSAs in the development of their FSAs and feedback from partners. These objectives include intended outcomes and are detailed in Table 1 below.

Table 1: Commercial objectives

Commercial objectives	Intended outcome
The public sector should be able to influence the bus network and the outcomes that it delivers for passengers	The public sector gains increased influence over the bus network to reflect investment, facilitating delivery of the North East MSA's LTP, BSIP and other policy objectives, supporting an improved passenger experience.
Ensure that any implementation and transition phases are timely, practical and sustainable, with limited disruption	Disruption to passengers is minimised as far as reasonably possible during any transitions.
	Implemented arrangements are sustainable over a long term, with implementation requirements that are proportionate to the potential long-term benefits.
Competition is stimulated	Competition for the market is improved through reduced barriers, enabling reduced costs and/or improved service standards.
Arrangements should achieve the best value for the public purse while balancing risk	Commercial arrangements support the optimum balance of cost, quality and risk, achieving best value.
Maintain opportunities for small-and-medium sized operators to access the North East bus market	Small-and-medium sized operators continue to have opportunities to operate services in the North East, including avoiding unnecessary barriers to entry.
Region-wide implementation	Implementation of commercial arrangements reflect the needs and nature of the region's urban, rural and coastal bus networks, as well as specific service types.

2.2. These commercial objectives are intended to support the MSA's aspirations by informing the development of a commercially viable franchising model and enabling a comparison between that model and the existing EP so that the chosen delivery model can contribute to the bus reform objectives set out in section 6 of the strategic case.

2.3. A mapping exercise has been completed to link the above commercial objectives to the bus reform strategic objectives. Each commercial objective contributes to achieving one or more of the reform objectives, as outlined below:

Commercial objective	Linked strategic objectives	Link
The public sector should be able to influence the bus network and the outcomes that it delivers for passengers	Buses at the heart of an integrated transport network: 'the Angel Network'.	Influence over the bus network and the outcomes it delivers for passengers enables the introduction of the Angel Network and its associated improvements for passengers, including improvements focused on accessibility and safety.
	Make the bus network accessible and inclusive to all.	
	Ensure that everyone feels safe when travelling, especially women and girls.	
	Create regional pride in its buses.	

Commercial objective	Linked strategic objectives	Link
Ensure that any implementation and transition phases are timely, practical and sustainable, with limited disruption	Create regional pride in its buses.	Passenger confidence and pride in their bus services are aided by a dependable network. Some disruption may be unavoidable to access longer-term benefits (including those which foster greater pride and/or improve punctuality and reliability), but it is important that any such disruption is limited as far as possible.

Commercial objective	Linked strategic objectives	Link
Competition is stimulated	Improve bus punctuality and reliability.	Competition for the market is expected to reduce costs and increase service standards, relative to a counterfactual without competition. This supports higher standards for passengers (such as improved reliability) that can foster pride in the network, as well as supporting financial stability and best value.
	Make the bus network resilient.	
	Create regional pride in its buses.	

Commercial objective	Linked strategic objectives	Link
Arrangements should achieve the best value for the public purse while balancing risk	Buses at the heart of an integrated transport network: 'the Angel Network'.	Commercial arrangements that enable best value ensure that the MSA is getting the best possible output from any quantum of bus funding. This enables wider potential improvements aligned to our strategic objectives – such as bus priority infrastructure or new safety interventions.
	Improve bus punctuality and reliability.	
	Make the bus network resilient.	
	Make the bus network accessible and inclusive to all.	
	Ensure that everyone feels safe when travelling, especially women and girls.	
	Create regional pride in its buses.	

Commercial objective	Linked strategic objectives	Link
Maintain opportunities for small-and-medium sized operators (SMOs) to access the North East bus market	Buses at the heart of an integrated transport network: 'the Angel Network'.	SMOs have an important role in the current network and are often well-regarded by passengers. They have a particularly strong presence in our rural communities, often operating secured services in these areas. Retaining their presence and expertise will aid in delivering an integrated network across our geography
	Make the bus network accessible and inclusive to all.	
	Create regional pride in its buses.	

		that our residents can have pride in.
Commercial objective	Linked strategic objectives	Link
Region-wide implementation	Buses at the heart of an integrated transport network: 'the Angel Network'.	Achieving our aspirations for an Angel Network that covers the region's urban, rural and coastal geography and which North East residents can be proud of requires any delivery model to have region-wide applicability and offer a consistent experience for passengers across the North East.
	Make the bus network accessible and inclusive to all.	
	Create regional pride in its buses.	

Key insights from this section

- Six commercial objectives inform the development of the commercial model for the proposed franchising scheme and allow for a comparison between the chosen delivery options (current EP and franchising).
- These commercial objectives and their associated intended outcomes are listed in Table 1. Each commercial objective is linked to one or more of the strategic objectives.

3. Overview of the North East bus market

This section will:

- Provide an overview of the current bus market in the North East, including the operators and their respective market shares, the proportion of commercial and secured services, information on the current fleet and depots, details of the current EP, existing public sector interventions, and the risks and responsibilities of the private and public sector in the delivery of various aspects of local bus services.

3.1. Operators and market share

3.1.1. Bus services in the North East are currently provided in a deregulated model, as explained in section 4 of the strategic case. Operators design and operate most services in the region commercially, with a smaller portion of mileage delivered as contracted services as described in section 3.2 below.

3.1.2. There is a diverse operator market in the region, with three large operators and 19 SMOs operating services in the region¹. The region's large operators are each part of wider national and international groups, with profitability targets often set at group level.

3.1.3. Table 2 lists the three large operating groups in the region, the estimated market share for each, and the individual operators within that group. These three large operating groups account for approximately 98% of total market share by ridership in the North East, including the clear majority of the commercial network.

3.1.4. SMOs account for approximately 2% of the total market share by ridership. Secured services are a particularly important market for SMOs, who operate approximately 45% of registered secured services by number.

Table 3 lists each small operator present and records whether that SMO operates secured services, commercial services or both².

Table 2: Large operators in the North East

Group	Operators	Market share (by ridership)
Go-Ahead	Go North East	42%
Stagecoach	Stagecoach North East ³	36%
	Cleveland Transit	
	Stagecoach North West	
Arriva	Arriva Northumbria	20%
	Arriva Durham	

¹ As of 23 March 2025.

² Data taken from Traffic Commissioner service registrations as of 23 March 2025. Services are only considered secured in this data if subsidised by a local authority/PTE; some services described as commercial may be wholly or part funded by a third-party.

³ Busways Travel Services trading as Stagecoach North East.

Table 3: Small-and-medium sized operators in the North East, March 2025

Operator	Service type operated	LA areas served
Borders Buses	Commercial and secured	Northumberland
Central Taxis Gateshead	Secured	County Durham, Gateshead, Newcastle, North Tyneside, Northumberland, South Tyneside, Sunderland
Durham County Council	DRT service	County Durham
Ferryhill Village Travel	Secured	County Durham
Garnetts	Secured	County Durham
GEM Travel	Commercial	County Durham
Glen Valley	Secured	Northumberland
Hodgsons	Secured	County Durham
Jim Hughes	Commercial and secured	County Durham, Gateshead, Newcastle, South Tyneside, Sunderland
L&G Coaches	Secured	County Durham, Gateshead, Sunderland
Liberty Coaches	Secured	Northumberland
Northstar	Commercial and secured	County Durham, Gateshead, South Tyneside, Sunderland
Peter Hogg	Secured	Northumberland, Newcastle
Stanley Travel	Commercial and secured	County Durham, Gateshead, Newcastle
Station Taxis Sunderland	Secured	Sunderland
Telford's Coaches	Secured	Northumberland
Weardale	Commercial and secured	County Durham
Woods of Berwick	Commercial and secured	Northumberland
Wright Brothers	Commercial	Newcastle, Northumberland

3.1.5. As described in section 4.1 of the strategic case, however, commercial competition between operators is largely limited to a small number of key corridors, with many localities only served by one large operator. A lack of competition between operators is identified as one argument for change in the strategic case.

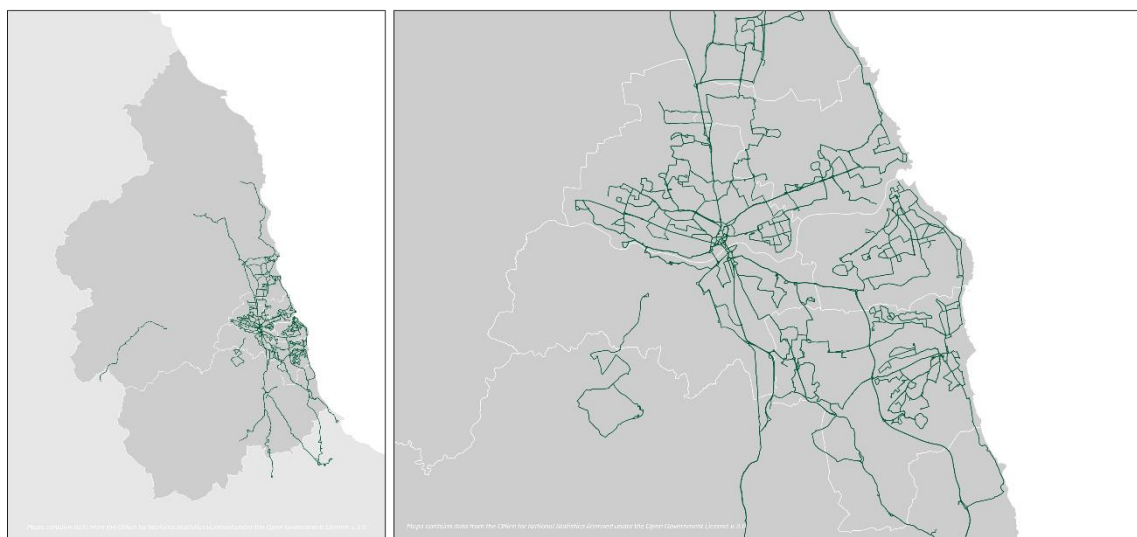
3.2. Commercial services and operator profitability

3.2.1. As described in section 4.1 of the strategic case, most services are provided on a commercial basis, with operators seeking to generate a profit by providing local bus services at suitable frequencies and prices to destinations that meet passenger demand.

- 3.2.2. Commercial services are operated by the three large operators and some of the region's SMOs, as shown in Table 3 above. These services cover approximately 45 million miles annually, equating to 87% of total network mileage⁴.
- 3.2.3. Commercial services are most prominent in, and operating between, the region's urban areas. Figure 1 shows a map of commercial services, with a cluster of services to and within Newcastle and Sunderland, but significantly more limited provision elsewhere in the region. Large parts of the region – including the north of Northumberland and west of County Durham – do not have any wholly commercial services.

Figure 1: Map of fully commercial services in the North East (as of March 2025)⁵

Fully commercial services



- 3.2.4. As described in the strategic case's case for change section, there has been long-term decline in network mileage. This includes a 31% contraction to the commercial network between 2009/10 and 2024/25, with 20 million fewer miles operated annually as a result. This decline varies across the North East, with a 41% reduction in Northumberland, 37% reduction in County Durham, and a 27% reduction in Tyne and Wear⁶. Figure 2 below shows these declines compared to the average decline for England outside of London (26%)⁷.

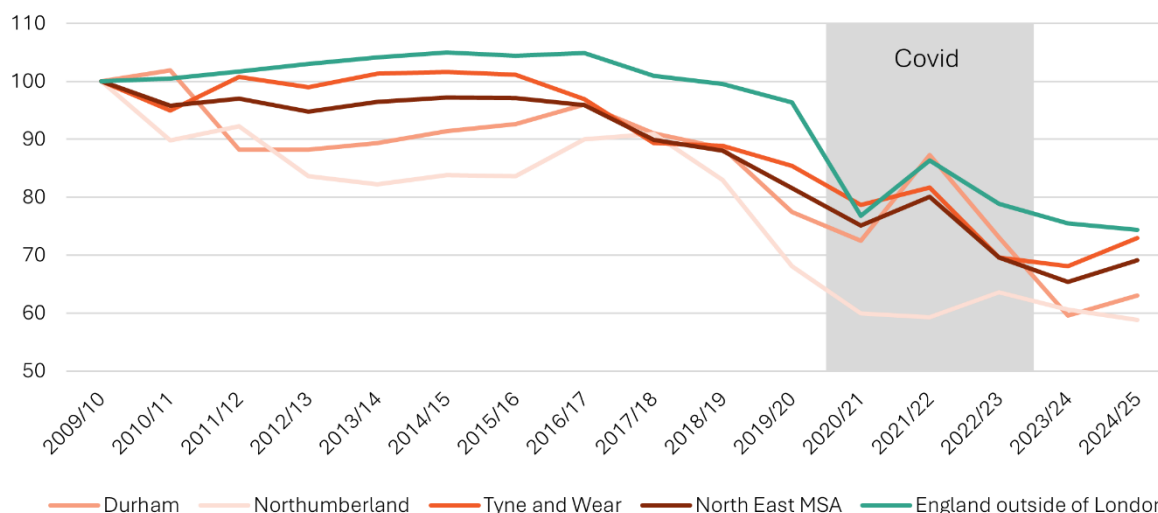
⁴ "[Bus statistics data tables: BUS02](#)". Department for Transport. 2025.

⁵ This map, and all subsequent maps showing service commerciality, do not include school services.

⁶ "[Bus statistics data tables: BUS02](#)". Department for Transport. 2025.

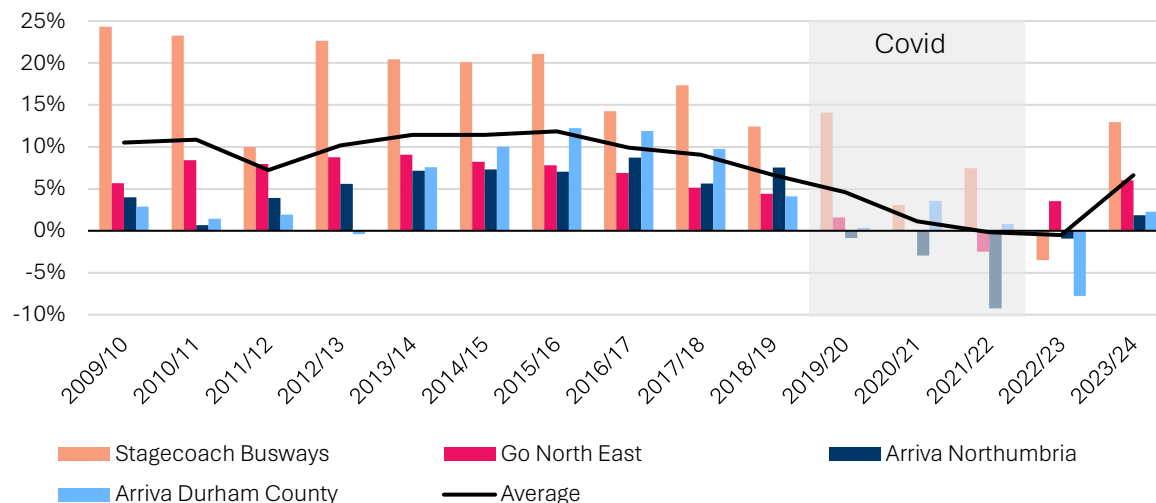
⁷ All figures in this paragraph are the decline between 2009/10 and 2023/24.

Figure 2: Indexed change in commercial mileage, 2009/10 to 2024/25 (2009/10 = 100)



- 3.2.5. Services within and between major population centres in the North East are well established and coupled with declining patronage, opportunities for significant expansions to commercial provision are likely to be limited. There are, however, some recent examples of new commercial provision – such as the weekends and school holidays X22 and X43 services introduced between the Metrocentre and Chester-le-Street/Stanley by Northstar.
- 3.2.6. Operators seeking to introduce a local service make an application to the Traffic Commissioner to register the service, which includes an obligation to provide advance notice to the relevant LTA.
- 3.2.7. Operators naturally have different appetites to grow commercial provision, and the cost of doing so differs based on their existing resources. Additional commercial provision may have a limited incremental cost to the operator if it can utilise vehicles already stored at the depot (e.g. a commercial service that runs during school holidays using vehicles ordinarily used for school work) or be interworked with other services. A significant growth in commercial services would, however, be more costly if it required additional depot capacity, staff and/or vehicles.
- 3.2.8. Operator profit margins have historically averaged around 10% in the North East, with some variation between operators and years. Figure 3 below shows the trend in operator profit margin, with the average margin relatively stable before the pandemic and a significant reduction during the pandemic. It remains early to discern post-pandemic norms, but operators earned an average margin of 7% in 2023/24, indicating that operators' future expected margin is likely to exceed the margins earned in recent years.

Figure 3: Operating profit margins (pre-taxation) reported in annual accounts, 2009/10 to 2023/24⁸



3.2.9. Achieving the 10% profit margins assumed to be targeted (and which are in-line with pre-pandemic averages and as described further in section 4 of the financial case) will require operators to further reduce costs and/or increase revenues. Operators will independently determine which approach (or combination of approaches) best fits their business, but potential avenues to do so include:

- **Seeking increased public subsidy** – for example, requiring more generous reimbursement mechanisms when negotiating with the public sector over fares interventions, or seeking to transfer more mileage to secured services via tactical withdrawals to trigger a direct award under de minimis powers (discussed further at section 3.3.4).
- **Network reductions** – reducing the frequency, altering the route, or cancelling entirely their least profitable services. This approach reduces costs and generates pressure on the public sector to subsidise the service instead.
- **Fare increases** - increasing fares to drive additional revenue, albeit simultaneously reducing demand for services.
- **Reducing overheads** – such as employing fewer back-office staff and/or consolidation of depot sites
- **Diversification** – wrapping commercial and supported services around complimentary home-to-school services, which creates another source of income for the operator.

3.2.10. As described in the economic case, achieving the required 10% profit margin is assumed to require network cuts of 3% per annum until 2041/42 with cuts of 2% per annum

⁸ Analysis of accounts published for “[Arriva Durham County Limited](#)”, “[Arriva Northumbria Limited](#)”, “[Busways Travel Services Limited](#)”, and “[Go North East Limited](#)”. Companies House. 2025.

thereafter, coupled with real-terms fare increases of 2% per annum throughout the appraisal period.

- 3.2.11. Public engagement detailed in section 4.3 of the strategic case outlined that *“improvement to the number of services and increased coverage across the network”* was the number one priority members of the public identified for the network, with the network decline since deregulation identified as one strand of the case for change. Similarly, the case for change also identifies how fares have risen significantly above inflation. Continued network decline and above inflation fare increases are contrary to the case for change and objectives for reform set out in the strategic case.

3.3. Secured services

- 3.3.1. Section 63 of the Transport Act 1985 allows LTAs to *“secure the provision of such public transport services as the council consider it appropriate ... to meet any public transport requirements ... which would not in their view be met apart from any action taken by them”*, including paying subsidies for these services. Section 9A of the Transport Act 1968 provides the same powers to Passenger Transport Executives (PTEs). Services provided under these powers are known as secured services.
- 3.3.2. LTAs/PTEs can only exercise these powers and secure a service where that service would not be provided – either at all, or to a particular standard – without subsidy and where the relevant competition test is met.
- 3.3.3. The MSA delegated this function, alongside other operational transport functions, to Durham County Council and Northumberland County Council in their areas upon its formation⁹. Nexus exercises this power in Tyne and Wear as the area’s PTE. There are accordingly three approaches to secured service provision in the region.
- 3.3.4. Secured services can be procured through one of two routes:
- **Competitive tendering**, where operators competitively bid for contracts to operate a service to the authority’s specification. Authorities will sometimes tender to replace a commercial service which has been withdrawn due to a lack of profitability.
 - **De minimis provision** allows contracts to be awarded for secured services directly to operators without going through the full competitive tendering process. This can avoid the time and expense of running a full tender where the authority proposes relatively small changes to the secured network. For the level of spend on secured services in the North East, de minimis contracts must not account for more than 25% of an authority’s total expenditure on service subsidies.
- 3.3.5. Contract lengths vary across the region. Nexus secured services contracts are typically let for a single year, reflecting that its funding (via the Tyne and Wear Transport Levy and BSIP funding) is determined annually. Typical contract lengths in County Durham and Northumberland are longer, at approximately four years and five years respectively.

⁹ [“Designation of Statutory Officers and Continuity Arrangement”](#). North East Mayoral Strategic Authority. 2024.

3.3.6. Authorities utilise a mix of gross cost and net cost contracts. Net cost contracts transfer revenue risk to the operator (who bid on the minimum level of subsidy required to run the service) while revenue risk sits with the contracting authority under gross cost contracts; operators instead bid on the total cost to run the service. Table 4 below breaks down the number of contracts by type in Tyne and Wear, County Durham and Northumberland.

Table 4: Number of gross and net cost contracts, by authority, 2024/25¹⁰

Area	Gross Cost	Net Cost	Total
County Durham	58	74	132
Northumberland	14	33	47
Tyne and Wear (Nexus)	128	37	165
North East (total)	200	144	344

3.3.7. Operators are responsible for providing their own fleet and depots to run secured services, within specifications set by the contracting authority during the tender process.

3.3.8. Approximately 13% of service mileage in the North East is operated with the support of local authority funding – equating to 6.6 million miles annually. This figure is higher in Northumberland and County Durham, where 27% and 16% of respective mileage is supported, and lower in Tyne and Wear, where 12% is supported¹¹. Supporting these services has an annual cost to the public purse of approximately £32 million, covering both the core cost of running the services and the profit margin of the contracted operator.

3.3.9. As with the commercial network, there has been a significant contraction to the secured network – with a reduction of 40% in secured mileage operated across the North East since 2009/10¹². This represents an aggregate picture, rather than linear decline, as the public sector has stepped in to secure particular services as the commercial network has shrunk – but with knock-on effects for other parts of the secured network given the constrained funding envelope.

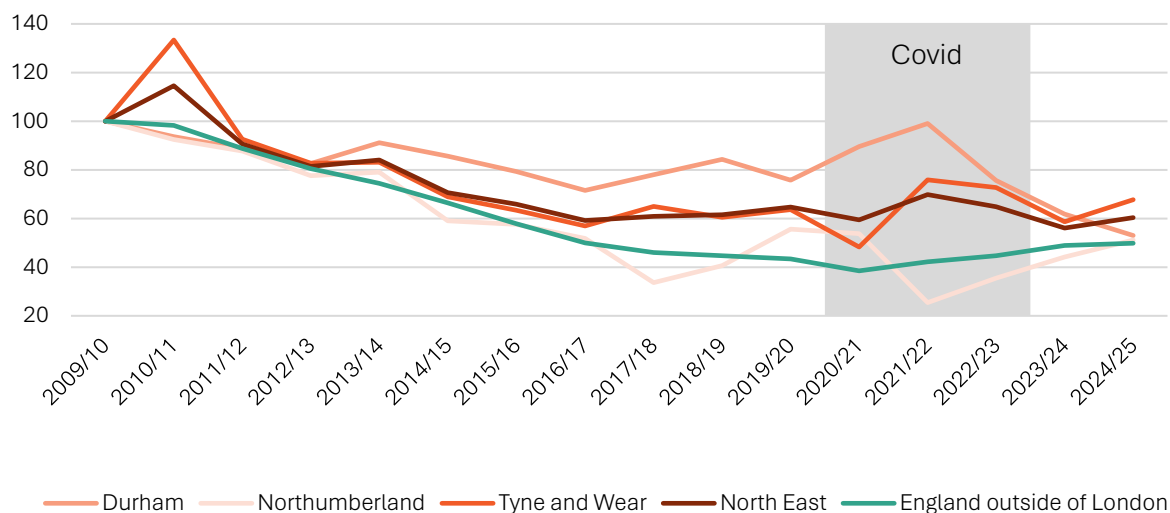
3.3.10. Compared to an average decline of 50% in England outside London shown in Figure 4 below, North East authorities have generally been able to sustain a larger proportion of their secured service networks amidst significant local government funding pressures.

¹⁰ Information provided by Nexus, Durham County Council and Northumberland Country Council. *Figures for County Durham and Nexus as of October 2025; Northumberland as of September 2024.*

¹¹ “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

¹² “[Bus statistics data tables: BUS02](#)”. Department for Transport. 2025.

Figure 4: Indexed change in secured mileage, 2009/10 to 2024/25 (2009/10 = 100)¹³



3.3.11. Secured services effectively ‘fill in the gaps’ of the commercial network – providing services in areas or times of the day where bus connections are socially necessary but commercial provision is unviable. Figure 5 shows a map of partially secured services – which have some commercial provision (and the level of which varies by service).

3.3.12. Figure 6 shows a map of fully secured services. Both figures illustrate how provision in much of the region is dependent on public sector funding to some extent and the important links that secured services provide communities across the region.

¹³ The data for Northumberland shows a sharper decline than the rest of England, which is attributable to a contracting change in which NCC significantly increased its proportion of de minimis contracts (in place of separately tendered secured service contracts). NCC report that actual reductions to secured mileage are reflective of those in other parts of the region.

Figure 5: Map of partially secured services in the North East (as of March 2025)

Partially secured services

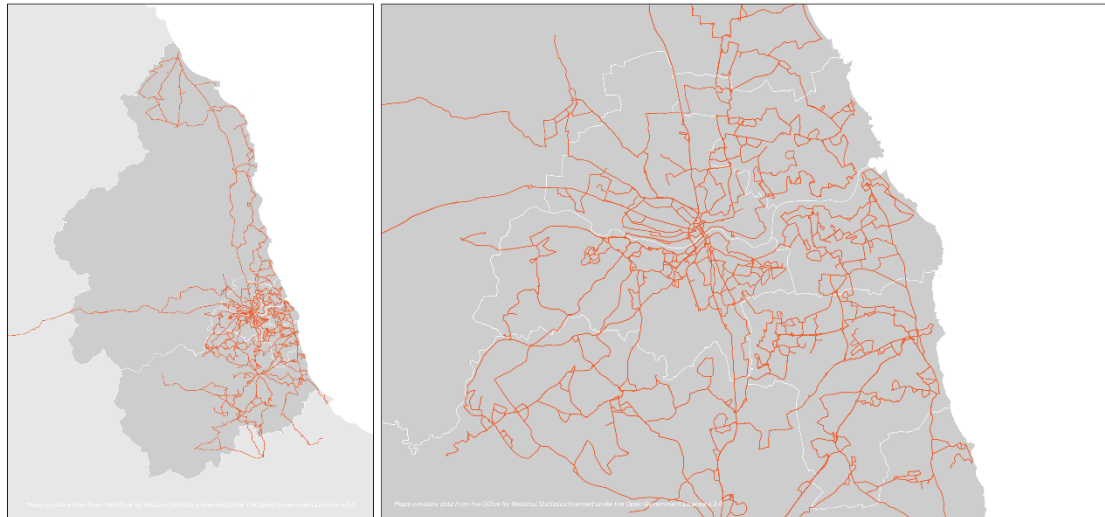
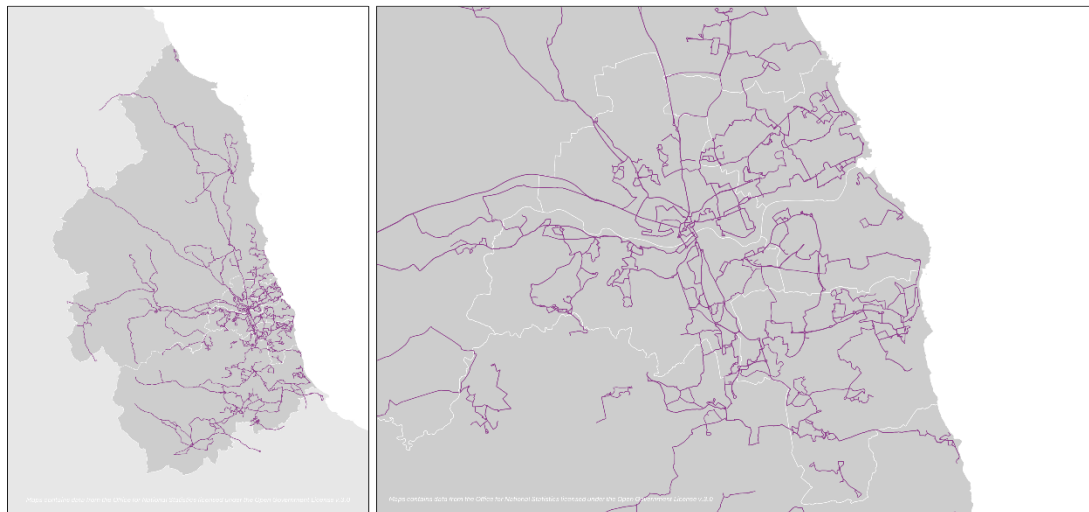


Figure 6: Map of fully secured services in the North East (as of March 2025)

Fully secured services



3.3.13. Bids for secured service contracts vary across the region – competition is greater in County Durham, with approximately six-to-eight bids received for each tender. There can be slightly less competition for competitively tendered secured service contracts in Tyne and Wear – with approximately four bids received for each tender.

- 3.3.14. New procurement of secured services is often reactive to changes in the commercial network. A more strategic approach to network planning, including cross-subsidising commercially unprofitable but socially necessary services with the profits from the highest revenue generating commercial services is not possible under current secured service powers.
- 3.3.15. As discussed above, the strategic case identifies network decline since deregulation as one argument for change – with Figure 4 showing a substantial decline in secured service mileage across the region. Securing services can protect individual socially necessary services and the connections they provide but does not stabilise the overall size or shape of the network.

3.4. Fleet

- 3.4.1. Approximately 1,220 buses are currently used as public service vehicles in the region¹⁴. Operators are responsible for sourcing their fleet in the current market; this can include the acquisition of brand-new buses (either through purchasing or leasing), cascading buses previously used in other parts of the country by the same group, or purchasing used vehicles. The only buses which are currently owned by the public sector are a small number of vehicles owned by Durham County Council in its capacity of an operator of the Link2 DRT service.
- 3.4.2. The North East bus fleet has an average age of 10.9 years, as of August 2025¹⁵. Figure 7 displays the age distribution of the fleet, by year of first registration. The age profile of the fleet is relatively uneven; over half of the fleet (62%) was first registered in between 2009 and 2016 (i.e. is 10-15 years old) with a smaller percentage (28%) registered from 2016 to 2024 (i.e. 1-9 years old). The remaining 10% of buses were registered before 2009 (i.e. are over 15 years old).
- 3.4.3. The average age of buses in the North East is slightly lower than the average for England outside of London. The average bus in England outside of London is approximately 11.8 years old compared to 9.3 years old in London¹⁶, while in Greater Manchester 75% of buses are under four years old (as of 2025) – which Transport for Greater Manchester describes as a “key achievement” of franchising¹⁷.

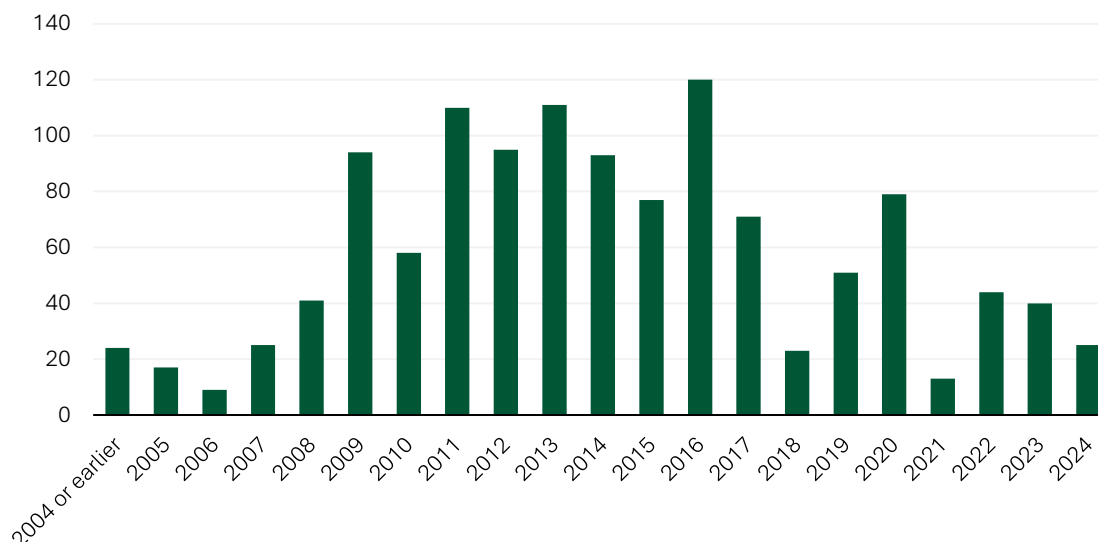
¹⁴ Analysis of data provided to the MSA by local operators. 2025.

¹⁵ Analysis of data provided to the MSA by local operators. 2025.

¹⁶ “[Bus statistics data tables: BUS06](#)”. Department for Transport. 2025.

¹⁷ “[Written evidence submitted by Transport for Greater Manchester \(LBS0021\)](#)”. House of Commons. 2025

Figure 7: North East bus fleet, number of buses by year of first registration



3.4.4. There is a mix of bus types within the fleet. Table 5 displays the number of mini, midi, single-decker and double-decker buses currently operating in the North East. Operators tailor the bus used to the demand on the route – a low-demand route is likely to be best served by a mini or midi bus which will generally cost less per-mile to operate, while a high-demand route is likely best served by a double-decker bus, with the higher cost-per-mile absorbed by the increased revenue achieved with a higher capacity.

Table 5: North East fleet by type (as of spring 2025)

Bus type	Count	%
Mini/Midi	217	18%
Single	461	38%
Double	542	44%

3.4.5. Buses have traditionally used diesel as the fuel for an internal combustion engine; this remains the dominant fuel source in the region's current fleet, accounting for 95% of buses, with a smaller number of battery electric and biomethane gas buses making up the remaining 5%. Table 6 below shows the breakdown of fuel type for the North East bus fleet (as of data received in spring 2025).

3.4.6. Success in various government funding bids¹⁸ is supporting the introduction of further zero emission buses in the region, with government funding part-subsidising the additional capital cost of a zero-emission vehicle compared to a diesel alternative. As described in the strategic case, around 10% of the region's fleet will have been decarbonised by March

¹⁸ Ultra-Low Emission Bus Scheme (ULEBS), the Levelling Up Fund (LUF), and Zero Emission Bus Regional Areas 2 (ZEBRA 2).

2026 (with a total of 113 electric buses are expected to be operational). The figures in Table 6 will therefore evolve from those provided in spring 2025.

Table 6: North East fleet by fuel source (as of spring 2025)

Fuel source	Count	%
Diesel	1162	95%
Battery electric	38	3%
Biomethane gas ¹⁹	20	2%

3.4.7. The MSA is not aware of any operator-led investment in ZEBs in the region beyond those noted above and financially supported through the MSA.

3.4.8. As shown in Table 7 below, approximately 61% of the region's diesel bus fleet²⁰ meets Euro VI emission standards. Euro VI is the latest European emissions standard, introduced in 2012, which significantly lowers the allowable limits for harmful emissions, especially nitrogen oxides from diesel engines. Vehicles must comply with the Euro VI standard to enter the Newcastle Clean Air Zone (CAZ) (without paying a charge), which covers the city centre and most bridges across the Tyne into the city centre.

Table 7: Emission standards of diesel vehicles (as of 2023)

Emission standard	Percentage
Euro III	1%
Euro IV	5%
Euro V	33%
Euro VI	61%

3.4.9. Operators largely determine the interior specification of their vehicles; this specification varies by operator and by route. Vehicles operating some routes, particularly long-distance routes, have been fitted with phone charging points, Wi-Fi, high-backed seats and tables. A small number of buses have also been adapted to carry bicycles.

3.4.10. As discussed in section 2.3 of the strategic case, the LTP states that the North East “*should set the highest standards for a fleet of green vehicles*”, while section 4.3 notes that recent public engagement ranked “*improvements to the fleet – newer buses*” as the third most important priority. Decisions by operators determine whether these ambitions can be achieved in the current operational model, with limited ability for the public sector to specify requirements.

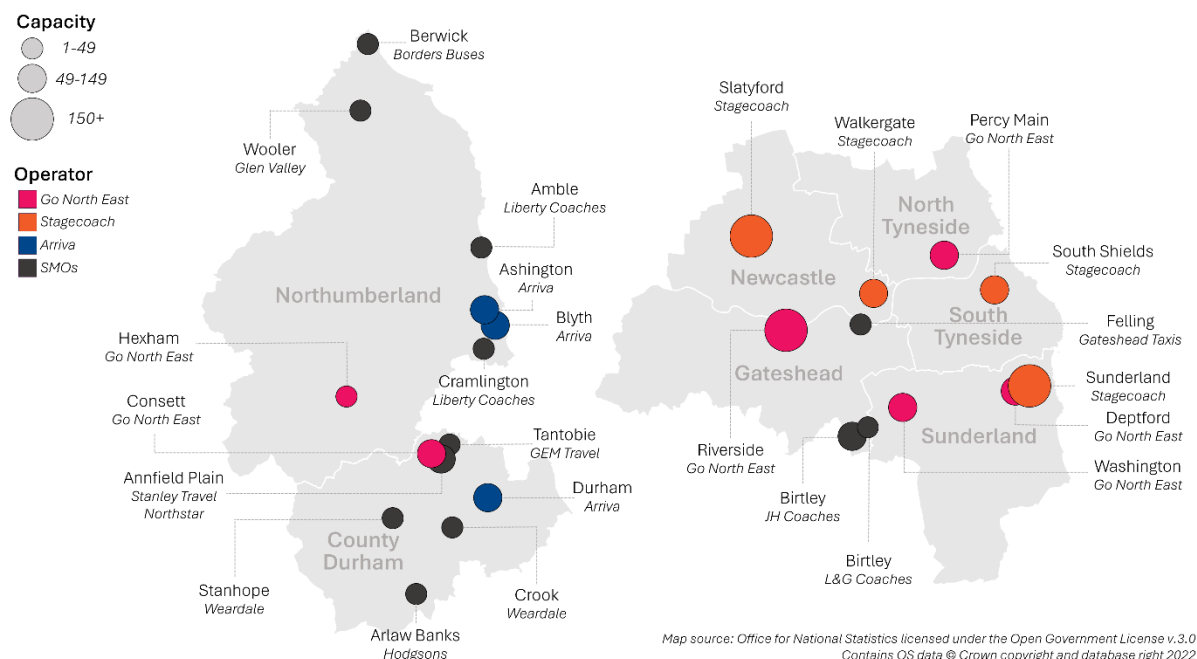
¹⁹ Biomethane gas buses are operated by Stagecoach on some services in Sunderland. These were partially funded by the Department for Transport's Green Bus Fund. These vehicles are not ZEBs.

²⁰ This data is sourced from 2023, as more recent data is not available.

3.5. Depots

- 3.5.1. Depots are an important part of bus operations. Depots provide space to park buses when not in service, carry out servicing and maintenance of vehicles and host facilities for staff. Depots can also house driver training centres, central work facilities for major works (e.g. engine overhauls or bodywork repairs), as well as bus painting facilities or central stores. Different facilities are provided at different depots.
- 3.5.2. Depot locations are particularly important to the cost of operating a service; the distance between the depot and the location between the start/end of passenger service on a route is 'dead mileage' – mileage/time which the operator must pay fuel and staff costs for, but which does not yield any revenue.
- 3.5.3. Operators therefore seek to minimise the distance between the relevant depot and the origin / terminus points of the commercial services that they operate to reduce the costs incurred from dead mileage.
- 3.5.4. Operator staff are typically contracted to a specified depot location; each depot hosts its own workforce of drivers, engineers, cleaners and other operational staff. Major changes, such as a depot closing or a significant reallocation of services between depots, would require staff to change workplaces, with associated operational and HR implications.
- 3.5.5. All depots in the region are either owned or leased by the relevant operator. The public sector does not provide depots to operators for secured services or other tendered work.
- 3.5.6. Registered local bus services are currently operated from 37 depots. 28 are within the MSA area, with the remaining nine located outside the region – although only 21 registered local services (approximately 4% of the total) are operated from depots outside the MSA area.
- 3.5.7. Depots are of significantly different sizes, ranging from substantial sites with capacities for over 200 buses to much smaller sites – some of which only operate one local service.
- 3.5.8. In addition to facilitating the operation of registered local bus services, depots are also important sites for other types of operator business – such as coach services, private hire, and closed-door schools provision. These types of business are particularly important to SMOs.

Figure 8: Map of North East bus depots²¹



3.5.9. In addition to the investment in ZEBs discussed at section 3.4.6, the MSA is also working in partnership with operators to provide electric vehicle charging infrastructure at depots where electric buses are based. This includes improving the grid connection at the relevant sites as well as physical chargers that are connected to buses to charge them. Five depots are undergoing electrification as part of the current ZEB rollout: Go North East's Riverside depot, Stagecoach's Slatyford and Sunderland depots, and Arriva's Blyth and Durham depots. These upgrades are being partially funded by the MSA through central government funding streams.

3.5.10. As with ZEBs, no operator-led activity at depots to enable the operation of additional ZEBs (such as the installation of charging points or upgrades to the power supply) is understood to be taking place beyond that noted above and financially supported by the MSA.

3.5.11. Depot locations and capacities influence the size and shape of the network.

3.5.12. Figure 8 shows that there is limited overlap in large capacity depot locations (beyond GNE and Stagecoach's depots in Sunderland). Each large depot site has a cluster of services associated with it – for example, most of GNE's services in Gateshead and northern County Durham are based at Riverside depots.

3.5.13. There has been some recent consolidation of depots in the region, reflecting wider reductions in bus patronage and mileage, as operators seek to reduce overheads by selling sites and reallocating services. Examples of recent depot closures include Go North East's

²¹ Capacity refers to the number of vehicles permitted at that operating centre under the current operator's PSV license. This map only shows depots inside the MSA area and excludes depots which are outside the MSA area but from which services in the MSA area are operated from.

closure of its depot in Chester-le-Street in August 2022²² and Arriva's closure of its Jesmond depot in Newcastle in October 2022²³. This consolidation, in turn, has increased the strategic importance and role of existing sites.

- 3.5.14. Depots carry significant operational importance in delivering local bus services – both the shape and size of the network and the transition to ZEBs are influenced by depot locations and availability.

3.6. The Enhanced Partnership

- 3.6.1. As described in the strategic case, the MSA, Nexus and the region's local authorities work in partnership with operators to deliver agreed interventions through the North East EP. The majority of interventions in the EP are delivered by BSIP, and occasionally other government funding schemes.

- 3.6.2. EPs as a legal framework were introduced by the Bus Services Act 2017, with the 2021 National Bus Strategy specifying areas should enter into an EP to access Department for Transport funding, unless they were pursuing bus franchising. EPs are statutory partnerships between one or more LTAs and operators to deliver specified improvements. There are two formal documents made as part of introducing an EP:

- **EP Plan** - a high-level vision and objectives for bus services in the local area and closely follows or replicates relevant sections of the BSIP.
- **EP Scheme(s)** - which set out the precise detail of how the BSIP vision and objectives will be achieved, including any commitments made by the local authority or standards to be met by bus operators.

- 3.6.3. Operators may object to any intervention proposed by the LTA for inclusion in the EP, with the formal thresholds to reject a proposed intervention below. In most instances, however, the commitments in the EP are determined primarily by informal negotiation rather than invocation of the formal objection threshold.

- **Criterion one: majority of mileage** – the objecting operators must represent at least 25% of the total bus mileage in the partnership area, and there must be at least three separate operators objecting for this criterion to be met; or
- **Criterion two: majority of operators** – at least 50% of all local bus operators object, and the total mileage operated by the objecting operators must be at least 4% of the total mileage operated in the partnership area.

- 3.6.4. The North East Joint Transport Committee (JTC) made an EP Plan and Scheme that took effect from 2 April 2023, following the requisite statutory process described below.

- 3.6.5. Operators of qualifying local services were notified that the draft EP Plan and Scheme had been prepared on 9 December 2022. The operators' objection period ended on 10 January

²² "[Chester-le-Street depot update](#)". Go North East. 2022

²³ "[Arriva bus depot to close in October with staff to move to sites in Northumberland and Durham](#)". Newcastle Chronicle. 2022.

2023 and no objections to the draft EP Plan and Scheme were received. Statutory consultation ran from 11 January 2023 to 8 February 2023, and following this, the EP Plan and Scheme were made without modification.

- 3.6.6. The EP is focused around the six objectives outlined in the North East's first BSIP: repairing the damage caused by Covid-19 to passenger numbers; growing bus patronage; growing bus modal share; increasing customer satisfaction; making buses faster, more punctual, and more reliable; and making buses greener.
- 3.6.7. There are a number of exemptions to the EP. These include services with more than 50% of their mileage outside of the MSA area, school services, special event services, rail and Metro replacement services, and secured services which were procured before the EP commenced. The EP therefore primarily applies to most registered local bus services which operate in the MSA for a majority of their mileage.
- 3.6.8. Although outside the formal scope of the EP Scheme, this assessment considers the EP scenario to cover the region's network of registered local bus services as present – including, for example, the secured services which are exempt from the EP Scheme.
- 3.6.9. The EP (through significant funds from BSIP and other funding streams) has brought improvements to passengers, including reducing fares for young people; introducing popular multi-operator and multi-modal tickets that brought a degree of simplification to the offer; supporting the introduction of additional ZEBs; introducing new services and frequency enhancements on some existing services; and agreeing a bus passenger charter to build customer confidence as well as improving consistency and transparency.
- 3.6.10. Section 10 of the strategic case describes the interventions introduced, or planned, under the EP with the limitations of this model in achieving the MSA's strategic objectives set out in section 11 of the strategic case.

3.7. Existing public sector interventions

- 3.7.1. The public sector holds significant responsibility for bus services and infrastructure within the current market structure. There are a number of public sector interventions currently in place, some of which have been mentioned above, and which are provided by local authorities/Nexus, the MSA and/or central government. Public sector interventions include:
- 3.7.2. **Capped adult single fares:** Single fares were capped at £2 from 1 January 2023 through to 31 December 2024 under HM Government's national scheme. Following the expiry of the £2 scheme and introduction of the £3 national scheme, the Mayor and Cabinet introduced a local £2.50 single fare cap. Single fares in the North East before the fare caps were as high as £8. Operators are reimbursed for accepting the capped fares. Alongside the youth fares and multi-operator / multi-modal tickets noted below, these form part of The Mayor's Fares package.
- 3.7.3. **Capped under-22 single and all-day fares:** Cooperation with operators through the EP has allowed the introduction of a capped £1 single ticket for under-22s, as well as an all-day multi-operator £3 ticket. These products reduce the cost of travel for young people

and have seen strong uptake, with 31.9 million £1 single tickets and 2.9 million all-day tickets sold between their introduction in May / September 2023 respectively and July 2025. Commercial agreements between the MSA and operators reimburse operators for accepting these fares.

- 3.7.4. **All-day multi-operator and multi-modal tickets:** Also an intervention listed in the EP Scheme, passengers can purchase and travel using multi-operator tickets, with three adult tickets currently available: a Durham Day Rover (valid for journeys in County Durham), a Northumberland Day Rover (valid for journeys in Northumberland) and a North East-wide TNE Day Saver. TNE Day Saver tickets are also multi-modal, valid on the Tyne and Wear Metro, Shields Ferry and select local rail services. These tickets have also seen strong uptake, collectively being sold 2.4 million times since their introduction²⁴. Commercial agreements between the MSA and operators reimburse operators for accepting these fares.
- 3.7.5. **English National Concessionary Travel Scheme (ENCTS):** ENCTS provides free local bus travel after 9:30am to older people (state pension age and older) and eligible disabled people²⁵. It is a national scheme, administered locally by Nexus in Tyne and Wear and DCC and NCC in their respective areas. There are various local enhancements to the national offer, although these are specific to each administering authority and differ across the MSA area.
- 3.7.6. 30.5 million journeys were taken with an ENCTS pass in the North East in 2024/25²⁶, representing 26% of total patronage. Pre-pandemic, ENCTS averaged around 35% of total patronage. Operators are reimbursed for accepting ENCTS passes.
- 3.7.7. **Bus Service Operator Grant (BSOG):** BSOG is a grant paid to operators of eligible services and community transport organisations to help them recover some of their fuel costs. This is funded by central government. Nexus, DCC and NCC also each receive some BSOG payment, reflecting the amount paid to operators in 2012 as, from that date, operators could no longer claim BSOG for secured services.
- 3.7.8. **Secured services and home-to-school provision:** Nexus, DCC and NCC are responsible for contracting socially necessary but commercially unviable bus services (possibly including services to/from schools not served by the commercial network). The LA7 also each have an obligation to facilitate home-to-school travel for eligible children – options to fulfil this responsibility include by providing transport directly or providing a pass for use on existing services.

²⁴ As of July 2025.

²⁵ The national ENCTS scheme provides free travel on local bus services until 11 pm on weekdays. However, there are local enhancements to the national criteria in some parts of the North East that extends eligibility until the end of service each day.

²⁶ “[Bus statistics data tables: BUS01](#)”. Department for Transport. 2025.

- 3.7.9. **Zero emission vehicles:** Funding is being provided to operators by the MSA following successful funding bids to the Zero Emission Bus Regional Areas 2 (ZEBRA2) fund, Levelling Up Fund (LUF) to support operators' transition to zero-emission vehicles. 95 ZEBs have been acquired through these funding streams, joining 18 ZEBs previously acquired through the Ultra Low Emission Bus Scheme.
- 3.7.10. **Bus priority infrastructure:** The LA7 are the highways authorities for their respective areas and responsible for providing bus priority infrastructure (such as bus lanes, bus gates and other measures such as giving buses priority at traffic lights) to speed up buses and reduce the impact of traffic congestion on bus punctuality. There are various pieces of bus priority infrastructure across the region, mostly located in towns and cities as congestion is more prominent in these areas.
- 3.7.11. **Qualifying agreement:** Arriva, GNE and the North East JTC agreed and introduced a qualifying agreement (QA) – a legal instrument that allows for operator coordination on otherwise commercial decisions (such as service timings and frequencies) – on the A1058 Coast Road in March 2023. The Coast Road QA provided for standardised timetables between relevant GNE and Arriva services to provide even headways for passengers with reciprocal ticketing arrangements.

GNE subsequently withdrew from the QA with effect from March 2026, taking the view that the timetabling requirements “*made it difficult to reflect real traffic conditions or customer demand*” and required “*excess resource being deployed at times of low demand*”, that Newcastle City Council’s decision not to proceed with a previously planned bus priority scheme “*removed a key opportunity for improvement*”, with only a small proportion of passengers using through ticketing, “*likely because of the success of wider regional fare initiatives*”. GNE stated that the QA restricted their “*ability to optimise services and ticketing products commercially*”.

- 3.7.12. **Safety cooperation:** operators are responsible for safety on services, including responding to accidents or incidents. Northumbria Police convene a Safer Travel Group, which includes the Police and Crime Commissioner’s Office, Nexus and operators. This group shares information and intelligence, coordinates activity and deployments based on data/intelligence and an agreed strategy. The MSA has also commissioned a study into the safety concerns and barriers experienced by women and girls when using the region’s active travel and public transport network – this will propose a package of interventions to improve safety and security, which will be taken forward for delivery from 2027.

3.8. Risk and responsibilities

- 3.8.1. As detailed above, the clear majority of bus mileage in the North East is operated commercially, supplemented by a smaller proportion of mileage operating as secured services. Risk allocation and responsibilities for commercial services in the current market structure are summarised below.
- 3.8.2. **Revenue risk:** Operators hold direct revenue risk on their commercial services, as well as secured services with net cost contracts. Reductions in revenue will reduce the

profitability of such services for operators and can result in frequency reductions or service withdrawals. Withdrawn commercial services may, at the discretion of the contracting authority, be replaced by a secured service which requires some element of public subsidy – the public sector is indirectly exposed to revenue risk.

- 3.8.3. **Reputational risk:** Operators' vehicles are branded by the operator, and passengers will often access branded operator mobile apps while travelling, particularly on larger operators. Operators therefore carry reputational risk and face negative public sentiment when there are issues on the network. The public sector is not insulated from this, however, and can face criticism if issues are not resolved or if members of the public believe that the public sector exerts more control or influence over the bus network than is presently the case.
- 3.8.4. **Fares and ticketing:** The public sector has recently taken an increased role in fares and ticketing as discussed in 3.7. Operators remain responsible for devising and pricing their own fares and ticketing options and are required to do so under competition law; these products co-exist alongside the MSA-backed range. Operator products may have different eligibility criteria, areas where the ticket is valid or pricing structure, and different fares can be charged for a journey between the same two points where there are competing operators on that route.
- 3.8.5. Operators also work through Network Ticketing Ltd to offer products, mainly in Tyne and Wear, which are valid on all operators' bus services (including secured services) plus the Metro and Shields Ferry, as well as Northern rail services between Sunderland and Blaydon. The customer implications of this complex ticketing offer have been discussed in more detail in the strategic case (see section 5.3)
- 3.8.6. **Route design and timetabling:** Operators are responsible for designing the routes of their commercial services and the frequencies at which these will be served. Operators are required to consult with stakeholders prior to making changes but ultimately make the final decision on routes and frequencies.
- 3.8.7. **Employment of staff:** Operators provide all staff (whether directly employed or via an agency) required to run local bus services, including drivers, maintenance engineers and management staff. Staff are employed by Nexus, DCC and NCC to fulfil those organisations' functions, such as tendering for secured services and administering ENCTS. Staff are also employed by the MSA to oversee the EP and complete the Bus Reform Project.
- 3.8.8. **Registration of services and vehicles:** Operators are responsible for registering services and vehicles with the relevant regulatory body. Services must be registered with the Office of the Traffic Commissioner (following consultation requirements) when introduced, modified or cancelled. Vehicles must be registered with the Driver and Vehicle Licensing Agency (DVLA).
- 3.8.9. **Relationships with communities and passengers:** The EP includes a voluntary Code of Conduct which includes engagement with local elected members and communities affected by service changes, including through Local Bus Boards. Operators also build

relationships with communities and passengers through other engagement activity, such as attendance at family fun days and staff volunteering.

Key insights from this section	
Operators and market share	There is a diverse operator market in the region with three large operators and 19 SMOs with the large operators holding 98% of the total market share (by ridership) in the North East. SMOs operate 45% of registered secured services.
Commercial services and operator profitability	- Commercial services are operated by the three large operators and some of the region's SMOs with these services making up 87% of the total network mileage. There has been an approximate 31% decline in commercial network mileage since 2009/10. - Operator profit margins have historically averaged around 10% in the North East, with some variation between operators and years. Achieving this margin would require operators to seek increased public subsidy, implement network reductions, reduce overheads, increase fares, or by diversifying their operations.
Secured services	- LTAs can secure bus services where commercial provision is not viable. Secured services can be procured through two routes – competitive tendering and de minimis provision. - Contract lengths vary across the region (Nexus – typically one year, County Durham and Northumberland – typically four or five years). Authorities use a mix of gross cost and net cost contracts to contract secured services. - Secured services have an annual cost of approximately £32 million, covering both the costs of running the services and the operator's profit margin. - There has, however, been a 40% reduction in secured mileage operated across the North East since 2009/10. Local authorities in the region have been able to sustain a greater proportion of their secured service networks when compared to other regions in England outside London.

Fleet	- There are approximately 1,220 buses currently used as public service vehicles in the region. Operators are responsible for sourcing their fleet in the current market and largely determine the interior specification of their vehicles with this specification varying by operator and by route. - The North East bus fleet has an average age of 10.9 years, as of August 2025 which is slightly lower than the average age of buses in England outside of London (11.8 years). - A total of 113 electric buses are expected to be operational in the region by March 2026, meaning that approximately 10% of the region's buses will have been decarbonised by March 2026. Approximately 61% of the region's diesel bus fleet meets Euro VI emission standards.
Depots	All depots in the region are either owned or leased by the relevant operator. Registered local bus services are currently operated from 37 depots (28 - within the MSA area, 9 – outside the region). Depots significantly vary in size.
The EP	The North East JTC made an EP Plan and Scheme that took effect from 2 April 2023. The EP (through significant funds from BSIP and other funding streams) has brought improvements to passengers including reducing fares for young people; introducing multi-operator and multi-modal tickets; supporting the introduction of additional ZEBs; introducing new services and frequency enhancements on some existing services; and agreeing a bus passenger charter.
Existing public sector interventions	There are various public sector interventions that support the bus network. These include the range of The Mayor's Fares, concessionary travel for older and disabled people, and bus priority infrastructure that decreases journey times and improves punctuality and reliability.
Risk and responsibilities	- Operators hold direct revenue risk on their commercial services and on net-cost secured services. - Operators carry most of the reputational risk, but the public sector holds some reputational risk due to public perceptions about the level of current public sector influence. - Operators are legally responsible for setting their own fares and ticketing policies on their services with public sector recently taking an increased role in fares and ticketing through various schemes discussed above. - Operators design routes and service timetables. - Operators provide all staff required to run local bus services; some are directly employed by the operator while others are provided via an agency. - Operators are responsible for registering services and vehicles with the relevant regulatory body. - The EP has a voluntary Code of Conduct which includes consultation with communities affected by service changes

	through Local Bus Boards with the operators also being able to build relationships through any mechanisms that they see fit.

4. Commercial arrangements and assessment of the Enhanced Partnership

This section will:

- Describe the commercial arrangements under the EP and confirm that these represent a continuation to the status quo.
- Assess the current EP (the assessment reference case) against the six commercial objectives detailed in section 2.

4.1. Key features of the Enhanced Partnership

4.1.1. The North East EP was developed and agreed through extensive negotiation with operators. As described in the strategic case, the MSA engaged with operators to define the EP option for the assessment. No objections were received to using the current EP as the reference case with no additional improvements proposed by operators.

4.1.2. The EP option considered in this assessment is therefore a continuation of the EP currently in place over the full thirty-year appraisal period.

4.1.3. Key features of the commercial model of the EP include:

- Provision continues to be largely determined by commercial viability and decisions made by operators, including the size of the network and timetabling decisions. The public sector can procure mileage not provided commercially as a secured service.
- Operators control key revenue levers such as branding, marketing, fares and ticketing. There is room for public sector influence, such as significant recent public sector marketing initiatives, however most initiatives relating to these revenue levers are dependent on negotiation and agreement with operators – including reimbursement where necessary.
- Operators continue to source and provide fleet and depot sites, with the public sector partially subsidising the transition to a ZEB fleet through grant schemes, where agreeable with operators.

4.1.4. Subsequent sub-sections describe the commercial arrangements to allow comparison with the arrangements under the proposed franchising scheme set out in section 5. Appendix E provides a high-level side-by-side comparison of both models.

4.2. Asset strategy

Vehicle provision and specification

4.2.1. Operators are responsible for providing the vehicles required to run their registered services; these vehicles may be either owned or leased.

4.2.2. Operators are largely responsible for determining the specification of vehicles used on commercial services – including the emissions standards and on-board features such as

tables or leather seats. Vehicles must, however, be Euro VI compliant to enter the Newcastle CAZ without paying a charge of £50 per vehicle, per day.

- 4.2.3. Secured service contracts allow some level of specification, which must be balanced with allowing a sufficiently wide pool of operators and their vehicles to bid. For example, minimum emission standards and vehicle age limits are common in secured service contracts.
- 4.2.4. Further partnership working is required to complete decarbonisation of the region's bus fleet. This includes negotiating provision with operators, providing the necessary grant funding that partially bridges the higher up-front cost of ZEBs, and navigating complex subsidy control requirements.
- 4.2.5. The FSA assumes that the fleet decarbonisation will be the same under the EP and franchising, with the MSA funding part of the increased capital cost of ZEBs through a grant scheme²⁷. Achieving this under the EP depends on the willingness of operators to invest in fleet and provide part of the up-front capital cost, as well as reaching agreement with operators over the services to be decarbonised and the terms of Grant Funding Agreements (GFAs)

Depot provision

- 4.2.6. Depots are owned either by the relevant operators or are leased from a third party. Section 3.5 provides an overview of which operators use which site, and where they are located.
- 4.2.7. Decarbonisation of depot sites to enable ZEB operation will require the same negotiation, funding provision and navigation of complex subsidy control requirements as the decarbonisation of fleet outlined above.

Bus stations, stops and shelters

- 4.2.8. There are approximately 13,000 bus stations, stops and shelters in the North East; these have a range of ownership, management and funding structures across various private and public sector bodies. These arrangements will continue.
- 4.2.9. The EP commits to replacing 1,350 shelters with modern facilities including lighting, CCTV and high-quality pedestrian access. 240 shelters and stops with high demand will also be upgraded to a higher specification.

Bus Priority Infrastructure

- 4.2.10. The LA7 are responsible for planning and delivery of bus priority infrastructure as highways authorities. The FSA assumes that all bus priority schemes detailed in the LTP Delivery Plan are delivered by the relevant highways authority. These interventions can improve bus punctuality and reliability, helping to attract passengers to local bus services (thereby driving revenue for operators).

²⁷ Arrangements for this scheme are assumed to be akin to those for ZEBRA/LUF, in which the MSA (via transport funding from central government) provided up-to 75% of the capital cost difference between a ZEB and equivalent diesel vehicle.

- 4.2.11. Operators are responsible for reporting savings from commitments made in the EP Scheme and working with the public sector to reinvest those savings into the network.

Intelligent Transport Systems (ITS)

- 4.2.12. Operators hold responsibility for providing and maintaining most ITS used-on vehicles – including electronic ticketing machines, driver monitoring software, audio-visual announcements, driver communications and CCTV.
- 4.2.13. The exception to this is the automatic vehicle location chips funded by BSIP and owned by Newcastle City Council. These were installed on all buses in the region as part of a wider public sector-led project to upgrade real-time information and traffic signals to allow for bus prioritisation.
- 4.2.14. Operators independently determine which ITS technologies to use (providing it complies with any legal requirements). There are therefore differences in passenger-facing ITS, which include the QR codes used for multi-operator tickets not being readable on some operator's machines.

4.3. Passenger experience

Fares and ticketing

- 4.3.1. Operators determine the fares and ticketing offer for their commercial services – including products and prices – as ordinarily required by competition law²⁸. Public sector intervention in the fares and ticketing landscape is possible through introducing additional products and/or subsidising fares – such as the regional £2.50 fare cap – but these (including associated reimbursement mechanisms) must be agreed with operators through complex commercial negotiations.
- 4.3.2. 'Shadow fares' – based on pre-intervention commercial fares with inflation-linked increases baked-in – are used as the benchmark for operator reimbursement in these negotiations. It is difficult to ascertain whether the shadow fare is reflective of likely commercial fares without intervention, as there are a number of factors in play and the MSA does not have access to all operator data.
- 4.3.3. Operators also enter negotiations aware of the public commitments made by the MSA's political leadership, which affects the MSA's negotiating position as operators may judge that the political importance of interventions reduces the MSA's ability to challenge, or entirely walk away from, unfavourable commercial terms. It is difficult to have confidence that these arrangements deliver value for money.
- 4.3.4. Fares are assumed to increase at RPI+2% annually over the appraisal period, as operators seek to achieve target profit margins (as described in the financial case) through a combination of fare increases and network reductions.

²⁸ Competing operators are, however, able to collaborate on integrated ticketing via the Public Transport Ticketing Scheme Block Exemption.

Branding

- 4.3.5. Operators will hold responsibility for branding vehicles and operator-provided passenger information. Operator brand identities will sit alongside those of Nexus, local authorities, Traveline and Network One.
- 4.3.6. As discussed in the strategic case, a 'Travel North East' logo has been developed in line with the EP Scheme – which is expected to be applied to the EP website and application (discussed further at section 10.2 of the strategic case) once developed.
- 4.3.7. There are a number of competing brands present across the bus network, each with varying customer recognition and adding complexity from a user perspective. Although the 'Travel North East' logo will represent a consistent logo across operators, it will be one logo among many, and it does not deliver a consistent bus / public transport brand.

Marketing

- 4.3.8. Operators hold marketing responsibility, individually determining the extent of any activity undertaken in line with their own commercial priorities.
- 4.3.9. BSIP initiatives (such as fares interventions) have been marketed using BSIP funding, with 90% of this marketing spend to-date being used to advertise fares initiatives and the promoting the benefits of bus travel, with a small sum being used for service specific promotion of BSIP service initiatives as well as tourism initiatives (e.g. great scenic journeys).

Timetabling

- 4.3.10. Operators are responsible for designing their commercial timetables, and secured services will continue to be procured to specifications set by the contracting authority. Although it is theoretically possible to have some degree of control / specification over services and frequencies through an EP, this does not form part of the North East EP.

Passenger Information

- 4.3.11. Digital passenger information is provided by both operators and the public sector – including the assumed introduction of a dedicated website and app to provide network-wide ticketing, integrated journey planning information and real-time information.
- 4.3.12. This expected website and app supplements – rather than replaces – the existing operator offering, with the large operators and many small operators also promoting their own websites and apps which have journey planning information for their own services. There will therefore continue to be multiple different sources of digital information for passengers, with no single source of truth.
- 4.3.13. Nexus, DCC and NCC provide paper timetable information at bus stops in their respective areas²⁹.

²⁹ Nexus print paper timetable information for Northumberland through a contract with NCC.

4.4. Network

- 4.4.1. Operators are responsible for determining the size and shape of the commercial network – including deregistering services where these become commercially unviable.
- 4.4.2. Operators must comply with statutory deregistration periods and are assumed to continue to operate under the voluntary Code of Conduct agreed in the EP – including a level of engagement with Local Bus Boards. These provisions do not, however, change the ultimate decision-maker – with network reductions of 2% to 3% annually necessary over the appraisal period to reach and sustain expected profit margins.
- 4.4.3. Nexus, DCC and NCC are responsible for procuring socially necessary services where these are not provided as part of the commercial network. These organisations face social and reputational consequences if services are cancelled without replacement; it is likely that an increasing share of the network will need to be secured as commercial mileage shrinks.
- 4.4.4. Where contracts are let competitively, competition varies across the region. In Tyne and Wear, limited funding certainty means most contracts need to be let for a single year, meaning competition is modest as short terms make contracts less attractive to operators and reduce passenger confidence in the continuation of the service. Competition is healthier in County Durham (which lets longer contracts), with approximately six-to-eight bids per tender.
- 4.4.5. It should be noted that there are differences in the approach to how Nexus, DCC, and NCC allocate service support, with particular differences in the general provision of supported services, the extent to which home to school services are provided, and services on Boxing Day.
- 4.4.6. Some contracts are let on a de minimis basis which means, subject to a legal process and the standing orders of Nexus / the authority, these contracts are awarded directly to an operator without a competitive tender process.

4.5. Opportunities for SMO involvement

- 4.5.1. The MSA recognises that SMOs are often well-regarded by their passengers and make an important contribution to a healthy and competitive bus industry in the North East. As described at section 3.1.4, there are 19 SMOs operating local services which have a collective market share of around 2%, and SMOs also typically provide a range of other private hire work.
- 4.5.2. Secured service contracts are a common source of work for SMOs, with 16 SMOs operating secured service contracts as of 23 March 2025 (the network baseline date). SMOs operate approximately 54% of wholly secured services in the region.
- 4.5.3. Secured service contracts require SMOs to carry less risk than operating commercial services and typically require a small PVR – making them accessible to SMOs with smaller fleets. These contracts and arrangements have been designed by Nexus, DCC and NCC to

provide opportunities for small operators; SMO participation in the market for secured services is therefore healthy in part because the market has been designed that way.

4.5.4. SMO participation in the commercial market is more limited, with SMOs operating 14 out of the 111 wholly commercial services in the region.

4.6. Assessment against commercial objectives

4.6.1. The MSA has assessed the EP's ability to deliver the six commercial objectives established in section 2. This assessment is shown in Table 8 below.

4.6.2. Table 8 includes a brief narrative and RAG rating on how the achievement of each objective is impacted by the EP. The RAG ratings have the same meaning as those for the assessment of the proposed franchising scheme against the same commercial objectives in section 5.9:

- Green means there is a high potential that the relevant commercial objective could be achieved through the EP,
- Amber means the objective could be met under the EP but there are a number of challenges, and
- Red means that it is unlikely the objective would be met by the EP.

Table 8: Enhanced Partnership assessment against commercial objectives

Commercial objective	Ability of features to achieve objective	RAG
The public sector should be able to influence the bus network and the outcomes that it delivers for passengers	Public sector influence under the EP is limited; operators are the final decision-maker in most circumstances: • The size and shape of the commercial network is determined by operators and, while the EP commits to engagement with passengers and local politicians, the final decision remains with operators. Services secured by the public sector are typically reactive and largely “fill in the gaps” of the commercial network. • While improvements can be negotiated such as an EP website, app and logo this will add to existing provision rather than creating unified network branding and passenger information. • The EP has enabled fares interventions (via a Capped Fares Scheme), but such interventions depend on negotiated reimbursement mechanisms that likely do not offer value for money. Imbalanced negotiating positions and a lack of competition reduces the extent to which the public sector can influence these arrangements. • The regional bus fleet will continue to be determined primarily by operators. The public sector will work with operators to facilitate the transition to ZEBs, however this requires operator willingness to invest on commercial terms agreeable to the MSA and agreement on which routes ZEBs should serve.	
Ensure that any implementation and transition phases are timely, practical and sustainable, with limited disruption for passengers	As the EP is currently in place, there would not be a large-scale implementation and transition phase.	
Competition is stimulated	• Competition between operators is very limited in the North East; the Competition and Markets Authority (CMA), in their previous form as the Competition Commission, investigated local bus services and found that the nature of the deregulated market, particularly in the North East, limits the potential for operators to either enter the market, or for incumbent operators to expand³⁰. Factors that limit expansion include barriers to entry (such as access to depots and fleet), and high market concentration, and informal geographic market segregation, which can be found in the North East.	

³⁰ “[Local bus services market investigation](#)”. Competition Commission. 2011.

Commercial objective	Ability of features to achieve objective	RAG
	Large incumbent operators in the region rarely compete head-to-head, partly as doing so is costly for both. • The CMA also found that the lack of viable competitors to incumbent operators leads to adverse effects on competition, and consumer detriment in the form of higher fares, poorer service quality, and reduced innovation. • There has not been a substantial growth in competition since the CMA report noted above; as described in the strategic case, many communities across the North East are served by a single large operator – with on-road competition limited to key urban corridors. • Competition varies for secured service contracts, and these account for a limited proportion of the network compared to commercial services.	
Arrangements should achieve the best value for the public purse while balancing risk	It is difficult to ascertain whether the existing arrangements offer value for money, and while operators hold most risk in the first instance, the public sector remains directly and indirectly exposed to significant risk. • Fares interventions are reliant on complex commercial negotiations with operators to agree reimbursement mechanisms, with limited transparency once these mechanisms are operational. • Operators generally have a strong negotiating position as the MSA's political commitments are known, and this process lacks a mechanism to demonstrate value for money without competitive bidding. Value for money for secured services is also difficult to secure, as the services are those with lowest demand and farebox revenue; it is not possible for the public sector to cross-subsidise the network. • Revenue and reputational risks primarily sit with operators for commercial services, but the public sector is exposed to both – reductions in commercial mileage (in response to decreased revenue) generate pressure on the public sector to secure the service instead; meaning the public sector either pays the required subsidy or faces public complaints for allowing the service to be cancelled.	
Maintain opportunities for small-and-medium sized operators to access the North East bus market	The EP and wider deregulated market provide opportunities for SMOs, primarily in the form of secured services. • Secured service contracts are often of an appropriate scale and risk-profile for SMOs and provide a relatively steady source of income when compared to commercial services. A healthy SMO market is present for secured services. • Notwithstanding limited examples of SMO participation, the structure of the wider commercial market however is generally not conducive to new and expanding SMOs with high market concentration,	

Commercial objective	Ability of features to achieve objective	RAG
	barriers to entry and expansion (such as access to depot space, fleet, and staff), and geographic market segregation.	
Region-wide implementation	The EP covers the whole MSA geography and is already operational across the North East. • Urban areas are generally well-served by the commercial market, as there is sufficient demand for bus services to generate profits for operators. Secured services supplement this, particularly providing early morning, late evening and Sunday services. • Rural and coastal areas benefit from secured service provision, providing socially necessary connections in areas with few/no commercially viable routes. • There has, however, been a significant contraction in both the commercial and secured networks and these trends, if continued, will reduce access to the network across the region.	

4.6.3. As shown above, the commercial model for the EP is not consistently aligned to the six commercial objectives and the desired outcomes – a third of the objectives are rated red, one-third amber, and the remaining third green.

4.6.4. The EP performs strongly on some objectives, particularly holding risk primarily with the operators, its applicability across the region and avoiding a potentially disruptive transition and implementation period as the existing operational model in the region.

4.6.5. There are, however, significant weaknesses in the EP that inhibit its ability to deliver the desired commercial objectives and outcomes, and therefore, achieve the MSA's strategic aspirations. These include:

- Competition is limited under the EP, with little head-to-head competition for passengers.
- It is difficult to ascertain whether commercial arrangements in the EP (such as reimbursement for fares schemes) offer value for money in the absence of competitive tendering and comparatively strong operator negotiating positions.
- Public sector influence is limited under the EP as, while there are opportunities for consultation and negotiation, the final decision ultimately rests with operators. This means that the size and scale of the network is primarily driven by commercial decisions, and other interventions required to achieve the aspirations set out in the strategic case can only be delivered if operators agree.

Key insights from this section

- No objections were received from operators to using the current EP as the reference case in this FSA with no additional improvements proposed by operators.

Asset strategy

- Operators are responsible for sourcing and providing the fleet and depot sites (ZEB transition part-subsidised by public sector). Secured service contracts allow some level of specification which must be balanced with allowing a sufficiently wide pool of operators to bid for them.
- There are approximately 13,000 bus stations, stops and shelters in the North East; these have a range of ownership, management and funding structures across various private and public sector bodies. These arrangements will continue.
- The LA7 are responsible for planning and delivering bus priority infrastructure as highways authorities. Operators are responsible for reporting savings from commitments made in the EP Scheme and working with the public sector to reinvest those savings into the network.
- Operators also hold responsibility for providing and maintaining most ITS used-on vehicles (except for automatic vehicle location chips that are BSIP-funded).

Passenger experience	• Operators determine the fares and ticketing offer for their commercial services as required by competition law. The public sector has also worked with operators to introduce fares initiatives through the EP. These initiatives that have been introduced through negotiations with operators that have used inflation-linked 'shadow fares' as benchmarks to facilitate operator reimbursement. • Operators are responsible for branding their vehicles with their brands coexisting with those of Nexus, local authorities, Traveline and Network One. A 'Travel North East' logo has been developed in line with the EP Scheme which is expected to coexist with other brand logos and be applied to the EP website and app once created. • Operators hold marketing responsibility and determine the extent of their marketing activity. BSIP initiatives have been marketed using BSIP funding. • Operators are responsible for designing their commercial timetables, and secured services will continue to be procured to specifications set by the contracting authority. • Digital passenger information is provided by both operators and the public sector – including the assumed introduction of a dedicated website and app to provide network-wide ticketing, integrated journey planning information and real-time information. The public sector is responsible for providing paper timetable information at bus stops.
Network	• Local bus service provision continues to be largely determined by commercial viability and decisions made by operators. Operators are responsible for determining the size and shape of the commercial network. Nexus, DCC and NCC are responsible for procuring socially necessary services where these are not provided as part of the commercial network. • There are 19 SMOs operating local services which have a collective market share of around 2%, but SMOs also typically provide a range of other private hire work. • SMOs operate approximately 54% of wholly secured services in the region. SMO participation in the market for secured services is healthy in part because the market has been designed that way. • SMO participation in the commercial market is more limited, with SMOs operating 14 out of the 111 wholly commercial services in the region.
• Table 8 assesses the current EP against the commercial objectives. The commercial model for the EP is not consistently aligned to the six commercial objectives and the desired outcomes.	

5. Commercial assessment and proposed model for franchising

This section will:

- Detail the commercial model for the proposed franchising scheme including the local service contract structure, arrangements for risk allocation, the asset strategy, and procurement strategy.
- Assess the proposed franchising scheme against the six commercial objectives detailed in section 2.

5.1. Key features of the proposed franchising scheme's commercial model

5.1.1. As described in section 7 of the strategic case, the proposed franchising scheme will cover the MSA's whole area. TA2000 Section 123H(6) accordingly requires that the proposed franchising scheme revokes the North East EP Plan and Scheme.

5.1.2. Key features of the MSA's intended commercial model for franchising are:

- The public sector would control key revenue and patronage levers such as network design, branding, marketing, fares and ticketing. The MSA/DB³¹ will accordingly take revenue risk and procure local service contracts on a gross cost basis.
- The MSA/DB would acquire 'strategic' depots – sites located across the region and from which significant proportions of the North East network is operated – and lease these to operators as part of local service contracts. MSA/DB provision of strategic depots is intended to reduce barriers to entry and foster greater competition for contracts.
- Most services would be lotted into one of five large contract packages (each with a PVR between 110 and 200 and served by multiple strategic depots); around 85 services will be provided through small contracts. Local service contracts are expected to last for a maximum of seven-to-eight years in the steady-state, inclusive of a guaranteed period and extension exercisable at the MSA's discretion.
- Local service contracts would include a performance regime offering operators financial incentives or deductions for performance against operational and service quality benchmarks, including the punctuality and reliability of services.

5.1.3. Development of the MSA's intended commercial model has involved consideration of the six commercial objectives adopted in section 2 to develop a franchising model that, through the links articulated between the strategic and commercial objectives, is capable of delivering the outcomes identified in the strategic case.

5.1.4. Subsequent sub-sections define the MSA's intended commercial model for franchising in greater detail, including feedback received during the market testing exercise. Additional

³¹ For further information on the Delivery Body (DB), refer to the 'Transport authority – functional arrangements' section of the Assessment Framework.

analysis and testing of such analysis will be required in any transition period to provide the level of detail necessary to operationalise these principles.

5.2. Asset strategy

Vehicle provision and specification

- 5.2.1. The MSA's initial position on vehicle provision was to retain operator responsibility for providing vehicles, to an industry-standard specification set by the DB. This approach was intended to harness the significant commercial expertise in sourcing vehicles that operators hold. Operator provision was also seen to avoid complexities for the DB in assuring that assets were suitably maintained while leased to operators.
- 5.2.2. This analysis, however, also recognised that there are risks associated with operator fleet provision. These include the deliverability of this within the expected timescales, particularly availability of fleet with uncertainty over the size of the used diesel market and the absence of a second-hand market for ZEBs requiring the acquisition of brand-new buses (potentially advantaging incumbent operators with existing fleets in the region). Vehicles would not be fully depreciated over the life of a North East local service contract, also importing a risk around residual value/stranded assets (with potential impacts on price and competition for contracts).
- 5.2.3. Mixed views were received from the market on this approach to vehicle provision. Incumbents generally stated that they are content with the proposed model, but it was also raised that it may be preferable for incumbents to bid for contracts in other areas where fleet is provided.
- 5.2.4. All non-incumbent operators, however, stated a preference for the MSA/DB to provide vehicles rather than operators providing vehicles. Concerns were expressed that non-incumbents would not be able to provide fleet or would face significantly higher costs to do so. Many stated that a Residual Value Mechanism (RVM) would be necessary as a minimum for them to bid in an environment where operators provide vehicles.
- 5.2.5. Recognising the mixed feedback from the market, and complexity of vehicle provision arrangements, the MSA intends to undertake further analysis to determine whether an alternative approach to fleet is necessary. Additional work is required to consider the options fully, and the benefit of time will allow the MSA to gain a clearer picture on the market.
- 5.2.6. There are broadly three potential options available to the MSA/DB:
- **Retain the initially intended approach (operators provide vehicles).** The MSA retains its initial approach and expects operators to provide vehicles without an RVM. There is some market appetite for this approach among incumbents and avoids the need for DB oversight of vehicle maintenance but is likely to limit opportunities for market-entry among non-incumbents.
 - **Move to operators providing vehicles with an RVM.** Reflecting the views of non-incumbent operators expressed during market testing, the MSA modifies its

approach to include an RVM to improve competition and potential market entry. An RVM would offer operators the ability to add their fleet to a 'pool'. Fleet included would pass to a successor operator for its book value. This would prevent the need for new entrants to source new fleet, lowering a potential barrier to entry. It may also give operators greater confidence to invest in fleet, as it protects against the risk of being left with stranded assets which may be present at the end of a franchise contract.

- **Move to the DB providing fleet to operators.** The MSA alters its proposed approach to fleet provision – with vehicles acquired by the DB and leased to operators for the duration of the relevant local service contract. Such an approach would remove a potential barrier to entry but also remove a potential lever for competition. As noted above, this is likely to improve appetite to bid for local service contracts, particularly among non-incumbent operators.

5.2.7. A final position will be determined based on this additional analysis, but an assumed position is necessary for the purposes of the FSA. Feedback received during market testing is that operators are unlikely to accept an operator-ownership model without an RVM but – while they would prefer DB ownership – see operator-ownership with an RVM as a viable option. This approach retains the principles of the initially preferred operator-ownership approach and is the assumed approach for the FSA.

5.2.8. Vehicles (whether provided by operators or the DB) will, however, need to comply with a specification set by the DB – this specification may include both general requirements for all vehicles and additional requirements for specific routes. Some DB specification is necessary in order to avoid a deterioration in vehicle standards but over-specification risks reducing the pool of vehicles available – in turn likely increasing costs to the DB.

5.2.9. Vehicle specification is therefore intended to align to existing industry standards and will be informed by existing requirements set by DCC/NCC/Nexus in secured service contracts and the existing fleet operating commercial services. A detailed specification, including any service-or-route-specific requirements, will be provided as part of the tendering process (if an operator-provided fleet model is preferred) or developed for the DB to procure vehicles (if a DB-provided fleet model is preferred).

5.2.10. Vehicle costs are therefore likely to be similar under each of the different options for fleet provision outlined above, as the underlying specification is assumed to be the same. Although there are potential advantages to each approach (operators achieving greater economies of scale on large vehicle orders and the generally cheaper access to capital financing available to the public sector), the bulk of the cost remains driven by the vehicles specified. Adopting a different approach to vehicle provision is therefore unlikely to materially increase the costs involved or alter the current VfM statement in the economic case.

5.2.11. As discussed in the strategic case, decarbonisation of the North East bus fleet is ongoing. The MSA retains its target to decarbonise the fleet by 2035 while recognising the financial and operational complexities involved, and the substantial uncertainty around future

technological advances and cost equalisation. Decarbonisation efforts would continue under franchising; the FSA assumes the same transition profile under both franchising and the EP.

- 5.2.12. The DB would be able to specify that particular services must be operated with ZEBs (either from the commencement of a contract, or from a date during the contract)³²; either providing the necessary vehicles from this date or expecting operators to source them (depending on which approach to vehicle provision is ultimately adopted). Depot sites would need to be configured to allow for the charging of ZEBs to allow ZEBs to be specified.
- 5.2.13. Decarbonisation remains an evolving area; the MSA/DB will continue to consider opportunities to support the decarbonisation of the fleet and achieve its aspirations.
- 5.2.14. Although no significant changes to the fleet specification are immediately proposed with the FSA assuming an industry-standard specification, the ability for the MSA/DB to specify requirements – rather than negotiating these - does provide additional influence that could contribute to achieving future strategic priorities.

Depot provision

- 5.2.15. Access to a depot site is essential to provide bus services. Establishing a new depot site is, however, a costly and time-consuming process that requires land of a sufficient size close to the intended routes to be identified and purchased, planning permission granted and facilities constructed. This is especially challenging and costly in urban areas where available land is limited. Depots would also become a stranded asset if an operator lost the relevant contract – even if they won another package elsewhere in the region.
- 5.2.16. Requiring operators to provide depots therefore represents a considerable barrier to entry which would likely deter non-incumbent operators from bidding for contracts and incumbent operators from bidding for contracts outside their existing operating areas – a heightened risk in the North East as the positioning of depot sites leaves little overlap that would allow multiple organisations to bid from existing sites. Such limited competition is likely to increase costs to the MSA/DB, in turn limiting the improvements that can be delivered for passengers with the same quantum of funding.
- 5.2.17. The MSA therefore proposes that the public sector will acquire and provide depot sites that are deemed strategic to the bus network ('strategic depots'). These would be let to the successful operator as part of the relevant local service contract and returned to the public sector at the expiry of that contract. This approach will foster competition and reduce barriers to entry.
- 5.2.18. Operators will be responsible for day-to-day management and maintenance of strategic depot sites, with the DB responsible for major capital renewal / upgrades. The definition of "day-to-day" maintenance and its specification will be carefully considered during

³² Either an individual service, or combination of services where those are interworked with the same vehicles.

contract development, to ensure expectations are proportionate to the length of a local service contract.

5.2.19. As discussed further in section 5.6, most services will be packaged into large-sized contracts each focused around multiple strategic depots; a smaller number of services will be let as individual small contracts, with the opportunity for group bids.

5.2.20. Potential strategically important existing depot sites have been identified using the below criteria:

- The volume and commercial nature of services delivered from the respective depot is such that it is considered operationally efficient to group these services together into a single contract.
- Continued ownership of the identified depot site by a private sector incumbent would likely give competitive advantage and create a barrier to entry for potential competitors.
- Informal consultation and feedback from other areas progressing franchising has highlighted a concern on behalf of employees regarding scope for franchising to lead to an unacceptable change to their place of work – packaging contracts based on depots (with the largest depots having the largest number of employees) will mitigate this risk and will help facilitate smoother TUPE transfers.

5.2.21. Application of these criteria identified 12 depot sites with strategic importance for the region's bus network. Desktop valuations for these sites were sought for the purposes of financial modelling. In line with the aspiration to provide strategic depots to the operators of relevant local service contracts, the MSA's initial proposal is to acquire these depots.

5.2.22. Table 9 below lists the 12 strategic depot sites which the MSA believes it would be advantageous to purchase.

5.2.23. Figure 8, located in the packaging strategy section, displays these sites on a map.

Table 9: Intended strategic depot acquisitions

Depot	Operator	Local authority area
Ashington	Arriva	Northumberland
Blyth	Arriva	Northumberland
Consett	Go North East	County Durham
Deptford	Go North East	Sunderland
Durham	Arriva	County Durham
Percy Main	Go North East	North Tyneside
Riverside	Go North East	Gateshead
Slatyford	Stagecoach	Newcastle
South Shields	Stagecoach	South Tyneside
Sunderland	Stagecoach	Sunderland
Walkergate	Stagecoach	Newcastle
Washington	Go North East	Sunderland

- 5.2.24. The MSA/DB will undertake further analysis of individual depot sites and the options for depot provision during the transition period.
- 5.2.25. Negotiation with the existing owner (in most cases, an incumbent operator) would be required for the MSA/DB to purchase these sites for use under franchising. These negotiations would be voluntary, and the experience of Greater Manchester suggests that depot acquisition has been possible through voluntary negotiation.
- 5.2.26. There is, however, a risk that voluntary acquisition of (a) depot site(s) is not possible. Contingency plans will be developed concurrently with voluntary negotiations for the transition to franchising; these may include utilising a compulsory purchase order to purchase land in the public interest for a fair value, or identifying and constructing a new depot site to replace the un-acquirable strategic depot (which would include navigating the challenges described at 5.2.15).
- 5.2.27. The DB does not intend to, however, provide depots for smaller contracts. Smaller contracts will require a significantly smaller amount of land (and therefore a more easily located site) compared to strategic depots, with a number of smaller depot sites already located across the region. The MSA does not therefore believe that operator provision of small depot sites represents the same barrier to market participation as operator provision of large depot sites.
- 5.2.28. Operators will remain responsible for sourcing and providing a suitable depot for these smaller contracts. The MSA would not mandate any transfer arrangements for these sites, as they are not part of local service contracts and operators may use them for other types of work (such as coach businesses). Any transfer of small depot sites between contracts would be a commercial matter for operators to negotiate independently. Arrangements for charging infrastructure at such depots, or potential alternate arrangements, will be considered as part of separate plans for decarbonisation of the region's network.
- 5.2.29. As discussed in section 3.4.6 above, decarbonisation of the North East bus fleet is in progress and will continue under franchising. Fleet decarbonisation will also require upgrades to depot sites – as has occurred at some sites already (section 3.5.9) – to provide a suitable grid connection and install vehicle charging points; it is also possible that some existing sites are not able to be feasibly decarbonised, this would affect the desirability of acquiring such a site for the MSA.
- 5.2.30. An exercise to identify the decarbonisation potential of depot sites will be necessary under both the EP and franchising options. Such an exercise sits separately to this assessment but will inform whether acquisition of particular depots by the public sector is compatible with the long-term direction of travel to decarbonisation.
- 5.2.31. Although the preferred approach is to acquire existing depots as part of the transition to franchising to reduce risk and avoid change to employee workplaces, a longer-term depot strategy requires development to set the future vision for depot provision in the region. This could include provision of new depot sites (in more optimal locations, if identifiable and

feasible) and disposal of existing depots (for example, due to age, condition or limited decarbonisation potential).

- 5.2.32. This long-term strategy requires development prior to confirming the list of strategic depots and making commitments to purchase, as the MSA/DB will need to consider an exit strategy to obtain best value if it anticipates future disposal of a depot it wishes to acquire. This is particularly important as not all depot sites will be suitable for an alternative use, and/or will have excessive remediation costs.
- 5.2.33. Acquisition of the existing depot sites is the most feasible approach to transition to franchising and, subject to negotiations and suitable exit strategies, the MSA/DB will seek to purchase these sites, while undertaking longer-term planning. Costs have been incorporated into the financial modelling to reflect these acquisitions.
- 5.2.34. Operator responses during market testing generally supported the MSA's intended approach to both depot provision and depot maintenance arrangements. Multiple non-incumbent operators stated that it was unlikely they would bid for large-sized local service contracts if depot sites were not provided by the DB. Although there was a clear general preference for DB provision of depots, one operator expressed a preference for depots to be provided by operators.

Bus stations, stops and shelters

- 5.2.35. The FSA does not propose a change to ownership and management arrangements for most bus stations, stops and shelters as part of the transition to franchising.
- 5.2.36. Bus stations are owned and managed by the respective local authority, Nexus or a commercial owner (such as shopping centres). Shelters are funded and maintained by the respective local authority or parish council, while a number of different town, parish, metropolitan and county councils as well as other public and private sector bodies own the region's approximately 13,000 bus stops. Transferring ownership of any of these to the DB would likely require negotiation with existing owners but have little tangible benefit for passengers.
- 5.2.37. The MSA has identified three sites where bus operators own the station building or manage the station on behalf of the owner. The DB will further evaluate the implications of such operator ownership/management arrangements and the desirability of assuming these responsibilities at the relevant sites at a later date, but no change is assumed in the assessment.

ITS

- 5.2.38. ITS covers a range of systems with different purposes and impacts on the passenger experience – it is not appropriate to adopt a single approach to all ITS. The MSA has considered the following systems in developing its approach to ITS:
- **Automatic vehicle location (AVL):** On-board systems that monitor and report bus locations in real-time, supporting priority infrastructure, service management and passenger information.

- **Audio-visual announcements (AVA):** Provides on-board next-stop (and potentially other information) through audio messages and display screens.
- **Closed-circuit television (CCTV):** Records video footage on and around buses to enhance perceived passenger safety, deter crime and provide evidence in incidents.
- **Driver communications:** Enables contact between drivers and control centres for operational updates and emergency support.
- **Driver monitoring software:** Tracks driver behaviour (such as speed and braking) to improve safety, efficiency and passenger comfort.
- **Electronic Ticket Machines (ETMs):** Devices that issue, validate and record tickets and smartcard payments.
- **Wi-Fi:** Provides on-board internet access for passengers.

5.2.39. A hybrid approach is proposed to the ownership and specification of ITS, in which passenger facing systems will be subject to greater specification (and in some cases, ownership) by the DB while other systems will have a lesser level of specification and will remain the responsibility of operators.

5.2.40. There are broadly three approaches available for the level of specification that the DB would set for each system. Key to this decision is consideration of whether the current technology on buses will be sufficient, or whether there is merit to requiring new systems to be purchased and installed (the cost of which would necessarily be priced-into bids for local service contracts).

- **Detailed specification:** the DB would specify which technology needs to be procured and installed on vehicles. This can ensure a consistent customer experience and consistent data across the network but carries a higher cost.
- **Integration:** the DB would be agnostic on which technology is used but would require that the operator's chosen solution integrates with other ITS and fulfils minimum outputs.
- **High-level:** the DB would be agnostic on which technology is used, provided the operator's chosen solution fulfils minimum outputs specified by the DB. It is assumed that this specification would initially reflect existing ITS capabilities and not require upgrades to existing technology,

5.2.41. A similar decision is required on whether each ITS will be owned by the DB or by the operator. There are broadly two options available:

- **Operators own all ITS equipment:** the DB would specify standards for ITS and operators would provide, install and run ITS equipment that meets this specification.

- **DB ownership of strategic ITS, operator ownership of other systems.** Strategic ITS are the systems with the greatest impact on the passenger experience, and for which the DB has determined a detailed specification is desirable.

5.2.42. Operator ownership of all ITS avoids up-front costs for the DB (although these would be met through increased contract fees instead) and potentially takes advantage of greater operator experience in procuring ITS. Operator ownership, however, also risks discouraging market entry, deterring investment due to the risk of stranded assets, and may be advantaging incumbents who already own required systems (or who would after the first contract).

5.2.43. DB ownership of strategic assets offers the ability to provide consistency of data, and through this a consistent customer experience and passenger information offer, as well as lowering potential barriers to entry and facilitating competition for both the first and subsequent rounds). Challenges, however, include the high upfront cost (and need to acquire for the whole fleet, whereas operators would only need to acquire if not present on their vehicles), agreeing responsibilities with operators around maintenance of DB-owned assets, and the need for the DB to run a procurement process to find a provider that meets the required specification.

5.2.44. Table 10 below summarises the specification and ownership positions that the MSA proposes for each ITS. Subsequent paragraphs provide additional justification for the positions reached. Some positions interlink with other commercial considerations and will therefore be subject to further analysis and decisions taken in the transition process ahead of procurement.

Table 10: Proposed approach to ITS under franchising

ITS	Specification	Ownership
ETMs	Detailed – DB specifies which system should be installed on board.	DB
AVL	Detailed – DB specifies which system should be installed on board.	DB
AVA	Integration – rather than specify specific system, DB will specify that technology integrates with ETM, AVL and other tech.	Operator
Driver communications	Integration.	Operator
Wi-Fi	High level – output-based specification where required	Operator
Driver monitoring software	High level – output-based specification only.	Operator
CCTV	High level – output-based specification only.	Operator

5.2.45. **ETMs:** It is important that the ETM is capable of handling all MSA ticketing products and providing a similar customer experience when using these products across all vehicles. It

is also important that the DB's back-office systems are fed consistent revenue and patronage data across the network by ETMs, in order to fulfil its responsibilities including network planning and fares and ticketing. Retaining ETMs as an operator responsibility may present interoperability challenges for passengers (e.g. if tickets issued by one operator's machine could not be read by another machine elsewhere on the network) and risk different data feeds for some parts of the network.

- 5.2.46. The MSA's initial position was for ETMs to be owned by operators but subject to a detailed specification from the DB, to provide consistent data to the DB and ensure the ETMs handle the full range of ticketing products. Market testing, however, revealed a clear market preference for ETMs to be owned by the DB, which reflects the approach taken in other areas pursuing franchising. Operators stated that such an approach would allow for smoother integration with MSA/DB-owned fare products and provide consistent data to the MSA/DB.
- 5.2.47. Further consideration of the full implications of DB ownership, including contract management and risk, will need consideration for transition and implementation, but the FSA assumes that ETMs will be owned and procured by the DB to its specification, with operators required to install and use these systems.
- 5.2.48. This represents a relatively small change from the original commercial model, as a detailed specification was required to ensure integration (which may have limited operator's choice in which systems to procure). Cost implications to the DB are likely to be similar as, under the previous approach, ETMs that did not meet the detailed specification would need to be replaced by operators, the cost of which would be passed on via the contract price.
- 5.2.49. **AVL:** The DB will also be responsible for network planning, operational performance, real-time network management and passenger information. Market testing and engagement exercises in other MSAs have revealed a strong preference for a consistent AVL system across the region to provide consistent data for performance monitoring; a single system would also ensure a consistent experience for passengers accessing real-time information.
- 5.2.50. Newcastle City Council currently owns the existing AVL chips installed on c. 1,200 buses in the region, which can measure vehicle locations with sub-three metre accuracy. The DB would therefore specify installation of the chips already owned by Newcastle City Council in the winning bidders' fleets.
- 5.2.51. **AVA:** All non-heritage buses are required to have this technology and incumbent operators have indicated that this system is already present on their buses. Requiring this technology to be present on all buses should therefore not present a cost difference, relative to the EP. A single system may provide for a consistent customer experience, but the benefits of this are likely outweighed by the cost and complexity of acquiring new AVA systems and having them installed on operator vehicles.
- 5.2.52. **Driver communications:** There could be potential benefits to commonality across the network to support performance management, safety requirements and enable multi-

operator coordination from the DB control centre. There is, however, relatively costly infrastructure associated with these systems – an integration specification which specifies minimum outputs and integration with other systems (e.g. ETMs) is therefore deemed sufficient.

5.2.53. **Wi-Fi:** Providing Wi-Fi on buses is costly and may not represent VfM, particularly on shorter routes where passengers generally do not choose to connect to Wi-Fi and instead use their mobile data. It is assumed that there is a high-level output-based specification reflecting the status quo that Wi-Fi is only available on some services - particularly long-distance services. No difference to this status quo is assumed.

5.2.54. **Driver monitoring:** There would be limited benefits to expansive DB specification, as the operational performance regime is not assumed to include metrics that would require the DB to access data collected by driver monitoring software. A high-level specification avoids the cost of new systems and operators would remain incentivised to consider the outputs of this software to control their costs (e.g. encouraging gentler braking which is more fuel efficient, reducing costs on parts, maintenance and fuel).

5.2.55. **CCTV:** As with driver monitoring software, there is limited benefit to be gained by greater specification from the DB. Operators hold safety responsibility and would be responsible for managing any claims in a franchising scenario. A high-level, output-based approach with minimum requirements that reflect the status quo also avoids the cost of new systems.

5.3. Passenger experience

Fares and ticketing

5.3.1. Public sector control of fares and ticketing allows it to deliver interventions without (often complex) commercial negotiations. Informed by these considerations and the policy aspirations in the LTP, responsibility for fares and ticketing will transfer to the public sector under franchising.

5.3.2. The DB will determine the products to be sold across the network and propose prices for such products, subject to approval by the MSA Cabinet due to the relationship between fares and public finances, including the amount of subsidy required from the public sector.

5.3.3. As discussed in the strategic case, the MSA is currently developing a long-term fares and ticketing ambition; this is mode-agnostic but will set the direction of travel up-to the introduction of franchised bus services.

5.3.4. A detailed proposal for fares and ticketing products under franchising will be developed ahead of franchised services being introduced, informed by the fares and ticketing ambition presented to Cabinet in March 2026, the financial position of the MSA, contemporary data and any other necessary considerations. Cabinet will ultimately determine the fare levels and strategic priorities; the LA7 will therefore hold significant influence as the MSA's constituent authorities whose leaders comprise Cabinet alongside the Mayor. Fares and ticketing under franchising is, however, currently expected to include the following:

- Fares and ticketing arrangements for local bus services will include an integrated and multi-modal offering (such as daily and weekly caps as described in the strategic case), in line with the policy direction in the LTP that passengers should be able to seamlessly move between modes.
- Adult single fares will operate on a simple zonal system.
- A daily and weekly capping system would simplify the ticketing landscape for passengers, replacing the complex range of period tickets currently available.

5.3.5. Keeping travel affordable for children and young people will continue to be a priority for the MSA to achieve its strategic ambitions on child poverty. The £1 single and £3 all-day under-22 tickets will be retained under franchising. As described in the strategic case, providing free travel for under-18s is a further investment opportunity possible under franchising – but this is not appraised as part of the franchising model in this assessment.

5.3.6. The MSA is assumed to provide the requisite investment to avoid above-inflation (RPI) increases to adult single fares for an initial ten years under franchising.

5.3.7. Passengers are initially assumed to be able to purchase products on-bus via a Pop card (which will include smart capping), a debit or credit card, or cash when boarding. Off-bus ticketing purchases would also be possible via a mobile app as outlined in section 5.3.23. Payment methods available in the future will be determined by the MSA/DB as technology and customer preferences evolve.

5.3.8. The MSA/DB would use its control over fares and ticketing to respond to evolving passenger needs and priorities, including considering the costs of modal competitors such as petrol/diesel and parking costs for car users, to continue to position bus as an attractive and simple choice as part of a wider integrated public transport network.

As discussed in the strategic case, discretionary enhancements to the ENCTS offer are inconsistent across the North East. A review will take place at a later date to investigate harmonising these enhancements for concessionary passholders. It would, however, likely be easier to harmonise concessionary enhancements under franchising as – given the MSA holds revenue risk – there would be no need to negotiate arrangements with operators. ENCTS harmonisation is therefore a future investment opportunity under franchising.

5.3.9. The case for change in the strategic case identifies how a complex and fragmented ticketing offering with limited multi-modal and multi-operator integration can confuse and put passengers off using the network. Through the interventions described above, the fares and ticketing offering will be significantly simplified and integrated into the Angel Network, supporting the achievement of the MSA's strategic aspirations.

5.3.10. Operators agreed that it was sensible for the MSA/DB to determine fares and ticketing products in an environment where the MSA/DB takes revenue risk during the market testing exercise.

Branding

- 5.3.11. Franchised bus services would be a critical part of an integrated transport network; the MSA intends to specify that franchised services will carry the Angel Network branding, the design of which will be developed separately to the FSA.
- 5.3.12. Such branding is assumed to be applied to bus liveries, physical infrastructure such as bus stop flags and paper information such as timetables located at bus stops.
- 5.3.13. Delivery of consistent and cohesive branding across the public transport network – including on services, stops and stations is one of the policy objectives identified in the LTP (as discussed further in the strategic case). Transferring responsibility for branding to the MSA/DB enables a consistent and cohesive Angel Network brand to be specified across the franchised network.
- 5.3.14. A well-defined brand tells audiences (such as passengers and potential passengers) what the network is, what makes it distinctive and what to expect. Applying the same brand across the transport network – while retaining existing strong brands such as Metro – will communicate the integrated and joined-up nature of the whole transport network to the public. This could also include route-based branding (i.e. for park and ride, or specific tourist routes).
- 5.3.15. Placement will be determined when designing the integrated transport brand and the standard bus livery, but the livery will likely include a designated space where the operator logo can be placed – as is the case in London. Operators will also remain responsible for providing driver uniforms, reflecting their existing responsibility for this and relationships with trade unions – the DB may specify a minimum standard and provide some items that communicate the driver’s role in the integrated network (e.g. a pin that can be worn).
- 5.3.16. These retained responsibilities for operator branding draw on their existing operational expertise and communicate to the public that both the public and private sectors are responsible for running local bus services.
- 5.3.17. Operator-provided vehicles would need to have the Angel Network livery applied. Given the scale of re-liveries required, some buses would need to operate without this livery applied initially. Options to convey that these services are part of the integrated transport network will be considered for implementation. This would also be required at each re-procurement round, although the scale may reduce as some contracts may be won by those already operating franchised services and whose vehicles would already have the specified branding.
- 5.3.18. Operators will have day-to-day control of buses and depot sites; it is therefore most appropriate for operators to take responsibility for coordinating the re-livery process for their fleet. The DB would set a realistic and carefully considered deadline for the completion of the fleet re-livery process by operators.
- 5.3.19. As described in section 2.1 of the strategic case, the LTP includes a policy aim to deliver a “*clear look and feel of the network*” through a “*consistent and cohesive*” brand, but section 4.3 of the commercial case notes that operators’ existing brand identities would

continue to apply under the EP. The interventions described under franchising in this section facilitate the implementation of the MSA's LTP policies.

- 5.3.20. There was general agreement during market testing that it was sensible for buses to carry the Angel Network branding with an operator sub-brand identity. Operators highlighted practical considerations in brand design and procurement such as ensuring the branding is suitably maintainable and clarifying any staff uniform standards at an early stage.

Marketing

- 5.3.21. As discussed further in sections 5.5.26 - 5.5.35, the public sector control over key revenue levers such as brand and fares and ticketing effectively requires the DB to assume revenue risk.
- 5.3.22. Marketing is also an important tool to drive patronage by advertising the bus network and its offer to prospective passengers. Operators would not be incentivised to heavily market the franchised network without sharing potential revenues; it is therefore most appropriate for the DB to assume responsibility for marketing as the body carrying revenue risk.
- 5.3.23. DB control of marketing would include a single website, app and social media accounts (as discussed further around section 5.3.35) that would simplify communications with customers to promote campaigns and provide a single source of information at times of disruption.
- 5.3.24. Marketing campaigns would be developed for the launch of franchised services to advertise to the public that change has taken place and communicate what they can expect from reformed bus services. Other campaigns would be developed on an ongoing basis, which could include region-wide campaigns or more targeted activity such as similar campaigns to current schemes promoting tourist attractions.
- 5.3.25. The DB will own marketing activity but there may be opportunities to collaborate with operators on some marketing – such as drawing on the local expertise of smaller operators. The DB will consider such activity as part of developing its wider marketing campaigns. Marketing campaigns may also reflect the role of the MSA as the funder and commissioner of the local bus network.
- 5.3.26. Unified marketing activity – aligned to the Angel Network brand – will further promote a strong identity for the network and promote public transport as an attractive travel choice. This complements the other interventions described in this section, particularly the simplified fares and ticketing offer, by communicating these to passengers.

Timetabling

- 5.3.27. There are two broad approaches to timetabling, offering different levels of control to the DB or operators and differing complexity in assessing bids. These are:
- **Operator-led, with parameters set by the DB:** Operators design timetables to parameters set by the DB. Such an approach could utilise operators existing expertise and institutional knowledge in timetabling while allowing for DB

influence and modal integration via parameters but would require validation and assessing at bid stage.

- **DB-led, with potential operator input:** The DB designs timetables and includes these in the procurement documentation; similar to the approach taken for many secured services. Potential opportunities for operator input could be included in the process, allowing for some flexibility and negotiation on the DB-provided timetables.

5.3.28. The MSA initially intended for timetables for large-sized contracts to be developed by operators to parameters set by the DB. These parameters were intended to be limited and focused on ‘red line’ requirements to maximise space for market input, with potential parameters including first and last bus times, frequency and key interchange timings.

5.3.29. Reflecting that large and smaller operators are likely to have differing capacity for timetable development, and the MSA’s desire for local service contracts to be accessible to SMOs, a DB-led approach was assumed for small contracts.

5.3.30. Mixed responses were received to this approach during market testing, with some operators indicating a preference for the DB to provide timetables for large contracts to allow for accurate evaluation of bids. Operator responses were largely equally split on whether an operator-led or DB-led approach is preferable, although the majority wished for some operator input into timetabling.

5.3.31. Further consideration is therefore required to determine and define the approach taken, but any change is assumed to have a minor impact on the assessment as the financial implication would be limited.

5.3.32. Both possible approaches allow for greater integration – either bus-to-bus or between bus and other modes, in line with the LTP’s position that timetables should be “*well-coordinated*” so that services “*complement each other and enable seamless and smooth transfer from one type of transport to the next*”. This could be achieved though setting relevant parameters (e.g. timings at key interchanges) for operators to factor into timetable design, or the DB considering such requirements during its own timetable development process.

Passenger information

5.3.33. Passengers receive information about bus services through several different channels – these include operator websites and applications, customer contact centres, social media as well as physical and digital information at bus stops and stations.

5.3.34. Many of these channels are controlled by operators in the status quo. Aligned to the desire to reduce complexity and create a single source of truth for bus passengers, the DB will assume the passenger information responsibilities currently exercised by operators.

5.3.35. The DB will develop an application and website to provide passenger information across the integrated transport network. It is anticipated that the functionality would include merchandising, real-time information and journey planning. This application and website

would supersede the passenger information functionality of operators' existing applications and websites³³.

- 5.3.36. Providing passenger information across the integrated transport network through a single application and website is intended to, alongside other measures, support integration between buses and other modes of transport by providing a single source of truth and removing the need for passengers to navigate different applications for each mode for ticketing, real-time information and journey planning when making multi-modal journeys.
- 5.3.37. Customers may wish to contact the DB with queries – such as the validity of ticketing products, issues using products / seeking refunds or providing feedback (both positive and negative) on their experience. The DB would host a customer contact centre to respond to such queries across the wider integrated transport network.
- 5.3.38. Messaging during disruption would also sit with the DB. Local authorities and operators are expected to inform the DB of any planned or unplanned disruptions (such as diversions or cancellations). The DB would communicate such information to passengers through channels such as its website, application and social media feeds, alongside mitigations for passengers as necessary. Digital customer information officers will coordinate with relevant regional organisations, such as the UTMC to provide live updates to passengers in times of disruption. Such an approach provides a recognised single source of truth for passengers to turn to in times of disruption.
- 5.3.39. Channelling lost property queries directly through operators is unlikely to be viable as many passengers may not reliably identify which operator runs a particular service. Lost property queries are therefore likely to be submitted to the DB contact centre which would liaise with the relevant depot on the passenger's behalf.
- 5.3.40. Existing public sector responsibilities around paper and digital information at bus stops are expected to continue along the status quo. There is not expected to be a difference compared to the EP around the level of paper and digital information provided at individual stops.
- 5.3.41. Fragmented journey planning information is identified as an argument for change in the strategic case, with *“inconsistent standards and a frustrating lack of integration for passengers”* – including the lack of a single source of truth and the need to switch between multiple apps or websites to be confident about information. Introducing a single source of truth – branded and marketed as part of the Angel Network – builds passenger confidence in using the network and supports the delivery of a network that works for all.

5.4. Network

Franchised services

³³ Operators are likely to retain local websites for other purposes, such as staff recruitment.

- 5.4.1. As stated in the strategic case, the MSA's proposed franchising scheme covers the MSA's whole geography and will include the clear majority of registered local bus services currently operating in the North East.
- 5.4.2. Most services across the commercial and secured networks are therefore in-scope for the proposed franchising scheme. There are, however, several categories of service where inclusion in the franchising scheme is not desirable and/or feasible.
- 5.4.3. Technical officers from Nexus, DCC and NCC have considered each of these service categories over the course of the assessment to develop a proposed scope for the franchising network. Services can either be included in the scope of the franchising scheme (meaning it will be contracted by the DB), subject to a service permit (which the DB will attach conditions to) or exempted from the scheme entirely³⁴ (allowing these services or categories of service to operate as present outside the scheme).
- 5.4.4. While franchising represents an opportunity to harmonise the approach to how Nexus, DCC, and NCC allocate service support, the costs and requirements of doing so are beyond the scope of this assessment.
- 5.4.5. Proposals for each category of service are set out in the sections below.

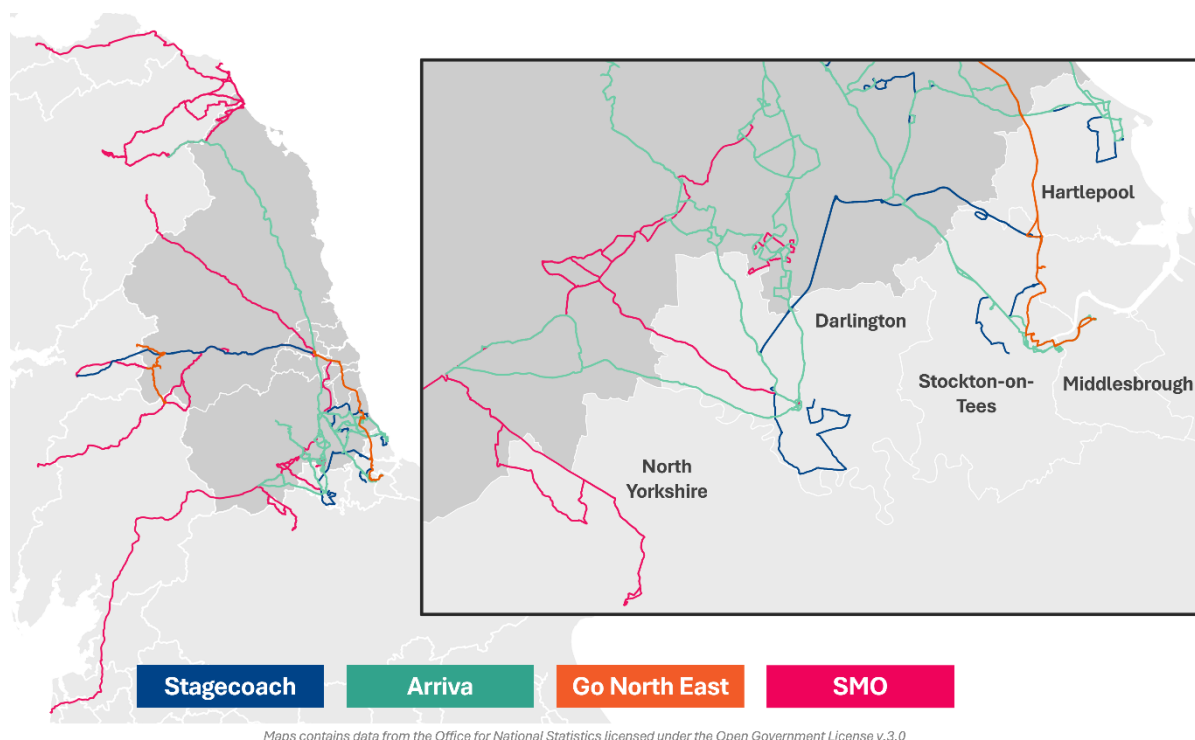
Approach to cross-boundary services

- 5.4.6. The MSA borders five other transport authorities: Tees Valley CA, York and North Yorkshire CA, Cumberland Council, Westmorland and Furness Council, and the Scottish Borders Council. There are 35 services that cross between the North East and these authorities³⁵ and they provide important transport links in their communities.
- 5.4.7. Cross-boundary services are particularly prominent in southern County Durham, where a number of services originate / terminate in Tees Valley; and around Berwick-upon-Tweed and the far north of Northumberland, where many services link north to destinations in Scotland. Figure 9 maps the region's cross-boundary services:

³⁴ Exempting services is largely applicable to those where it is a requirement to do so (such as for community transport).

³⁵ As of 23 March 2025

Figure 9: Map of North East cross-boundary services³⁶



5.4.8. There are two possible approaches available to the MSA to facilitate the continued provision of cross-boundary services in a franchised environment:

- **Inclusion in the franchising scheme.** These services would be franchised; the DB would procure an operator to provide the service under a local service contract. These services would have the same requirements and commercial model as other franchised services – including carrying the integrated transport network branding, accepting and selling MSA/DB-owned fare products for journeys in the MSA area, and with the DB retaining farebox revenue and risk.

Outside the scheme area, these services would operate as secured services³⁷ as the TA2000 implicitly limits the extent of local service contracts to the boundaries of the franchising scheme. The DB would therefore need to satisfy the legal tests. One test is set in the Transport Act 1968 or 1985 (depending on the contracting authority)³⁸ and is that the service would not be provided to the relevant standard. This standard can include the ability for passengers to travel on a through service between two points – but it may be difficult to justify this along the full length of the route if a small proportion of passengers were making cross-boundary journeys. The other test is the competition test in Schedule 10 to the TA2000, which means a service cannot be secured unless its effect on competition is proportionate.

³⁶ As of 23 March 2025

³⁷ i.e. provided under section 9A of the Transport Act 1968, assuming that the DB was built on Nexus' existing PTE powers.

³⁸ The Transport Act 1968 relates to Nexus as a PTE, while the Transport Act 1985 relates to DCC and NCC's exercise of the operational transport functions delegated from the MSA.

Additional risk may also be present for the service when outside the scheme area, depending on the decisions of the incumbent operator. That incumbent operator may choose to continue to operate the service up to the boundary of the scheme area – in turn making it more complex to satisfy the legal test to secure the service. This is a particular challenge and risk as there is no guarantee that the incumbent would win the local service contract.

- **Inclusion in the service permit regime.** Operators would apply to the DB for a permit that allows the service to operate within the franchised area without being part of the franchising scheme – this applies whether the service was operated commercially or secured by a neighbouring authority. Conditions, such as the acceptance of MSA fare products in the MSA area, could be attached to these permits – although reimbursement arrangements would need to be negotiated between the DB and operators and permits do not offer control over route, frequency and timetabling. The MSA’s general approach to service permits is set out in section 5.4.43 onwards.

5.4.9. Including cross-boundary services within the franchising scheme therefore provides the MSA/DB with greater influence over the service provided, allowing passengers access to the benefits of franchising. This is most significant for services operating largely within the MSA area, with many passengers likely taking journeys wholly within the MSA area, as it allows for a consistent standard and customer experience across the region.

5.4.10. There is significant variety in the nature of cross-boundary services; some have a small proportion of their mileage and time in the MSA area, some have a small proportion outside the North East region, while others are relatively evenly split. A blanket approach to all cross-boundary services is therefore not appropriate.

5.4.11. Services are therefore generally considered to be in-scope and included in the franchising scheme if over half of their timetabled mileage is within the MSA area, unless:

- the service is procured by a neighbouring LTA; or
- including the service in the franchising scheme risks an adverse impact to the commercial network in the neighbouring LTA area.

5.4.12. There is particular complexity around some cross-boundary services operating in southern County Durham; these services are operated from Arriva’s depots in Darlington, outside of the scheme area, but have a large proportion of their mileage in the MSA area. These services are an important part of southern County Durham’s bus network; many passengers will use these services to make journeys between an origin and destination in the North East rather than cross-boundary journeys.

5.4.13. While acknowledging this complexity, these services are proposed to be included in the franchising scheme due to their importance to the network in southern County Durham, and potential challenges in maintaining consistent standards within a service permit regime. Further engagement with the Tees Valley Combined Authority (TVCA) and relevant

operators will be essential to prevent against any adverse impacts on the network within Tees Valley.

5.4.14. Cross-boundary services to other areas, particularly those between the far north of Northumberland and Scotland, have also been considered against the general policy outlined in 5.4.11. There is less operational complexity around these services as, although some are operated from a small depot in the MSA area, many operate outside the MSA for a large proportion of their time. These services are therefore seen to primarily serve the Scottish Borders market by providing transport links to Berwick-upon-Tweed which is a local centre for communities on both sides of the border.

5.4.15. These services have a limited proportion of their timetabled mileage in the MSA area and accordingly will be subject to the service permit regime. As these services cross into Scotland, account will need to be given to the fact that concessionary travel schemes have different eligibilities, but it is assumed current arrangements to manage these differences continue.

5.4.16. The MSA has engaged with its neighbouring transport authorities on its proposed franchising scheme as required by statutory franchising guidance. Cross-boundary arrangements, and the impact these have on neighbouring LTAs, were naturally a significant part of this engagement. Section 9.9 of the strategic case provides further detail on the MSA's engagement with its neighbouring authorities.

Approach to school services

5.4.17. Services were considered in four groups to reach an approach for the assessment:

- Registered local bus services which run commercially but serve a school en-route (type 1³⁹).
- Registered local bus services which only operate for the parts of the day that serve schools, either on a commercial or subsidised basis, and are eligible for BSOG (type 2).
- Registered schools services that also take payment from 'unentitled' scholars; these are not eligible for BSOG (type 3).
- Closed contracts, which are not registered as local, schools, or works services but which may take payment from 'unentitled' scholars (type 4).

5.4.18. Registered local services which serve schools (types 1 and 2) are within scope for the franchising scheme and will be provided under local service contracts⁴⁰.

5.4.19. Registered schools services that take payment from 'unentitled' scholars (type 3) will be excluded from the franchising scheme.

³⁹ Type 1, 2, 3, 4 descriptors are provided to disambiguate types of school services in this section. These descriptors have no wider meaning or significance.

⁴⁰ This includes a variation on these services where there is a route or timetable variation at the start/end of the day to meet home-to-school demand.

- 5.4.20. Closed contracts (type 4) also sit outside the scope of the proposed scheme. These are not registered services and therefore will not need a service permit or be made exempt to continue operating.
- 5.4.21. The extent of home-to-school provision will naturally vary year-on-year in response to changing transport needs and demand, particularly in rural areas. Local authorities and the DB will work collaboratively to determine which types of school service best meet those needs as part of BAU network management.
- 5.4.22. The management case acknowledges that there are a number of policy differences among the region's existing transport delivery bodies (section 3.1), including policy differences relating to home-to-school transport. As with other policy differences, franchising may offer an opportunity to harmonise these if desirable in the future – but no change is assumed for the purposes of the assessment.

Approach to other services

- 5.4.23. Several other types of service have also required additional consideration to develop a position for this assessment. These service types are explained, and the position reached outlined, in this sub-section.
- 5.4.24. **Services funded by a third-party which are open to the public with commercial fare scales.** Most services are either operated commercially or secured by Nexus/the relevant LA, but a small number of services are funded by a third-party⁴¹.
- 5.4.25. Some services with third-party funding are currently procured via Nexus, DCC or NCC, but others are arranged directly between an operator and provider. The general approach is that services that are currently procured by Nexus, DCC or NCC will be provided under local service contracts while those where the funder procures the service directly will be subject to the service permit regime.
- 5.4.26. This approach is, however, subject to a review of third-party funded services on an individual basis to determine the best approach for each.
- 5.4.27. **Work services.** Legally, works services are exclusively for employees travelling to/from a work site. Nexus currently describes a small number of its secured services as works services but these are not legally distinct from other secured local bus services. Such services are accordingly considered in scope for franchising and would be operated under a local service contract.
- 5.4.28. **SEND services** are outside the scope of franchising as these are specialist services which utilise a variety of vehicle types and special arrangements. Purchasing a pass for public transport use and/or training in travel skills are often first options before dedicated transport is arranged.

⁴¹ Examples of third-party funding for services include school/college buses funded by the education establishment, enhanced provision to hospitals funded by the NHS and shuttle buses serving tourism / leisure destinations funded by organisations such as the National Trust / English Heritage.

- 5.4.29. **Long distance coach services (with part of route registered as a local service).** Some long-distance coach services are registered as local bus services for part of the route. Statutory guidance suggests that an exemption should “*generally be made*” for a service that has 10% or less of its overall distance registered as a local bus service as such services are generally not seen to compete with franchised services.
- 5.4.30. Given the geographic scale of the region, exempting such services might abstract from the franchised network – as an example, a coach operating an Edinburgh – London service may stop in Alnwick, Morpeth and Newcastle, thereby providing local trips and abstracting from the franchised network. Subjecting such services to the service permit regime, rather than excluding them entirely, prevents against abstraction while permitting their continued long-distance operation through the region.
- 5.4.31. **DRT.** DRT provision in the region is limited to pre-booked trips operating primarily in County Durham (some journeys may extend to/from Tyne and Wear)⁴². DRT services would be subject to the service permit regime; any future DRT provision would be welcome providing it does not abstract from the franchised network.
- 5.4.32. **Sightseeing and tourist buses.** Including sightseeing and tour buses in the scope of the proposed franchising scheme could theoretically enable cross-subsidy with the core network if profitable, but – as such services can charge premium fares – including these services would not align to a common fares and ticketing strategy. Inclusion in the scope of the franchising scheme is therefore not seen as desirable.
- 5.4.33. The MSA proposes that sightseeing and tourist buses (where regarded as local services under Traffic Commissioner guidance) are subject to the service permit regime. Excluding these services entirely would risk commercial local bus services being tenuously described as a tourist or sightseeing service to abstract from the franchised network.
- 5.4.34. **Free supermarket buses.** Some supermarkets offer free services to transport shoppers to their store; these legally do not need to be registered as local bus services but some are voluntarily registered (as this allows real-time tracking via BODS). These services would be subject to the service permit regime if voluntarily registered as local bus services – but there remains no obligation on providers to register such services.
- 5.4.35. **Community transport.** Sections 19 and 22 Transport Act 1985 allow organisations providing transport on a not-for-profit basis an exemption from standard public service vehicle operator licensing requirements. Guidance states that services operating under these provisions are “automatically exempt”. These services would therefore not be included in the franchising scheme or subject to the service permit regime.
- 5.4.36. **Taxibus.** Taxibus services are procured by Nexus and operate within Tyne and Wear; these services run as registered local services but are operated using a taxi vehicle with a special restricted operating license, allowing operators to use a licensed taxi or Private

⁴² There are DRT services in Northumberland operating as community transport services. These services are considered as part of the community transport category (i.e. automatically exempt).

Hire Vehicle for a local services providing at least one stop is within the local authority area that issued the license.

- 5.4.37. The MSA does not intend to include such services within the scope of local service contracts as this would require bespoke tendering and use of bespoke vehicles, it would not be possible to brand as this is dictated by the taxi licensing authority and it would not be possible to harmonise vehicle standards. Subjecting such services to the service permit regime is seen to be most appropriate, in order to avoid potential attempts to abstract from the franchised network via commercial taxibus services.
- 5.4.38. **Park and ride.** Park and ride services are registered as local bus services; these would therefore be within the scope of franchising and operated under local service contracts.
- 5.4.39. **Temporary shuttle services in response to planned or emergency road closures.** It may be possible to work with the relevant operator to manage the situation, but in the event that resource was required from another provider, this would be outside the franchising scheme. The DB could either exempt such services entirely or subject them to the service permit regime. Given that lead times to procure a shuttle bus in response to an emergency road closure can be very short in some cases (thereby limiting the feasibility of applying for, and approval of, a service permit in that timeframe), these services will be exempt from the proposed scheme.
- 5.4.40. **Metro, Ferry and rail replacement services.** The Bus Services Act 2025 exempts heavy and light rail replacement services from the requirement to apply for a service permit in franchised areas. These services – including those covering Tyne and Wear Metro are therefore automatically exempt from the scheme – whether planned or unplanned. The MSA intends to apply the same approach to replacement services for the Shields Ferry.
- 5.4.41. **Special event services.** A number of services operate infrequently specifically to serve special events, these include services transporting runners and spectators to/from South Shields for the Great North Run, a park-and-ride service from the Metrocentre to/from St James' Park for Newcastle United fixtures, and services to/from various fireworks events on Bonfire Night.
- 5.4.42. Such services will be subject to the service permit regime. This allows the DB to procure services for the relevant event – and procurement would not be limited to existing franchised operators, while leaving the opportunity for commercial services subject to DB approval. Exempting such services was not seen as appropriate as it would risk potential 'gaming' and abstraction from the franchised network.

Service permit regime

- 5.4.43. As outlined above, the MSA intends to operate a service permit regime to allow select types of non-franchised services to operate within the franchised area. Types of services envisioned to operate under the service permit regime are:

- Cross-boundary services, where not included within the scope of the franchising scheme

- Long-distance coach services, where these are registered as local services for all or a proportion of their journey in the North East
- Special event services
- Sightseeing and tourist services
- Free supermarket buses
- DRT services
- As described in section 4.8 of the management case, service permits would also be required for existing services from the commencement of the franchising scheme until all relevant services are operating under local service contracts.

5.4.44. Conditions attached to service permits are likely to differ by the type of service, reflecting the different contributions to transport needs and complexities of each type of service.

5.4.45. Cross-boundary services, in particular, are likely to represent a significant component of the service permit regime. This includes a number of services that originate / terminate in Berwick-upon-Tweed, but which predominantly operate in Scotland, as well as other services across the region with limited mileage in the MSA's area.

5.4.46. Conditions attached to service permits issued to non-franchised cross-boundary services are anticipated to be relatively limited and primarily focused on maintaining aspects of the integrated transport network for North East residents, given the small proportion of time anticipated to be spent in the scheme area by permitted services. Conditions may include:

- Selling and accepting MSA/DB-owned ticketing products. Reimbursement arrangements for journeys using MSA/DB-owned products would need agreed with the operator (if operating commercially or as a net cost secured service) or the subsidising LTA (if operating as gross cost secured service).
- Limited and proportionate vehicle standards, such as setting an emission standard that the vehicle must meet.
- Providing real-time information data feeds (if available) to the DB to allow integration with other digital passenger information, such as the integrated transport network website and mobile app.

5.4.47. Service permit conditions cannot, however, determine the route, frequency or timetabling of services which remain operator responsibilities. There is therefore a risk that an operator may make a routing or timetabling decision that reduces access / transport options for communities relying on permitted services.

5.4.48. As discussed in section 5.4.13, some cross-boundary services in southern County Durham are planned to be delivered under local service contracts. However, if these or similar services were delivered under the service permit regime it is likely that more expansive conditions would be placed on cross-boundary services with a higher

proportion of their mileage in the MSA area to reflect that they are a significant part of the region's transport network than the cross-boundary services currently assumed to operate under a service permit.

5.4.49. Appropriate conditions to attach to service permits for other types of service are likely to vary by type of service, reflecting that these services interact differently with the franchised bus network. As an example, although fare acceptance inside the MSA area will likely be a condition for cross-boundary services, this is unlikely to be appropriate for other permitted services such as long-distance coach services or sight-seeing and tourist services.

5.4.50. The MSA/DB intends to take a considered approach to service permit conditions for the types of services listed above, informed by further analysis of these services and their characteristics. Service permits will be intended to allow different types of services to operate, meet passenger needs, while avoiding negative impacts on the franchised network. As required by legislation, the MSA will consult on the service permit regime prior to its introduction.

Network planning and design

5.4.51. The MSA assumes there will be minimal initial change to the network when franchising is introduced to enable a smooth transition for passengers, communities and bus industry employees.

5.4.52. There are, however, various reasons that would require temporary or permanent changes to the network during the contract term. These reasons include:

- **Temporary – road closures**, for example due to roadworks, poor weather or events. There is a need to engage with local authorities to minimise the impact of roadworks on bus services through planning and co-ordination.
- **Temporary – restrictions that make it unviable for the bus to continue to use that route**, for example roadworks causing congestion or the route being too restricted for buses.
- **Temporary – response to external factors**, such as driver shortages – as a last resort.
- **Permanent – operational performance issues**. It is more likely that the timetables, rather than network itself, would be adjusted, although network changes could be required in some situations. This links with bus priority measures as longer-term solutions which will require ongoing liaison between the DB, the MSA, local authorities and other stakeholders, including sharing knowledge of where the issues are.
- **Permanent – farebox revenue**. There may be opportunities to increase farebox revenue (e.g. by providing new services or adjusting the route/frequency of others). Conversely, the network may need adjusting in response to decreases in farebox revenue, or where inflationary growth in costs exceeds growth in farebox revenues/public sector subsidy for farebox revenues.

- **Permanent – home-to-school requirements.** Some home-to-school services will be delivered as franchised local services (see section 5.4.17). Changes may therefore be necessary to reflect annual fluctuations in home-to-school travel demand and the needs of local education authorities.
- **Permanent- consolidation or relocations of depots.** Any change to depot locations could necessitate network change.
- **Permanent – customer numbers.** Farebox revenue and customer numbers are usually linked, but – particularly in areas with older populations – adjusting a route may not lead to an increase in farebox revenues (as passengers hold ENCTS passes) but serves more passengers, reducing the subsidy per passenger.
- **Permanent – new developments or changes such as relocations.** These would require the network to be refined to reflect the changing needs of existing passengers and to seek to attract new passengers.
- **Permanent – duplication,** where capacity greatly exceeds demand, franchising allows for duplicative services (e.g. those currently operated by different operators) to be removed.
- **Permanent – integration.** There may be opportunities to improve connections between different buses or between modes, linking with the timetable specification for individual routes.
- **Permanent – delivery of strategic and policy requirements,** such as the LTP. There may also be a need to align with developments such as a change in the CAZ, new CAZ (or similar) areas being created, or local authority car parking policies.

5.4.53. Permanent network changes could generally take place on a planned basis as part of network reviews, although flexibility would be required for temporary changes which may need made at short notice (e.g. in response to an emergency road closure). Some limited permanent changes may also need to be made outside planned windows.

5.4.54. Network reviews would take place on a planned basis once franchising has been fully implemented across the region. This gives the capacity to undertake the reviews, as well as building up data from the operation of the network to inform the review as the DB will have greater access to data (such as demand and revenues). Reviews would necessarily include significant engagement with customers, local authority officers and elected members, and the wider public.

5.4.55. The MSA/DB will lead on network planning and reviews as the ability to design a unified network is critical to achieving a more effective, accessible and simplified network that best delivers for the customer and key social objectives. Section 9.4 of the management case details the full network change process, including opportunities for local authority officer and elected member input.

5.4.56. Operators have significant institutional expertise in network planning; the MSA/DB would seek to obtain operator input into the network to harness private sector expertise. The

MSA/DB would allow operator input via the contract change procedure; further analysis ahead of implementation will consider how this input can be incentivised.

Bus priority infrastructure

5.4.57. As discussed in section 4, this assessment assumes that all planned bus priority schemes are delivered. The MSA/DB will therefore benefit from any increased farebox revenue resulting from increased passenger numbers and could determine how these are reinvested in the network. Improvements in operational performance could be reflected via a higher performance target for the service (via the performance regime).

5.5. Contract structure

Contract length

5.5.1. Maximum lengths for local service contracts are specified in The Public Service Obligations in Transport Regulations 2023. Regulation 9(1) sets a general maximum contract length of ten years with longer contracts possible under specified circumstances⁴³. The MSA has discretion to determine which length of contract is most suitable up to the relevant maximum length.

5.5.2. Short contracts offer some potential benefits to both the public sector and operators. Public sector influence is likely to materialise faster under shorter contracts as these allow changes to the contract structure and detail to be rolled out more quickly at frequent re-procurement periods⁴⁴. Operators would also carry reduced risk of a contract becoming onerous over time (e.g. increased costs arising from incorrect bid assumptions) as contracts – and therefore the cost assumptions informing the bid – would be refreshed more frequently.

5.5.3. There are however significant potential downsides and risks involved in pursuing short contracts which outweigh the potential benefits above. Frequent re-procurement rounds are likely to require an enhanced level of resource in both the public and private sectors; some operators may withdraw from the North East or reprioritise resource to other areas if they believe the potential return does not justify the cost of bidding for short contracts; and investment in vehicles is likely to be limited, or carry a significant premium, due to the residual value risk carried by operators.

5.5.4. Short contracts also heighten uncertainty for bus operator employees. Operators may change at each re-procurement cycle – with staff transferring under TUPE provisions to each new operator; shorter contracts mean that these potential changes in employer and associated uncertainty would be more frequent. This regular uncertainty is likely to make

⁴³ Regulation 9(2) allows for contracts up to 15 years long where a public service operator provides assets with an “exceptionally long depreciation period”. Regulation 9(3) allows for longer contracts if “justified by the amortisation of capital in relation to exceptional levels of infrastructure, rolling stock or vehicles”.

⁴⁴ The DB could make some changes during the life of a longer contract via change provisions, but the scope of such changes is limited by Schedule 8 to the Procurement Act 2023. A sufficiently clearly designed change mechanism could assist with making such changes, but some substantive changes may still therefore need to be made when the contract is re-procured.

the bus industry less attractive to new entrants and/or lead to existing employees leaving the industry.

- 5.5.5. Adopting a longer contract length mitigates these downsides and offers other benefits to the MSA/DB and operators, particularly the ability to depreciate assets over a longer contract life. As discussed in section 5.2.1, the MSA proposes that operators are responsible for vehicle provision – which will likely require regular capital investment. A longer contract gives the operator greater certainty over that vehicle’s use and allows the cost to spread across a longer period – reducing the annual cost to the DB.
- 5.5.6. Longer contracts do, however, carry a risk that contract payments from the MSA/DB to operators may be greater than necessary over the longer contract period if operator costs increased by less than any indexation mechanism suggested. Further information on indexation arrangements can be found at section 5.5.37.
- 5.5.7. The MSA therefore intends for local service contracts to have a maximum length of seven-to-eight years; this aligns to approximately half the useful economic life of a single or double deck bus. Contracts would have a shorter guaranteed term (approximately five-to-six years) with an extension/break clause exercisable at the DB’s sole discretion, allowing the DB to control the overall programme of re-procurements.
- 5.5.8. The same intended contract length would apply to small contracts, which are intended to provide opportunities for SMO participation.
- 5.5.9. Small contracts would be present across the North East but are particularly present in County Durham and Northumberland (as shown further at section 5.6.5). A five-or-six year guaranteed period is similar to the four-and-five-year contracts issued for secured service work by DCC and NCC respectively; franchising would not represent a significant change in this aspect.
- 5.5.10. SMOs would also be able to spread capital costs across the life of a local service contract. This is particularly beneficial to SMOs as they lack the wider national group of larger operators and the associated opportunities to cascade mobile assets to/from other parts of the country. A short contract length risks jeopardising SMO participation by excessively limiting the ability to spread costs throughout the contract length.
- 5.5.11. SMOs are, however, more exposed to the risk that a contract becomes onerous and directly threatens the continued viability of their business, as North East local service contracts would form a much larger proportion of their business than the larger operating groups. The DB will further consider how to manage this risk during transition and implementation.
- 5.5.12. As discussed further in section 5.6, the above represents the MSA’s preferred business-as-usual approach. Maximum contract lengths may be different in the first procurement round to allow the DB to establish a consistent programme of re-procurement exercises. These considerations are described further at section 5.6.37.
- 5.5.13. Operator input into the proposed contract length was sought during market testing. There was agreement that the proposed approach was suitable among operators interested in

large-sized packages, with responses noting that this was in line with the approach in other franchising areas. Some noted that fixing the contract for its full length (rather than utilising extensions) may support the transition to a decarbonised fleet by better allowing for capital investment. Operators interested in smaller packages expressed mixed views – with responses noting that the intended approach provides stability for operators and their employees, but that it may be challenging for unsuccessful bidders to sustain operations for future tender rounds. One operator expressed a preference for a guaranteed term of five years without extension to provide long-term clarity over the scope of each tender round.

Performance regime

- 5.5.14. Local service contracts would include a performance regime with the opportunity to earn financial incentives for performance that exceeds expectations and risk financial deductions for performance which is below expectations.
- 5.5.15. A performance regime is intended to maintain operators' focus on key passenger priorities in an environment where they no longer hold responsibility for patronage and farebox revenue by tying a proportion of the overall contract payment to performance.
- 5.5.16. Punctuality and reliability of bus services regularly appear as passengers' top priorities in customer engagement and research (in particular in the LTP consultation, which is described at section 4 of the strategic case).
- 5.5.17. Accordingly, the performance regime will largely be driven by punctuality and reliability.
- 5.5.18. These operational performance factors would therefore drive a material percentage of the total bonus/deduction available through the performance regime; financial and economic modelling includes a modest annual cost representing incentive payments to operators for good performance. Further careful planning and analysis will be required to allocate the weighing of outcomes and to avoid over-incentivising one outcome to the detriment of others.
- 5.5.19. Punctuality assesses the proportion of journeys which depart from registered principal timing points at their scheduled time (within a reasonable threshold e.g., no more than 59 seconds early or 5 minutes and 59 seconds late on 95% of occasions without a reasonable excuse in line with Traffic Commissioner expectations)⁴⁵.
- 5.5.20. The service payment mechanism will also include an adjustment for 'lost mileage', a measure of any non-delivered service mile. This adjustment will reduce the service fee paid to remove costs associated with the services which were not operated. The extent to which costs are included within this adjustment remains to be determined, noting that it must be sufficiently balanced to avoid perverse behaviours – such as an operator choosing to cancel a service rather than run it late.

⁴⁵ Some performance regimes use 'Excess Wait Time' for high frequency services. This measures the variance in actual average waiting time against scheduled waiting time. Some services (or parts thereof) are formally registered as frequent services and EWT could therefore apply, but it is understood that no incumbent operator uses this measurement at present and it is not envisaged to be used initially in the regime.

- 5.5.21. Delivery of a performance regime focused on these operational priorities will require metrics to be calibrated and set across services (recognising that some services may face greater challenges maintaining punctuality than others).
- 5.5.22. It would also be possible to incorporate service quality factors (which may include the cleanliness of vehicles, customer satisfaction, or functionality of destination blinds) into the performance regime. There are, however, a number of complexities involved with this, such as the ability to assess and the need to avoid diluting the regime across a large number of priorities. Further analysis will be undertaken during the transition process to identify if and how service quality can/should be incorporated into the performance regime.
- 5.5.23. All performance regime metrics would require detailed work to calibrate, including gaining a detailed understanding of current performance. This is critical in ensuring that targets can be accurately set, and there may need to be a grace period or glide path at the start of contracts to allow for data gathering and calibration.
- 5.5.24. In addition to the performance regime, local service contracts will include various contractual obligations and standard remedies available through the contract management process – such as the requirement to make and agree rectification plans. These mechanisms will be developed further as part of the contract and procurement workstreams.
- 5.5.25. Market testing responses from operators were supportive of the principle of a performance regime, with multiple operators noting that such a regime could support the MSA/DB to deliver its intended outcomes where those are within the control of the operator. Operators, however, noted the need for the regime to account for congestion and matters outside the operators' control.

Revenue risk

- 5.5.26. Several different factors affect the revenue received by the bus network. As described in the economic case, some are outside the direct sole control of the MSA, DB or operators (such as car ownership, congestion and macroeconomic conditions), but greater control is possible over other levers – particularly the fares and ticketing offering, network size and frequency and branding and marketing activities.
- 5.5.27. Although there are franchising models elsewhere that share revenue risk with operators (such as Jersey), these models provide operators comparatively greater control over key patronage and revenue levers. MSA/DB influence over the network and passenger experience would therefore be less direct and franchising would likely offer a lesser ability to achieve the MSA's strategic objectives.
- 5.5.28. The MSA/DB proposes to assume control of levers like marketing, branding, and fares as discussed above in section 5.3; control of these levers is necessary to contribute to the MSA's strategic aim to create a green and integrated transport network. A commercial model that allocates revenue risk to operators without control of key levers is unlikely to be commercially viable; it is appropriate that revenue risk sits with the public sector.

5.5.29. Operators would, however, lack incentive to grow patronage and revenues which – if this led to worsening performance – could impact patronage and therefore the financial position of the MSA/DB.

5.5.30. As discussed in section 5.5.14 - 5.5.22, the MSA proposes to incorporate a performance regime with financial incentives / disincentives into local service contracts. Operators would therefore have a financial incentive to perform well against key metrics; to the extent that operators perform well against these metrics, this would be expected to contribute to patronage (and revenue) growth.

5.5.31. The MSA/DB could also implement a revenue incentivisation mechanism to directly incentivise operators to drive revenue potential models are summarised below:

- **Incentivisation through the performance regime.** Operators could achieve an incentive payment if actual revenues exceeded a forecast revenue baseline; this model could also include deductions providing a downside.
- **‘Cap and collar’ revenue sharing.** Similar to the above but passes greater revenue risk and opportunity to operators through a revenue sharing mechanism. Operators could share an agreed proportion of revenue above the forecast revenue baseline; this model could also include sharing the loss if actual revenues were below the forecast baseline.
- **Operators propose initiatives at bid stage.** Operators would be asked to provide revenue-generating investment plans as part of their bid submissions, such as identifying routes and services which are currently underserved. Subject to evaluation and deliverability, these would be implemented. It would be possible to limit reimbursement to the associated costs or share any revenue upside gained between the DB and the relevant operator, but this may also advantage incumbent operators with knowledge of the area at bid stage.

5.5.32. All options outlined above share the following downsides / risks:

- In addition to determining how operators are judged for improving revenue (e.g. growth in on-bus and/or off-bus revenues), it is necessary to specify or agree a forecast revenue baseline to judge actual performance against. A suitability challenging baseline is critical to the success of the mechanism and avoiding inappropriate incentives or deductions. Setting this baseline would be complex and time-consuming; this effort would continue in-life, with operators likely to seek adjustments to the baseline for events outside their control such as road closures.
- Operators would not hold the levers required to meaningfully manage revenue risk under the proposed franchising model. Setting a fee / revenue-share level which optimises risk transfer and incentivisation is likely to be extremely challenging. Market engagement elsewhere has demonstrated a reluctance to take significant downside risk; the MSA does not anticipate a different market appetite in the North East.

- Isolating and calculating the effects of operator performance on revenue is highly complex and unrealistic. A revenue incentivisation mechanism could lead to operators being financially rewarded for revenue growth driven by other factors – either those led by the DB (e.g. a new fares and ticketing policy) or factors outside the control of both the DB and operators (e.g. a significant shock to motoring costs that reduces car ownership).

5.5.33. The MSA therefore considers that the complexities and potential downsides associated with the above revenue incentivisation mechanisms are likely to outweigh the potential benefit associated with such a mechanism.

5.5.34. The MSA/DB therefore intends to assume revenue risk without a revenue incentivisation mechanism for the first round of local service contracts. The performance regime described above is considered an appropriate incentive for operators to focus on areas where operators have clear levers to manage their performance and which impact patronage and revenue.

5.5.35. Assuming revenue risk requires the DB to take action to reduce and deter fare evasion and fraud⁴⁶. As described in the management case, the modelled franchising scenario includes officers employed by the DB with revenue protection and passenger safety responsibilities.

5.5.36. Market testing responses show agreement among operators that the MSA/DB assuming revenue risk is most appropriate given the wider commercial model proposed. Some operators expressed interest in an incentivisation mechanism being included for future rounds of local service contracts.

Cost risk

5.5.37. Costs of delivering local bus services are driven by various elements, the most significant of which are labour costs, fuel costs and vehicle costs. Operator bids – and therefore contract prices – will be driven by these various elements; changes to these costs can affect the profitability of contracts.

5.5.38. Operators will retain control over many key cost levers and have developed significant institutional expertise in managing and controlling operational costs. The MSA therefore believes it is appropriate for cost risk to primarily continue to sit with operators.

5.5.39. Inflation is, however, outside the control of operators, importing risk and uncertainty over the expected seven-to-eight-year life of a local service contract. Operators would be likely to price this uncertainty into their bids if asked to take all cost risk.

5.5.40. The MSA therefore proposes to apply indexation to recurring annual costs; the inflation aspect of cost risk will therefore be managed by the public sector. The Consumer Price Index (CPI) and Consumer Prices Index including owner occupiers' housing costs (CPIH)

⁴⁶ Fare evasion and fraud on local bus services can take various forms, mainly boarding without a ticket, using a ticket which the passenger is not eligible for (e.g. somebody over 22 using young person's tickets) or travelling beyond their stated destination.

are recognised measures of inflation for prices paid by consumers for a representative basket of goods and services, but more tailored indices may be required to reflect the different cost base of local bus services. Categories where different indices may be applied may be:

- **Indexed labour** – covering labour costs, including drivers, engineers, administration and other central functions, accounting for salaries, on-costs and pensions. Some labour costs are relatively fixed due to having a permanent establishment, whereas others will move in-line with the service provided, such as drivers (although this is fixed to an extent with staff on permanent contracts) and engineering (through overtime costs if high volume and/or time-consuming bus repairs arise).
- **Indexed fuel** – primarily diesel costs initially, although this would change as the fleet decarbonises where electricity (or potentially other decarbonised fuel sources) would become the fuel. Fuel indexes exist, such as the Diesel Engine Road Vehicle (DERV) index and the CPT index, but large operators are known to hedge most, if not all, of their fuel costs. The MSA will therefore undertake further evaluation, including considering the approach elsewhere as well as the robustness of indices to determine the most suitable index for fuel.
- **Indexed electricity** – an electricity specific-measure may not be required initially as vehicle charging costs are likely to be a small proportion of overall costs that they could be covered by a general inflation measure. As the proportion of ZEBs increases, however, electricity will become a more significant cost component, and a dedicated index may be required.
- **Indexed general** – covering parts, claims and other miscellaneous costs. Parts costs will vary across the lifecycle of a bus but, in a fleet with buses of different ages, this would be spread across the fleet.

5.5.41. Further identification of suitable cost categories, indexation metrics, and the split between CPI and more specific indices (which would allow operators to manage costs across categories), will require further development prior to the procurement process for local service contracts beginning.

5.5.42. Some fixed costs may be spread across the length of the contract, such as bidding costs and depreciation of capital expenditure. As discussed in section 5.5.7, local service contracts are likely to have an extension mechanism. Further development will be necessary to reach a confirmed approach, but it is possible that such fixed costs would be split across the guaranteed contract term.

5.5.43. Recognising the unforeseen nature of both events – and that operators are unlikely to be best placed to manage them, the MSA is also minded to incorporate change-in-law and force majeure provisions into local service contracts. The scope of these provisions will be further developed.

5.5.44. Additional types of supervening events will also need to be incorporated into contracts, namely relief events (where cost risk rests with the operator but termination risk does not), compensation events (where cost risk rests with the DB) and excusing events (where relief is provided from deductions from payment to the operator). The scope of these events will be further developed for implementation.

5.5.45. Operators agreed in principle with the proposed approach to cost risk indexation during market testing, sharing suggestions for appropriate indices and mechanisms that could be used.

Safety risk

5.5.46. Arrangements between the DB and operators are required to provide for the safety of passengers, staff, assets and other road users. In developing its position, the MSA has considered existing practice, the role of other government agencies (such as the Traffic Commissioner, DVSA and DVLA) and how the MSA/DB can have sufficient assurance of operator practices.

5.5.47. Operators are best placed to manage the operational safety of assets and services, utilising their existing expertise in day-to-day management and delivery of safety arrangements. There is little precedent to transfer this operational management to the public sector, but the DB will require sufficient oversight and assurance as some assets will be owned by the DB or branded with the integrated transport network livery associated with the DB.

5.5.48. Any DB assurance should not duplicate the roles of other government agencies responsible for monitoring and enforcing compliance with legal requirements. In addition to duplication of activity, this would risk blurring boundaries with the DB potentially becoming complicit in approaches taken by operators. Contractual provisions will, however, require the operators to notify the DB in the event that any inquiry or enforcement activity is undertaken by other government agencies.

5.5.49. DB oversight could take various forms, including planned (e.g. safety plans, inspections or observations of asset conditions, or detailed work instructions) or a reactive basis (e.g. KPIs, investigation updates and reports, or real-time reporting). The DB will determine the appropriate level of safety oversight/assurance and the methods of delivering that oversight. Contractual provisions will specify that this assurance (or lack thereof) does not waive operator obligations or render the DB liable for any breaches.

5.5.50. As discussed in the strategic case, the MSA is committed to improving the safety of passengers by addressing anti-social behaviour and violence against women and girls. Operators would retain responsibility for day-to-day management of this, including liaison with the region's police services and other partners as well as provision of data / intelligence.

5.5.51. The DB, however, would assume strategic oversight of the prevention of anti-social behaviour and violence against women and girls on the public transport network, reflecting that the DB has oversight of the network across multiple operators and the fact

that customers and stakeholders will expect the DB to lead on these issues. The DB will be able to design effective regional strategies to manage anti-social behaviour and violence against women and girls on the public transport network, informed by incident data provided by operators.

5.5.52. This reflects the fact that the DB has oversight of the overall network across multiple operators, the challenges of incorporating these measures into the performance regime with sufficient financial value to drive operator investment, and that the DB holds farebox and reputational risk – customers and stakeholders will expect the DB to lead on addressing issues.

5.5.53. As mentioned above, the modelled franchising scenario includes roles with responsibility for fare evasion and passenger safety. The DB would also be able to deliver network-wide public information campaigns on these issues. Other interventions could be developed by the DB (potentially in partnership with other organisations such as the police) as required to respond to, address and deter anti-social behaviour and violence against women and girls.

People and HR

5.5.54. Operators have significant expertise in stipulating and delivering staffing models which are appropriate in response to policy and service demands, but there is a risk that without some level of staffing specification, operators will not have the desired capacity to liaise with the DB in order to reduce costs, particularly in areas not incorporated into the performance regime.

5.5.55. The DB will therefore provide operators with a high-level specification as part of the tendering process which will specify a small number of specific roles, primarily around how the operator interfaces with the DB. A high-level specification is intended to encourage operators to bid on how to achieve something rather than outlining a specific operational structure that operators must follow, thereby ensuring that operator's existing organisational design experience is retained while providing a consistent approach to communications between the DB and franchised operators.

5.5.0. This specification is intended to include conditions relating to employment practices, aligned to the MSA's aspirations to be the home of real opportunity and to deliver new deal for North East workers. Conditions are likely to include Shine⁴⁷ accreditation and a commitment to pay the real living wage (as required in higher levels of Shine accreditation). The MSA has informally engaged with representatives from trade unions that represent bus sector employees in the region and will continue to do as the principles in this assessment (such as those on pay and conditions) are operationalised for transition and implementation, following a decision to make a franchising scheme.

5.5.1. Operator staff might transfer between operators under TUPE regulations, with transfers occurring where one operator assumes contracts/services previously provided by a

⁴⁷ Shine is the MSA's free employer accreditation scheme which supports employers to do right by their people through fair pay, secure work, inclusive practices, and opportunities to grow.

different operator; this applies both at the initial commencement of franchising and subsequent procurement rounds.

- 5.5.2. Employees are in-scope for franchising where their employment is “*principally connected*” with affected local services. In line with statutory franchising guidance, the MSA/DB would aim to reach agreement with existing local operators and employee representations over the criteria for this. Staff potentially affected include drivers, engineers and support staff.
- 5.5.3. TUPE regulations require that staff transfers include providing a “*broadly comparable*” pension scheme, as well as protecting the terms and conditions of staff unless there is an economic, technical or organisational rationale for change.
- 5.5.4. These are legal requirements which the MSA/DB would expect operators to comply with in formulating bids and, if successful, delivering local service contracts. In line with the statutory franchising guidance, the DB would only award local service contracts where bidders commit to providing a suitably comparable pension scheme for transferred employees as expanded upon further in section 3.5 of the management case.

5.6. Procurement and transition

Packaging strategy

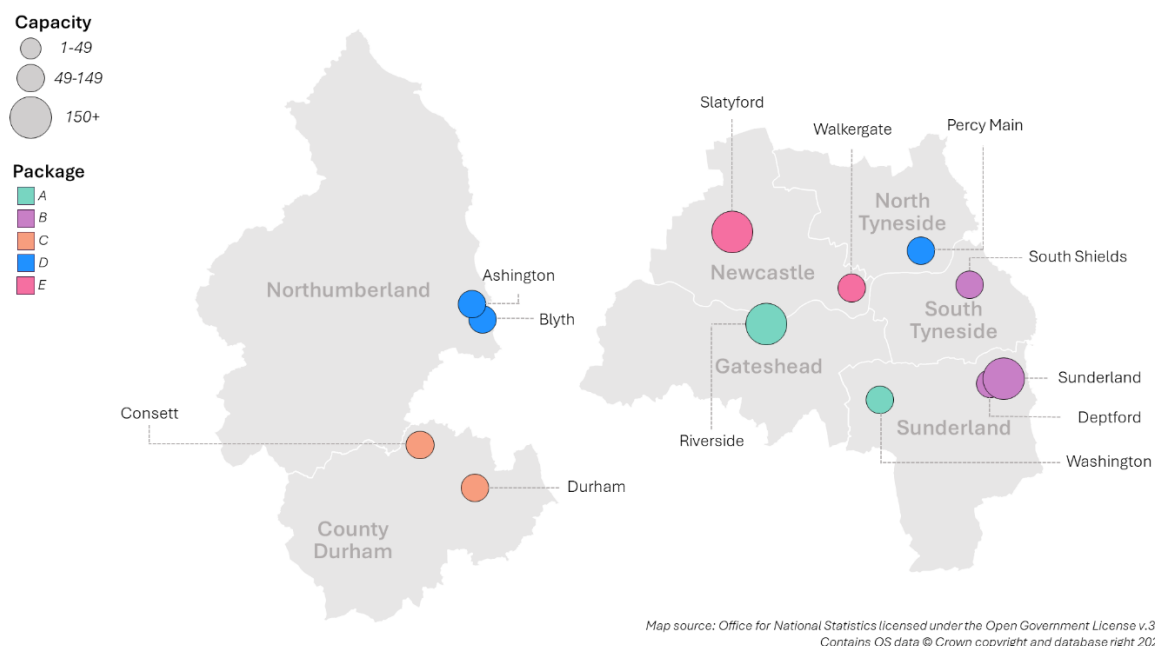
- 5.6.1. Most services to be provided under local service contracts will be allocated to a ‘large-sized’ package of contracts. Services outside these large-sized packages will be let as individual contracts (which can be combined into group bids), an approach intended to provide opportunities for SMOs.
- 5.6.2. Proposed packages have been developed for this assessment based on the network as of 23 March 2025. Network changes will naturally occur between that date and any decision to make the proposed franchising scheme, packages will therefore be refreshed for operationalisation to account of such network changes. Changes between the making of the franchising scheme and the commencement of franchise service provision are acknowledged as a potential risk in the management case, with operational continuity arrangements discussed section 4 of the management case.
- 5.6.3. Market engagement in other areas suggests that a minimum of 100 PVR per package is necessary to obtain sufficient interest among larger operators to bid, but only one depot has a PVR over 100. Packages have been developed that group geographically close depots together to make the packages more efficient and attractive to the market, as well as considering other factors such as existing interworking of services from multiple depots and interlinking between services operating along the same corridor. Table 11 below lists the provisional strategic depot grouping with a visualisation in Figure 10.

Table 11: Provisional contract packaging for strategic depots

ID	Depot sites included	Indicative PVR
A	Washington, Riverside	150
B	Deptford, Sunderland, South Shields	190
C	Durham, Consett	110

D	Percy Main, Ashington, Blyth	160
E	Slatyford, Walkergate	170

Figure 10: Provisional contract packaging for strategic depots⁴⁸



5.6.4. Services that are currently secured services or not provided from a strategic depot have been allocated to small contracts. These will be let for individual services (and may be combined into a bid for multiple services to allow for interworking and operational efficiency), which is intended to provide opportunities for SMO involvement in the scheme. The PVR associated with each service is relatively low (the majority being one or two).

5.6.5. Allocating these to the geographic areas outlined above gives the following:

Table 12: Geographic outline of small contracts

ID	Depots	Contracts and PVR range	Indicative Area PVR
A	Washington Riverside	7 contracts with PVR between 1 and 3	20
B	Deptford Sunderland South Shields	12 contracts with PVR between 1 and 3	10
C	Durham Consett	35 contracts with PVR between 1 and 11	80
D	Percy Main Ashington Blyth	17 contracts with PVR between 1 and 5	30

⁴⁸ Capacity refers to the number of vehicles permitted at that operating centre under the current operator's PSV license; this does not correspond to the PVR that would be operated from that depot under franchising.

E	Slatyford Walkergate	14 contracts with PVR between 1 and 13	30

5.6.6. Further development and testing of the approach to small lots will be undertaken ahead of the procurement processes, recognising that it may be advantageous to group some individual contracts together.

5.6.7. Franchised school services (see section 5.4.17 for discussion of which school services are in-scope of franchising) will be provided as separate contracts to those identified above, unless these are currently interworked with other services included as large-sized or smaller contracts as separating these services would lead to a loss of efficiency.

5.6.8. Such franchised schools services would be let with a September start date; in Tyne and Wear these will be tendered for and awarded as resource boards⁴⁹, while those in Durham and Northumberland will be tendered for as now.

5.6.9. These services are likely to operate under a different vehicle specification to those in other contracts – for example, lesser branding expectations as the vehicles may be used for other non-franchised work between school service times.

Transition strategy

5.6.10. A mayoral decision to make the proposed franchising scheme would initiate a transition period, in which bus operations move from the current deregulated structure to being provided under local service contracts. Various activities will take place during the transition period, including operationalising the principles outlined above into local service contracts, building MSA/DB capacity to deliver franchising, and running the procurement processes to award contracts.

5.6.11. It would be theoretically possible to award all contracts concurrently with franchised services therefore starting across the region on the same day, but this approach is not considered feasible given the scale of bus operations in the North East and the need to run multiple capacity-demanding procurement processes simultaneously.

5.6.12. An accelerated timescale, with three tranches of procurement between 2029 and 2031, is considered to be the quickest approach feasible. This balances delivering the benefits of a franchised network to passengers as soon as possible with the complexities and challenges involved in implementing franchising.

5.6.13. As set out in section 5.6.3, most services will be provided in one of five large-sized contract packages, each containing at least two strategic depot sites. Small contracts for that geography (as discussed in section 5.6.5) would be let at the same time as the relevant large-sized package.

⁴⁹ Resource boards are used by Nexus in Tyne and Wear. Bidding operators submit a fixed price for up to 30 miles and a rate per mile thereafter without knowledge of the work to be carried out. Nexus then allocates school journeys to each board based on the best value to Nexus.

5.6.14. Several factors have been qualitatively considered to reach a provisional implementation order for these different packages. These factors include:

- **Customer impact** – there is the potential for the mix of responsibilities inherent in a part-franchised part-deregulated network to cause confusion for customers (e.g. fares and ticketing, customer information provision will be split between the public sector and operators).
- **Profitability** – franchising more profitable services first could theoretically allow the financial benefit to fall from the public sector but may mean the remaining market is no longer commercially viable – thereby requiring the public sector to support those non-franchised services as secured services temporarily; this could be on a significant scale.
- **Service performance** – franchising more poorly performing areas first would allow the biggest impact on the customer to be delivered as quickly as possible. However, this increases the requirement during the procurement process to show that the solutions to improving service performance (such as increasing the PVR or adjusting the running times in the timetable) are viable and robust.
- **Service reach** – services from some depots have a wider geographic reach than others. Such service reach needs to be considered as customers across a wider geographic area may see the benefits of franchising (at least in part) earlier.
- **Depot suitability and availability** – the availability of strategic depots will be a key factor; this is assumed not to be a constraint at present but will depend on negotiations with existing owners over acquisition during transition.
- **Operational efficiencies / costs** – there may be some packages where there are opportunities to realise efficiencies (e.g. through removal of duplicate services or reallocation of services between depots). There may also be some packages where additional costs are necessary (e.g. increasing PVR to reach an acceptable level of performance). As the MSA assumes minimal network change on franchising day 1, it is most likely that any efficiencies would likely be realised through mid-term contract variation or at the subsequent tender round.
- **Ease of implementation** – some packages may be easier to implement than others, whether due to the size of the package or other factors, such as specialist vehicles being required or delays in acquiring a strategic depot. It would be prudent to have any packages which are more complex to implement in later tranches.
- **Electrification** – operators committed in GFAs to run ZEBs acquired through ZEBRA/LUF funding on agreed services for at least five years; the MSA may agree to vary these services if necessary. These ZEBs are expected to be introduced by March 2026, meaning the GFA commitment would expire in March 2031. This will need considered in the transition, either leaving such services until the last tranche, agreeing other suitable services the ZEB can run on if the services is

franchised (and the incumbent operator does not win the contract) or determining another approach.

5.6.15. Further development and testing will be required in the early transition period, but it is currently expected that the five large-sized packages would be let over three tranches – one package in 2029, two in September 2030, and two in September 2031.

5.6.16. An initial assessment against the factors outlined above, and assuming that three tranches remains the preferred approach, results in a transition to franchising which is likely to follow the schedule below. This schedule is a provisional indication and is subject to further development prior to the commencement of franchised services.

Table 13: Summarised provisional transition strategy

Month	Large packages	Small packages
September 2029	A – Washington and Riverside	7 services with PVR between 1 and 3
September 2030	B - Deptford, Sunderland, South Shields	12 services with PVR between 1 and 4
	C – Belmont and Consett	35 services with PVR between 1 and 11
September 2031	D – Percy Main, Ashington, Blyth	17 services with PVR between 1 and 5
	E – Slatyford and Walkergate	14 services with PVR between 1 and 13

5.6.17. Figure 11 to Figure 15 below show the small and large services included in each package. Services in Figure 11 are assumed to commence franchised operations in September 2029, those in Figure 12 and Figure 13 are assumed to commence franchised operations in September 2030, with those in Figure 14 and Figure 15 assumed to commence franchised operations in September 2031.

Figure 11: Large package 'A' and associated small contract services

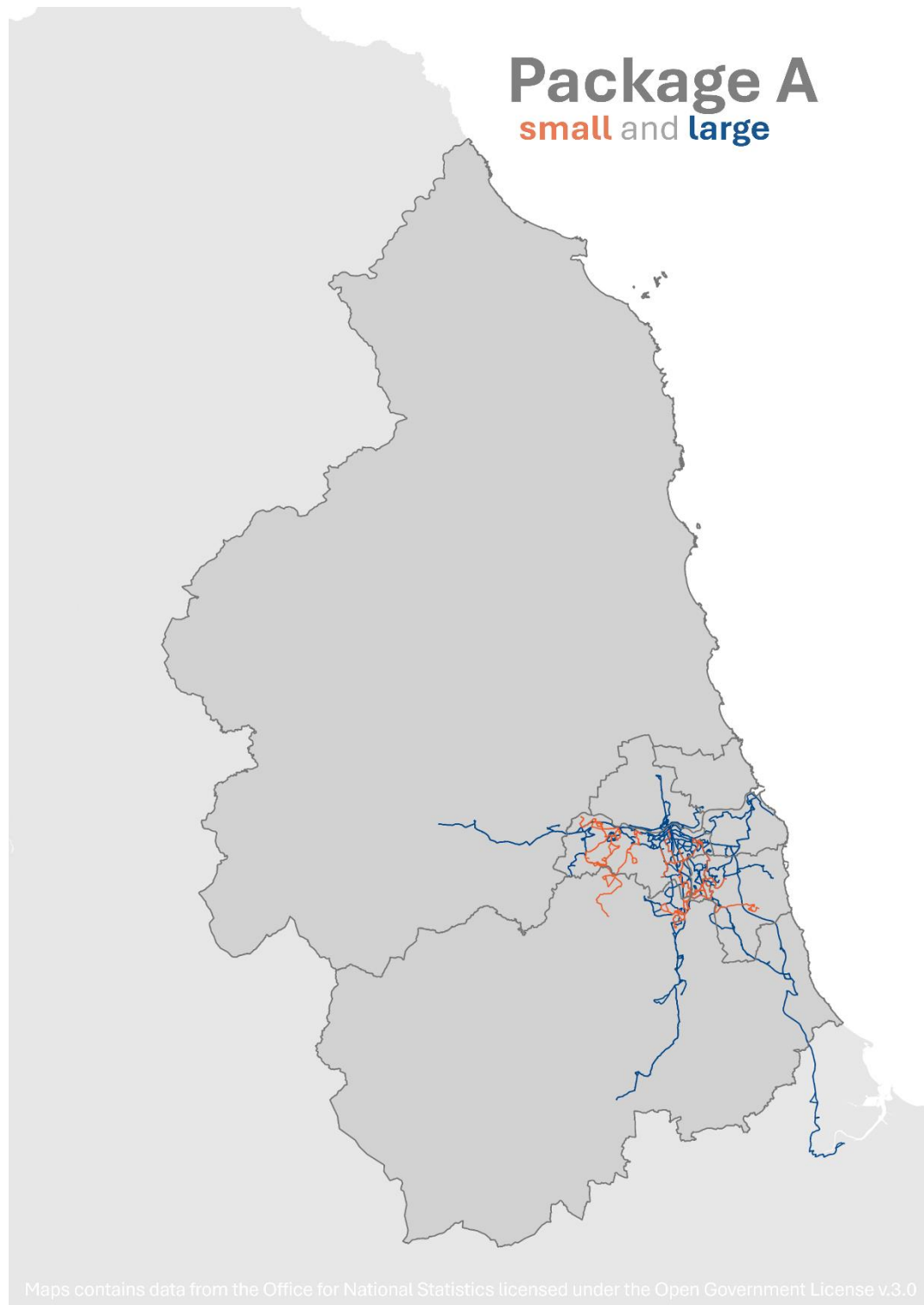


Figure 12: Large package 'B' and associated small contract services

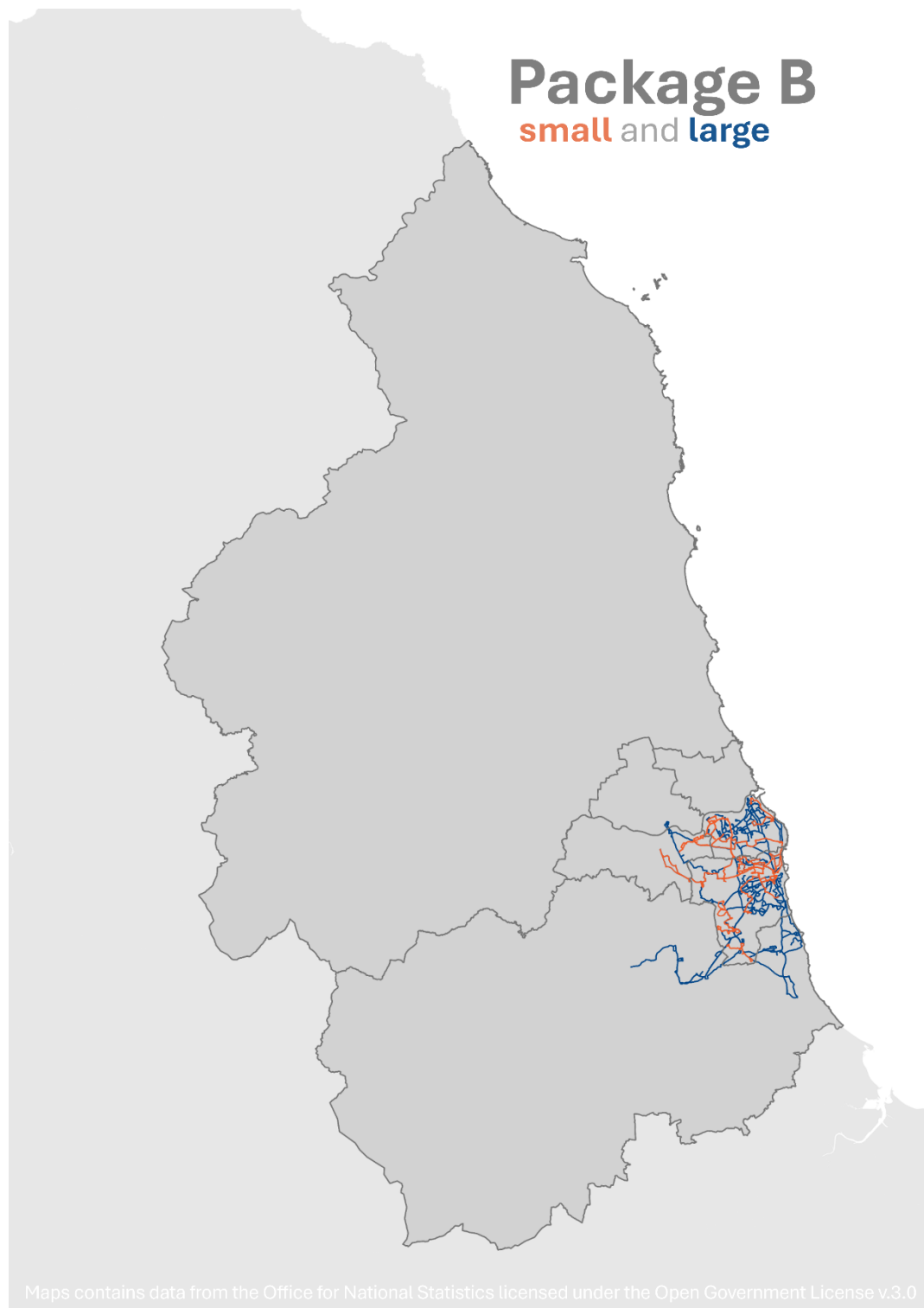


Figure 13: Large package 'C' and associated small contract services

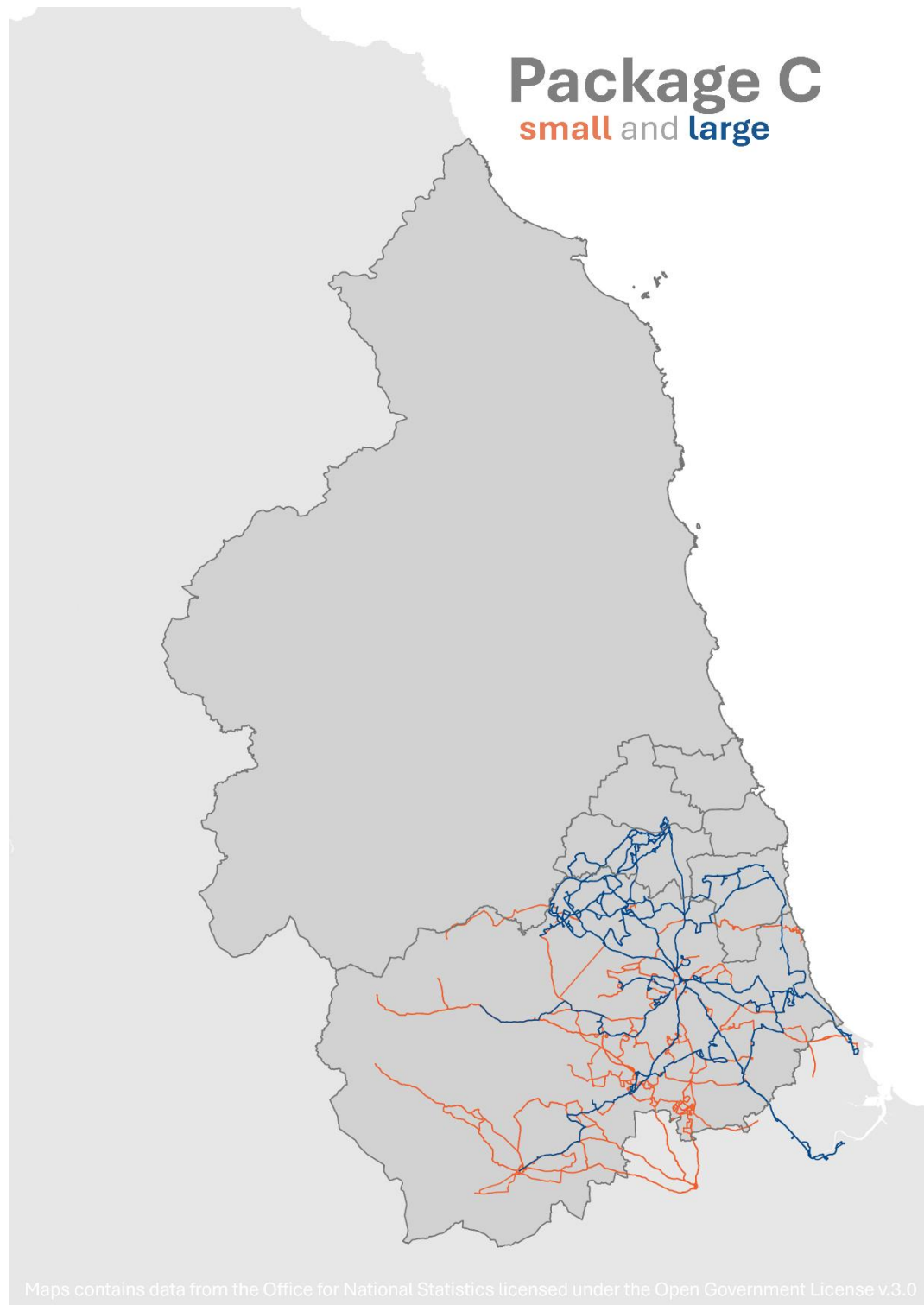


Figure 14: Large package 'D' and associated small contract services

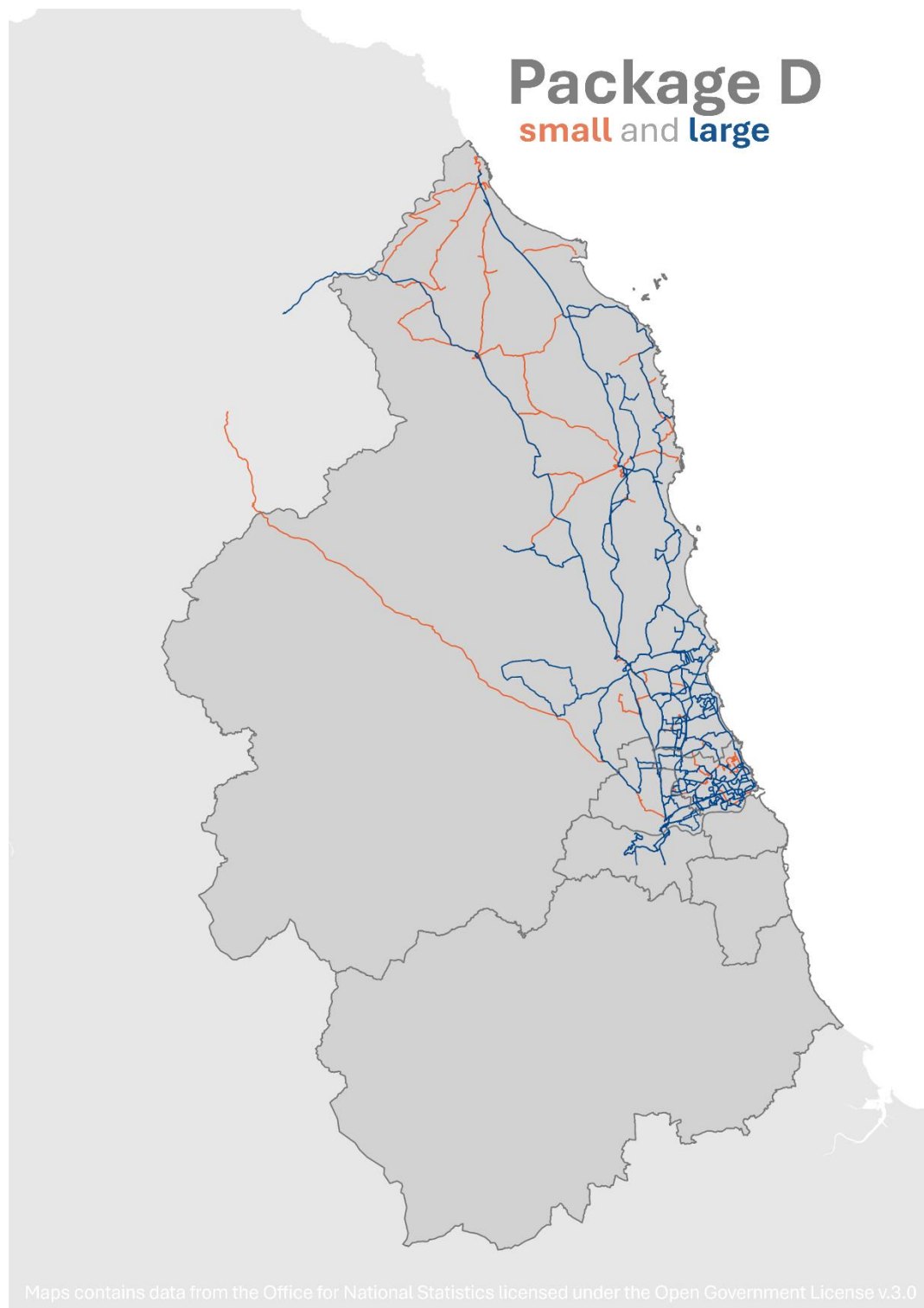
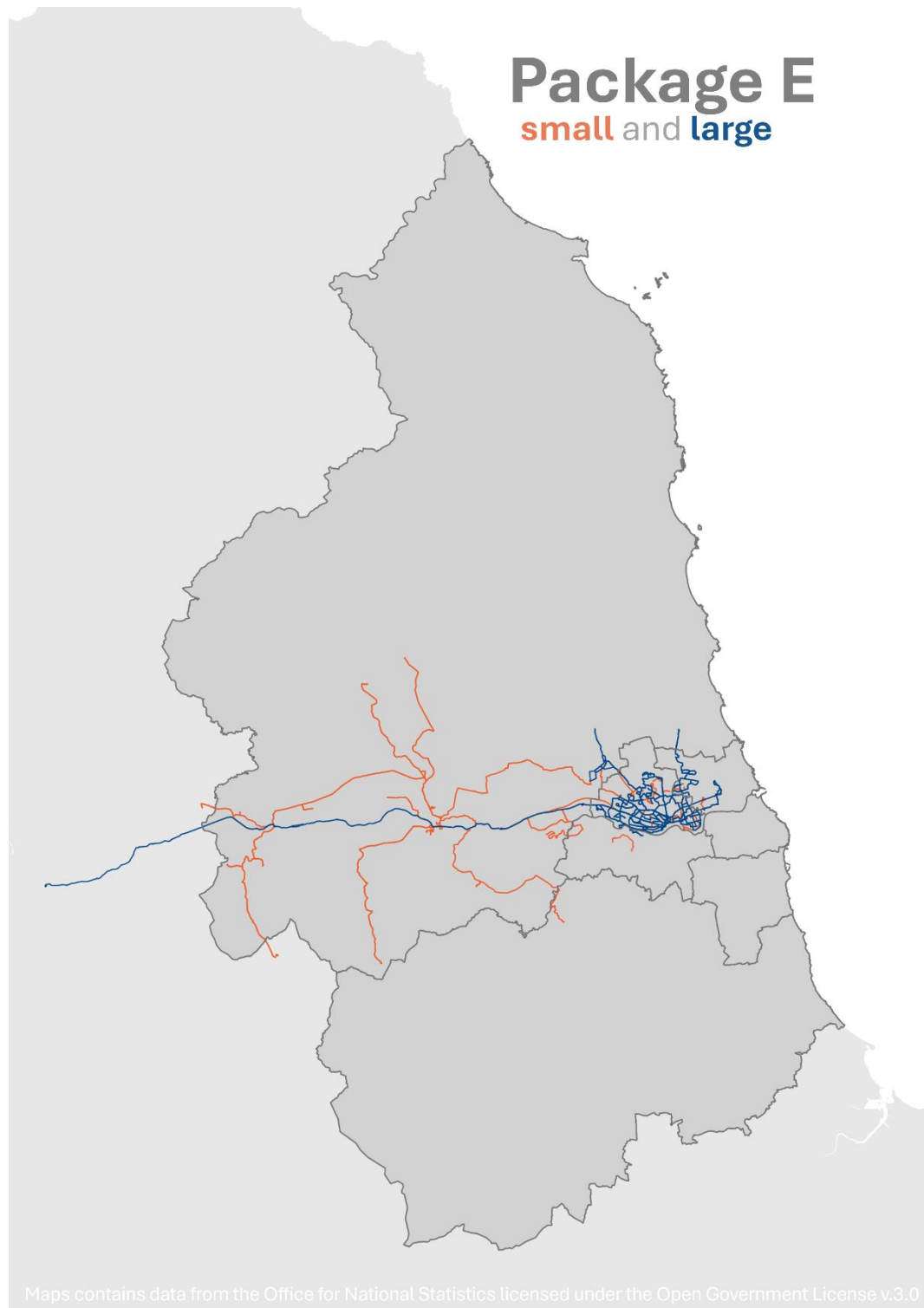


Figure 15: Large package 'E' and associated small contract services



5.6.18. A series of activities would be required to procure and mobilise each tranche. Some of these activities will follow-on from general work undertaken during the wider franchising

transition period and then be used in the procurement of each tranche, such as development of a template contract specification and terms and conditions.

- 5.6.19. The Procurement Act 2023 allows authorities to procure services either through an open procedure or a competitive flexible procedure. A competitive flexible procedure can bring benefit through allowing adjustment to specification and commercial terms through dialogue / negotiation with prospective bidders. It is, however, more complex, resource-intensive and time-consuming. The DB will consider the appropriate procurement procedure ahead of activity commencing, but it is likely that the competitive flexible procedure would be most appropriate for the large-sized packages.
- 5.6.20. An open procedure may be more appropriate for the smaller packages. It may also be more attractive to SMOs by reducing the burden placed on them to bid.
- 5.6.21. Table 14 provides an indicative procurement timeline; procuring local service contracts through the competitive flexible procedure would take approximately 20 months, inclusive of procurement activity lasting 14 months and a subsequent mobilisation period of six months. Introducing the first franchised services in September 2029 would therefore require procurement activity to begin no later than January 2028.
- 5.6.22. These stages, and their length and ordering, is indicative. The Procurement Act 2023 allows for a different approach to be taken (for example, conducting market engagement once a tender has launched) – and so the order of stages, their place in timeline, and activity completed in each stage may vary. An overall timescale of approximately 20 months, however, remains likely.
- 5.6.23. Figure 16 provides an indicative visualisation of the timeline and activities and shows the overlap between tranches.

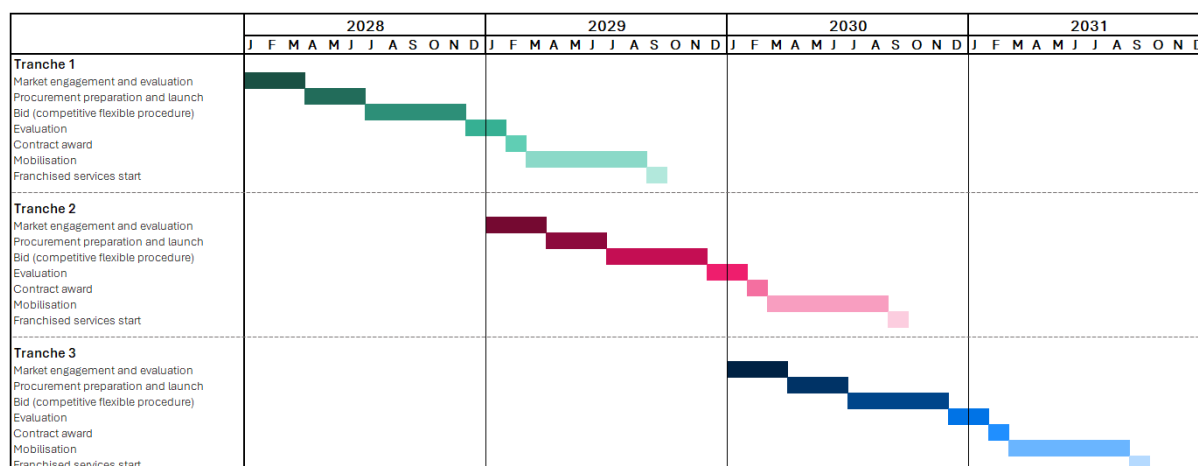
Table 14: Indicative procurement timeline

Phase	Duration
Market engagement and evaluation	3 months
Procurement preparation and launch	3 months
Bid (open procedure)	2 months
Bid (competitive flexible procedure)	5 months
Evaluation	2 months
Contract award	1 month
Mobilisation	6 months ⁵⁰
Estimated total (open procedure)	17 months
Estimated total (competitive flexible procedure)	20 months

⁵⁰ Six months is the minimum transition period identified in the MSA's analysis, but other MSAs have chosen to use a nine-month transition period – which may reduce risk and flatten resource peak. Further consideration of the transition period will progress prior to procurement activity.

- 5.6.24. This is for all operator and DB mobilisation activities such as TUPE, asset transfer, contract negotiations, branding, ICT transition.
- 5.6.25. The duration allocated to the mobilisation phase will need to be refined, drawing on the experience of other areas and what tasks are required.
- 5.6.26. Mobilisation will require significantly longer than 6 months if bus operators are expected to procure new vehicles, especially if ZEBs.
- 5.6.27. Six months was previously the statutory minimum period for mobilisation under TA2000 Section 123H(4); this clause was removed by the Bus Services Act 2025 – allowing franchising authorities to determine their own mobilisation period. Explanatory notes published during its passage through Parliament stated this may be particularly impactful for authorities who “*adopt a different model to those developed to date*”⁵¹.

Figure 16: Indicative procurement timeline



- 5.6.28. Further work will develop this into a full programme covering the three tranches and refine timescales, reaching a process that is manageable for the DB to deliver as a procurer and does not put bidders off due to being excessively onerous. It is likely that the overall timeline will remain the same, but different activities may take different lengths of time. This will include further consideration of the merits of the competitive flexible procedure, particularly for larger contracts, and the timeline and resource implications of such.
- 5.6.29. Such further work will also include greater consideration of the optimal balance between cost and quality in evaluating the tenders received during the procurement process for local service contracts. As other franchising authorities are, or have recently, undertaken procurement exercises, this approach will allow the DB to be informed by their experience and tailor the approach to cost and quality accordingly.

⁵¹ [Bus Services \(No. 2\) Bill \[HL\] – Explanatory notes](#). UK Parliament. 2025.

- 5.6.30. There is a risk that commercial services are deregistered during the transition period, in turn generating pressure for the public sector to act and secure the service to smooth the transition to franchising. Mitigations to this risk include the development of a detailed transition and mobilisation plan, early and regular engagement with operators and wider stakeholder management including regular meetings, feedback sessions and clear communication of expectations.
- 5.6.31. This risk is particularly acute if phased transition to franchising transferred the most profitable services to the public sector early, in turn reducing the commercial viability of that operator's remaining services in the region. Profitability was therefore considered as one of the factors in reaching the implementation order (see 5.6.14).
- 5.6.32. The Public Service Vehicles (Registration of Local Services) (Franchising Schemes Transitional Provisions and Amendments) (England) Regulations 2018 also allows a franchising authority to issue a transitional notice at the same time it makes a franchising scheme, which would extend the statutory service deregistration period to a maximum of 112 days. The MSA will consider the merits of such a notice, and any preferred extension to the deregistration period, prior to the mayoral decision on whether to make a franchising scheme.
- 5.6.33. This notice does not prevent services from being deregistered but extends the time between the operator deciding to deregister the service and the service ceasing to operate on the road, allowing additional time for the DB to consider interventions to maintain the stability of the network.
- 5.6.34. These arrangements, and any more detailed mitigations arising from further transition and mobilisation planning, are intended to support network continuity and avoid disruption to passengers and/or a significant increase in public sector secured service spend during the transition period.
- 5.6.35. Although the Bus Services Act 2025 contains provisions allowing initial local service contracts to be directly awarded to incumbent operators, these provisions are not currently assumed to be used – with further analysis required to confirm a position for transition and implementation. Directly awarding such contracts could theoretically smooth the transition (at the expense of initial competition), but the provisions of the Bus Services Act 2025 require such contracts to be awarded on a net cost basis – meaning operators would still carry revenue risk.

Phasing strategy

- 5.6.36. Local service contract procurement cycles are likely to be a significant undertaking which require resource in the DB to successfully deliver. Retention of the same approach for transition into the long-term would create peaks and troughs of procurement activity – requiring an inefficient use of DB assets to retain a sufficiently large procurement function in years without activity.

5.6.37. In the long-term, it is preferable to reach a steady state with approximately one procurement exercise each year. This staggered approach targets long-term deliverability and the continued achievement of high-quality procurement standards.

5.6.38. Although the intended steady-state length of local service contracts is intended to be a maximum of seven or eight years, initial local service contracts may need to take a different length to enable the intended steady-state to be reached.

5.6.39. Table 15 below summarises how the DB may flex the intended contract lengths for the initial round of procurement to reach the intended steady-state of one major procurement cycle a year for the second and subsequent rounds. Reflecting market engagement feedback in other areas, large contracts retain a minimum length of five years to generate operator interest.

Table 15: Outline phasing strategy

	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Tranche 1 – large										
Tranche 1 – small										
Tranche 2 – large										
Tranche 2 – small										
Tranche 3 – large										
Tranche 3 – small										

Procurement / re procurement

5.6.40. Larger contracts would therefore be awarded for five years in tranche 1, six years in tranche 2, and seven years in tranche 3. Smaller contracts in each tranche would be for four, five and six years respectively. This reaches a position of one procurement cycle each year by 2033, thereafter contracts would be awarded for their intended steady-state length.

5.7. Opportunities for SMO involvement

5.7.1. The MSA recognises the benefits of SMO involvement in the bus market and acknowledges the obligations in the statutory franchising guidance to consider opportunities for SMO involvement in a franchised market. Retaining opportunities for SMOs to participate in the North East bus market was therefore set as one of the MSA's six commercial objectives for this assessment (as discussed further in section 2). Opportunities to facilitate the involvement of SMOs has been considered alongside other commercial and operational considerations during the development of the commercial model.

5.7.2. Continued SMO involvement in the North East bus market is intended to be facilitated through various aspects of the commercial model, which include:

5.7.3. The DB will tender for a number of small contracts, cumulatively representing circa 160 PVR (approximately 20% of the network). In line with the requirements in competition law, any operator will be able to bid for these contracts – but their size is intended to appeal to

the capacity and market appetite of SMOs. The principles used to develop the packaging strategy mean that some services are currently provided from strategic depots but will be provided through small contracts in the future – providing comparatively greater opportunities for SMOs.

- 5.7.4. These small contracts will each relate to an individual service, which operators may decide to group into a single bid. This approach provides maximum flexibility for SMOs to determine the size of contract they are equipped to operate and make the best use of their resources.
- 5.7.5. Recognising that some SMOs may not have the capacity or desire to develop timetables to parameters set by the DB, some smaller contracts are presently intended to include timetables set by the DB to reduce the resource demands placed on SMOs when bidding for contracts (see section 5.3 for further discussion of potential evolution of the approach to timetabling following market testing). Potential allowances for alternative timetable proposals in bids maintain the opportunity for SMOs to contribute if desired; balancing potential operator involvement against creating onerous requirements that may represent a barrier to SMO involvement.
- 5.7.6. SMOs are common operators of schools contracts in the status quo; the MSA's franchising model is intended to retain this avenue for SMOs. These will likely be subject to different vehicle standards (such as reduced branding requirements) to reflect the different type of work and that vehicles may be used for non-franchised work outside of school service times.
- 5.7.7. People-based requirements in local service contracts will primarily be around how the contracted operator engages with the DB, rather than specifying a number of individual roles that the operator must employ. SMOs will typically have lower headcounts than larger operators; a requirement to employ a large number of roles (particularly for smaller contracts) would likely incur considerable expense – in turn deterring SMOs from bidding or reducing their prospects of lodging a competitive bid.
- 5.7.8. In addition to the small contracts, SMOs will also have opportunities to participate in bidding for large-sized contracts, either independently or through potential consortia bids and as a sub-contractor for the contracted operator.
- 5.7.9. In addition to bidding for local service contracts, SMOs would also have opportunities for continued participation in the North East bus market by providing services that are exempt from the scheme or provided under a service permit. An SMO could, therefore, provide services such as special event services or rail / Metro replacement services without holding a local service contract; retaining opportunities to participate in the market.
- 5.7.10. There will be further development of various aspects of the structure and processes for franchised operations ahead of procurement activity, such as the nature of the documentation required during bids. Potential impact on SMOs will remain a consideration by the DB during this activity.

5.8. Actions to support market appetite and competition for local service contracts

5.8.1. Stimulating competition is one of the six commercial objectives set in section 2, with these objectives considered during the development of the MSA's intended commercial model. Several aspects of the commercial model are therefore intended to increase operator's appetite to bid for local service contracts, thereby improving competition.

5.8.2. In addition to competition for the first round of contracts, the commercial model is also intended to support ongoing competition in procuring the second and subsequent rounds of local service contracts.

5.8.3. Actions to support market appetite and competition for local service contracts include:

- **Providing depot sites to operators of large-sized contracts.** Operator provision of large-sized depot sites would require substantial investment and represent a significant barrier to entry – both for initial local service contracts and each re-procurement. Incumbent operators with existing large depot sites would likely be at a significant advantage for large-sized contracts in their existing operator areas were operators asked to provide depots. DB provision of depots removes this recurring barrier to entry and supports competition for contracts.
- **PVR of large-sized packages.** Responses to market testing in other areas that have completed an FSA indicated that a minimum PVR of circa 100 is desirable for packages to be attractive to a wide number of operators. Similar responses were received to the MSA's market testing exercise. Section 5.6 outlines that the intended packages range between circa 110 and circa 190, intended to position them as attractive propositions for operators – thereby increasing market appetite and supporting competition for contracts.
- **A staggered procurement programme.** Tender exercises are likely to require considerable resource from both operators and the DB. Multiple concurrent procurements for North East local service contracts would risk exceeding the available resource and reducing competition. Section 5.6 outlines an indicative procurement timeline that avoids overlap in bid stages for successive tranches. Second and subsequent rounds of procurement are intended to take place approximately annually, allowing a consistent programme of procurement activity for interested operators.
- **Small contracts aligned to the capabilities of SMOs.** SMOs have an important role in delivering local bus services; the MSA wishes to maintain opportunities for SMOs to access the regional bus market. Approximately 20% of the network (by PVR) will be operated through small contracts aligned to the capabilities of SMOs. Each service is intended to be let as an individual contract, with the potential for interested operators to group contracts together in their bid, enabling maximum flexibility for SMOs and providing opportunities for competition.

5.9. Market testing

- 5.9.1. The MSA undertook a market testing process with operators and other relevant organisations on its intended commercial model for franchising in autumn 2025.
- 5.9.2. Market testing during the FSA was intended to test the key principles of the commercial model at an earlier stage than formal consultation and demonstrate that there is a market of potential operators for franchised services.
- 5.9.3. Market testing has also previously been carried out, and outputs published, by a number of other MSAs that subsequently decided to make a franchising scheme. Much of this market testing shows common and consistent feedback, which the MSA has been able to consider at the earliest stages of developing its commercial model.
- 5.9.4. Participants were invited to attend two identical briefing sessions, were provided with a briefing note to summarise the intended commercial model and were asked to complete a questionnaire to feedback on the proposed commercial model. Participants were also invited to request one-to-one meetings with the MSA, which led to in-depth conversations including lessons learned from domestic and international franchised markets.
- 5.9.5. There was a positive level of engagement with large and small operators during the market testing exercise, including both incumbent and non-incumbent operators. 23 organisations attended the briefing sessions, with 10 one-to-one sessions held. 13 questionnaire responses were received.
- 5.9.6. There was a good level of SMO representation at the briefing sessions, and although most questionnaire responses were received from large operators, responses were received from some SMOs which the MSA has been able to consider. The MSA has also engaged with the Confederation of Passenger Transport (CPT) during the market testing process, who represent a number of large and small operators (both incumbents and non-incumbents), supplementing the responses received directly from SMOs.
- 5.9.7. A fuller explanation of the market testing process and conclusions can be found in the market testing report appended as Appendix E, but in summary:
- Responses were generally positive and most aspects of the commercial model were accepted. As discussed in the relevant sections above, some operators suggested that changes should be made to the model around timetabling, ownership of ticketing machines, and fleet provision. The MSA is considering this feedback.
 - Operators interested in large contracts generally agreed (though not unanimously) that a procurement process using the competitive flexible procedure was appropriate, while those interested in small contracts all agreed that the open procedure was suitable. There has been interest in bidding from both existing local operators and new market entrants. Procurement processes are therefore expected to attract substantial interest and be suitably competitive.

- Section 5.1.3 describes how the proposed commercial model has been developed to achieve the outcomes identified in the strategic case, with the costs of this model considered in the financial case. Operators responded positively to most aspects of the commercial model, and areas where further consideration is now required are unlikely to have a material impact on the costs. Confidence can therefore be taken from the market testing exercise that it will be possible to secure local service contracts that deliver the outputs and outcomes intended within the financial and commercial terms envisaged in the assessment.
- Although fewer questionnaire responses were received from SMOs than larger operators, responses from SMOs expressed interest in bidding for local service contracts. Section 5.7 further describes how the proposed commercial model provides opportunities for SMOs to be involved in delivering local service contracts.

5.9.8. Operators, as well as other stakeholders, will have a further opportunity to comment on the proposed commercial model – and the franchising proposals more generally – during the formal consultation process.

5.10. Assessment against commercial objectives

5.10.1. The MSA has assessed the proposed franchising scheme's ability to deliver the six commercial objectives established in section 2. This assessment is shown in Table 16 below.

5.10.2. Table 16 includes a brief narrative and RAG rating on how the achievement of each of objective is impacted by the proposed franchising scheme and its commercial model. The RAG ratings have the same meaning as those for the assessment of the EP against the same commercial objectives in section 4.6:

- Green means there is a high potential that the relevant commercial objective could be achieved through the proposed franchising scheme,
- Amber means the objective could be met under the proposed franchising scheme but there are a number of challenges, and
- Red means that it is unlikely the objective would be met by the proposed franchising scheme.

Table 16: Franchising assessment against commercial objectives

Commercial objective	Ability of model to achieve objective	RAG
The public sector should be able to influence the bus network and the outcomes it delivers for customers	Franchising under the proposed commercial model would significantly increase public sector control and ease the implementation of many passenger facing improvements. As examples: • Introduction of fares and ticketing interventions would not require lengthy complex and commercial negotiations with operators that carry no guarantee of success, with the exception of a small number of service permitted services where the DB would intend to attach a condition around fare acceptance. • Decarbonisation would no longer require a grants process in compliance with subsidy control regulation; the DB would simply specify which services were to run ZEBs and either procure and provide the vehicles itself or specify that operators provide such vehicles with bid prices reflecting this specification. • The DB would specify a single brand for bus services (as part of a wider integrated transport network brand) without needing to negotiate this brand or its application with operators (who would have their own commercial interests to consider). • Network changes would be primarily planned by the DB and implemented on planned change dates.	Green
Ensure that any implementation and transition phases are timely, practical and sustainable, with limited disruption for passengers	Implementation and transition periods are a necessary part of franchising – both from deregulation to franchising initially and between contracted operators (if necessary) at the end of each contract cycle. • The MSA will not transition to franchising in a ‘big bang’ approach; a tranche approach limits the scale of change on a single day and minimises disruption to passengers while still enabling a timely transition. • The MSA does not propose to make significant network changes on franchising day one, further limiting the scale of changing and avoiding potential passenger confusion around routes. • Subsequent procurement rounds are planned to occur approximately once every year, making these practical to manage for the DB and avoiding an onerous burden on operators. Depot provision by the DB also limits change for operator employees, as their place of work would not change when TUPE transferred between contracted employers. • These phases are nonetheless challenges of franchising as significant aspects such as timetables and fleet may change in transitions to, and between, contracted operators.	Yellow

Commercial objective	Ability of model to achieve objective	RAG
Competition is stimulated	Franchising introduces regular opportunities for operators to compete for contracts covering the whole network but realising this depends on the commercial model offering sufficiently low barriers to entry and attractive commercial terms to attract bidders. - MSA provision of depots removes a major barrier to entry that may have deterred market entrants and significantly constrained competition. The MSA also proposes modest specifications on some ITS and staffing, further removing barriers. - Services are packaged into one of five large contracts, or one of several small contracts, offering a range of opportunities for operators to bid and, if successful, operate services. - Operators have opportunities to compete on operational performance (in order to receive financial incentives) during the life of a contract.	
Arrangements should achieve best value for the public purse while balancing risk	Competition for local service contracts is an important component of achieving best value; competition between several operators is likely to minimise bid prices (as each seeks to win the contract), provided there is an attractive commercial model and a well-run procurement process. There is an increase in public sector risk under franchising. - Risks have been allocated to the sector best placed to manage them, and which controls the key factors influencing those risks. Public sector control over branding, fares and ticketing, network and other drivers requires the DB to assume revenue risk from operators. - Franchising is also a highly visible public sector intervention; additional reputation risk would transfer to the public sector. - These are not, however, wholly new risks. Public sector budgets are also indirectly exposed to falling patronage, as network reductions generate political to and public pressure secure services; direct DB control of revenue risk allows proactive network planning to minimise risk. Some reputational risk already also sits with the public sector due to public perceptions of the sector's current influence.	
Maintain opportunities for small-and-medium sized operators to access the North East bus market	SMOs are an important part of the region's bus network, and elements of the proposed commercial model are intended to facilitate their continued involvement – but the MSA/DB cannot restrict contracts solely to SMOs nor give SMOs preference in procurement processes. There will be a number of small contracts located across the region which SMOs would be well-placed to bid for. The DB will provide full timetables for many of these contracts to remove a potential barrier to SMO access. Such contracts may also have different vehicle standards (such as	

Commercial objective	Ability of model to achieve objective	RAG
	those providing services to schools), widening the pool of vehicles that can be used and reducing a potential barrier for SMOs. • Pragmatic, rather than expansive, specification is preferred for most aspects of the commercial model – such as fleet and people-based requirements. This benefits SMO involvement by limiting the requirements placed on SMOs, allowing them flexibility in how their business model is structured. • Other MSAs pursuing franchising have, however, seen a reduced role for SMOs – with only one SMO being awarded a contract in Greater Manchester. This remains an evolving area, and the MSA would look to learn from barriers identified in other areas.	
Region-wide implementation	Franchising would apply across the MSA area, enabled by aspects of the commercial model: • The DB would provide strategic depots to operators of large contracts, from which the majority of the bus network is operated. Strategic depots are located across the region; services have been allocated to a strategic depot (or a smaller contract without depot provision), retaining geographic coverage of the region. • Cross-boundary services with a substantial proportion of their timetabled time inside the MSA area are intended to be franchised, offering the benefits to North East residents whose local service runs on a cross-boundary services. Policy decisions associated with franchising are forecast to lead to a less significant decline in mileage than under the EP. • As rural services are often lost first in network contraction, franchising retains more services for rural residents.	

- 5.10.3. Assessment of the intended commercial model for franchising evidences that it is consistently aligned to the six commercial objectives.
- 5.10.4. Franchising is particularly well-placed to enhance public sector influence by allowing the MSA to specify the network and interventions through local service contracts – contributing to building a green and integrated transport network that works for all as set out in the LTP, stimulate competition through competitive tendering for contracts covering the whole network (in turn supporting value for money), and has regionwide applicability.
- 5.10.5. Further consideration will be given to the amber rated aspects of the commercial model during future work to prepare for implementation, including managing risk and avoiding disruption to passengers, and ensuring that opportunities remain for SMOs to participate in the market. There are, however, no aspects of the franchising model rated as red.
- 5.10.6. In comparison to the EP assessment set out in section 4.6, franchising is better aligned to the six commercial objectives – performing similarly on achieving best value, maintaining opportunities for SMOs and region-wide implementation. The EP scores higher on ensuring implementation and transition stages as timely, practical and sustainable as the region's existing operational model. Franchising is assessed to better facilitate public sector influence and drive competition.

Key insights from this section

Vehicle provision	Three different approaches to vehicle provision are available to the MSA, informed by the responses received during market testing. Vehicle provision could be retained as an operator responsibility; an RVM could be introduced in an operator-led environment to reduce risks; or the DB could provide vehicles to operators for the life of a local service contract. Further analysis will be undertaken to reach a final approach to vehicle provision.
Depot provision	Strategic depot sites will be provided by the DB to the operators of large-sized contracts, who are responsible for day-to-day management and maintenance. Operators are responsible for sourcing and providing a suitable depot for smaller contracts.
Bus stops, stations, and shelters	The FSA does not propose a change in ownership and management arrangements for most bus stations, stops and shelters as part of the transition to franchising.
Intelligent Transport Systems (ITS)	A hybrid approach is proposed to the ownership and specification of ITS, in which passenger facing systems will be subject to greater specification (and in some cases, ownership) by the DB while other systems will have a lesser level of specification and will remain the responsibility of operators. Table 10 provides more information on the level of specification and ownership of relevant ITS types.
Fares and ticketing	The DB will determine the products to be sold across the network and propose prices for such products, subject to approval by the MSA Cabinet
Branding	Franchised bus services would be part of an integrated transport network; the MSA intends to specify that franchised services will carry a consistent Angel Network branding.
Marketing	The DB will assume responsibility for marketing and will advertise the bus network through various communication channels. Control of marketing

	includes a single website, app, and social media accounts which would simplify communications.
Timetable design	Further analysis is required to confirm a position on timetable design following market testing. Timetables could either be designed by operators within parameters set by the DB or designed by the DB with potential opportunity for operator input. It is possible to take a different approach for large-sized and small contracts.
Passenger information	The DB will develop an application and website to provide passenger information across the integrated transport network. The DB would also operate a customer contact centre to respond to customer queries across the wider integrated transport network. The DB would also coordinate messaging about disruptions across the integrated transport network.
Network for franchised services	Most local bus-services are in-scope for the MSA's proposed franchising scheme. Certain kinds of services like some types of cross-boundary services and school services will remain out of the scope of the MSA's proposed franchising scheme.
Service permit regime	Services that are not in scope for the MSA's proposed franchising scheme and which are not exempt will require service permits to operate in the region. The MSA will need to operate a service permit regime and will consult on the service permit regime prior to its introduction.
Network planning and design	The MSA assumes there will be minimal initial change to the network when franchising is introduced to enable a smooth transition for passengers, communities and bus industry employees. However, there are a range of reasons that might invite temporary (e.g. road closures) or permanent (e.g. new developments) network changes. Network reviews will take place on a planned basis once franchising has been implemented across the entire region. The MSA/DB will lead on network planning and reviews while enabling operators to provide their input via the contract change procedure.
Bus priority infrastructure	This assessment assumes that all planned bus priority schemes are delivered under both delivery options. The MSA/DB will benefit from any increased farebox revenue due to increased patronage resulting from the delivery of such infrastructure.
Contract length	The MSA intends for local service contracts to have a maximum length of seven-to-eight years. Contracts would have a shorter guaranteed term (approximately five-to-six years) with an extension/break clause exercisable at the DB's sole discretion.
Performance regime	Local service contracts would include a performance regime, driven by punctuality and reliability, which provides operators with the opportunity to earn financial incentives for performance that exceeds expectations and risk financial deductions for performance which is below expectations.
Revenue risk	The public sector would take revenue risk under the proposed franchising scheme.
Cost risk	Operators will retain most of the cost risk, but with indexation applied to contracts to account for inflation.
Safety risk	Operators are best placed to manage the operational safety of assets and services, utilising their existing expertise in day-to-day management and delivery of safety arrangements. The DB, however, would assume strategic

	oversight of prevention of anti-social behaviour and violence against women and girls on the public transport network.
People and HR requirements	The DB will provide operators with a high-level specification as part of the tendering process which will specify a small number of specific roles, primarily around how the operator interfaces with the DB. This specification is intended to include conditions relating to employment practices.
Packaging strategy	Most services to be provided under local service contracts will be allocated to a 'large-sized' package of contracts, with a number of smaller contracts intended to provide opportunities for SMOs.
Transition strategy	The on-road transition to franchised services is assumed to take place in September 2029, September 2030, and September 2031, following a procurement process estimated to require 20 months – including a six-month mobilisation period after contract award.
Phasing strategy	The DB will initially let one-or-two large contracts and the associated small contracts in each year of the transition period, in the long-term, the DB would prefer to reach a steady state with one procurement exercise each year.
SMO involvement	The DB will tender for a number of small contracts, cumulatively representing approximately 160 PVR, to encourage SMO involvement in the proposed franchising scheme. However, in line with competition law, any operator can bid for these contracts. SMOs will have opportunities to participate in bidding for large-sized contracts, either independently or through potential consortia bids and as a sub-contractor for the contracted operator. SMOs are common operators of school contracts in the status quo; the MSA's franchising model intends to retain this avenue for SMOs.
Market testing	The MSA undertook a market testing process with operators on its intended franchising model in autumn 2025. There was general acceptance of the proposed commercial model. Further analysis will be undertaken in three areas (fleet provision, timetable design and ticket machine provision) where operators suggested changes to the commercial model.

6. Conclusion

- 6.1. Local bus services in the North East are provided in a deregulated market structure. Operators seek to generate a profit by matching supply to demand; services, prices and standards are determined by each operator making commercial judgements and decisions. Approximately 87% of network mileage is delivered on a commercial basis; wholly commercial services are clustered in and around the region's urban centres, with limited provision in the region's rural and coastal communities.
- 6.2. Nexus, DCC and NCC hold contracts with operators to provide the remaining 13% as secured services. These services provide important transport links but are not commercially viable, requiring subsidy from the contracting authority. Nexus, DCC and NCC determine secured service provision in each area according to their own policies and budgets. Secured service provision is often, but not always, reactive to reduced commercial provision.
- 6.3. Three large operating groups – Go Ahead, Arriva and Stagecoach – operate the majority of services in the region, holding a collective 98% market share – but on-road competition between operators is limited. The region's three large operators have historically averaged profit margins of approximately 10%; network reductions and fares increases will be required to reach such margins in the future. 19 SMOs provide a mix of commercial and secured services across the region.
- 6.4. The North East EP was introduced in March 2023, following negotiations and agreement with operators. The MSA, Nexus and the LA7 work in partnership with local operators through the EP to deliver agreed improvements, such as fare schemes or priority infrastructure. Section 4 describes the EP and the interventions that it enables.
- 6.5. The strategic case establishes that the FSA compares this existing EP to making a franchising scheme; the commercial case determines whether there is a commercially viable franchising model. Six commercial objectives have been developed to guide the development of the proposed commercial model for franchising and facilitate a commercial assessment of this model against the EP. These commercial objectives are aligned to the strategic objectives and, through these, ensure that the commercial model delivers the desired strategic outcomes.
- 6.6. Franchising involves a significant transfer of responsibility from operators to the MSA and DB, including over fares and ticketing, passenger information, branding and network design. There is also a commensurate transfer of risk, with the MSA/DB assuming revenue risk for all local bus services. Section 5 fully details the proposed commercial model for franchising.
- 6.7. The MSA undertook market testing with operators (including the incumbent large operating groups, SMOs and potential new market entrants) to understand the market appetite to bid for local service contracts on the intended terms. Engagement with operators was positive, with general acceptance of the proposed commercial model.
- 6.8. Operators suggested that changes should be made to the model around timetabling, ticket machines and fleet; the MSA intends to undertake further analysis and consideration to

reach a final position – but these are unlikely to materially change the costs or benefits associated with the proposed franchising model.

6.9. The EP and franchising models have been assessed against the commercial objectives at the end of sections 4 and 5 respectively, with the RAG ratings summarised below. Franchising performs favourably compared to the EP on increased public sector influence and enabling competition, although potential challenges are noted. The EP avoids a potentially disruptive short-term transition period – but in the long-term offers comparatively less public sector control and competition.

Table 17: Summary of assessment against commercial objectives

Commercial objective	Franchising	EP
The public sector should be able to influence the bus network and the outcomes it delivers for customers	Green	Red
Ensure that any implementation and transition phases are timely, practical and sustainable, with limited disruption for passengers	Yellow	Green
Competition is stimulated	Green	Red
Arrangements should achieve best value for the public pursue while balancing risk	Yellow	Yellow
Maintain opportunities for small-and-medium sized operators to access the North East bus market	Yellow	Yellow
Region-wide implementation	Green	Green

6.10. Both continuation of the current EP and making the proposed franchising scheme are commercially viable options for the delivery of bus services in the North East, as:

- The EP is currently operating in the region; this mechanism (supported by significant funding) has enabled improvements for passengers. No large-scale transition and implementation period is necessary to continue with the EP.
- The intended commercial model for franchising is expected to stimulate competition for the market through intended commercial terms that make the North East attractive for new and incumbent operators, while increasing the level of public sector influence over the network.

6.11. Although both are commercially viable delivery options, franchising more directly facilitates the achievement of the MSA's strategic objectives and their intended outcomes – as articulated in the strategic case – as the MSA will be able to directly specify various interventions (e.g. simplified fares and ticketing, unified branding) through local service contracts. This is possible as revenue risk transfers to the public sector under franchising, replacing the need for complex commercial negotiations and agreed reimbursement mechanisms under the EP.

**Franchising Scheme Assessment:
Management Case**

March 2026

1. Introduction

1.1. Purpose of the management case

- 1.1.1. The management case of this FSA outlines how the MSA will make and operate its proposed franchising scheme while also presenting an analysis of the current operations of the North East Enhanced Partnership (EP).
- 1.1.2. Section 123B(3) Transport Act 2000 (TA2000) requires franchising scheme assessments to include a consideration of how an authority will make and operate its proposed franchising scheme. Statutory franchising guidance, published in January 2026, requires authorities to also consider how it would manage and mitigate risk while successfully delivering franchising. It also calls on authorities to set out how they intend to manage the transition process from the current system to a franchised one. This requirement is fulfilled through the management case.
- 1.1.3. While the guidance does not require the authority to present such an analysis for the EP option, the MSA has chosen to do so as it provides decision makers with a clearer picture of the risks associated with both options being considered in this assessment, thereby enabling an informed decision to be made.
- 1.1.4. Appendix B outlines how the management case addresses the specific requirements set out in the statutory guidance.

1.2. Structure of the management case

- 1.2.1. **Steady-state management of the Enhanced Partnership** presents an overview of the EP's current operating model.
- 1.2.2. **Steady-state management of the proposed franchising scheme** presents an overview of the operating model for the proposed franchising scheme.
- 1.2.3. **Transitional change and mobilisation** sets out how the MSA will transition from its current operating model (EP) to either one of the delivery options examined in this FSA. The section also includes an examination of how the MSA would mobilise to deliver each delivery option.
- 1.2.4. **Performance and benefits management details** the MSA's approach to tracking the performance of the bus network under both delivery options.
- 1.2.5. **Network change** outlines the processes to be followed by the delivery body when making changes to the bus network in response to passenger feedback or other challenges.
- 1.2.6. **Stakeholder engagement and consultation** describes the North East MSA's current approach to stakeholder engagement under the current EP. It also details the MSA's future stakeholder engagement strategy under the proposed franchising scheme.

- 1.2.7. Risk and risk management **Risk and risk management** examines the public sector's altered risk profile under the proposed franchising scheme which includes an analysis of the risk management principles of the proposed future delivery body. The section concludes with a discussion of the risk management exercises undertaken during the preparation of this FSA.
- 1.2.8. **Programme management and governance** sets out the internal delivery and governance arrangements for the Bus Reform Project. It also presents a synopsis of the high-level governance arrangements for both the proposed franchising scheme and the EP.
- 1.2.9. **Conclusion** concludes the analysis presented in this management case.

2. Steady-state management of the Enhanced Partnership

This section will:

- Outline the governance framework of the current EP.
- Outline the roles of the public sector and the private sector in delivering the EP.
- Outline the competencies that the public sector possesses that will aid in the delivery of the EP.

2.1. Management of the Enhanced Partnership

- 2.1.1. The EP is the legal framework that allows the public sector to work together more closely with bus operators to improve the bus network in the current deregulated market. Discussion of its establishment can be found in section 4 of the strategic case.
- 2.1.2. The political and bus operating geography of the North East make it particularly complex to coordinate strategic interventions across the bus network given the large number of operators, seven local authorities, the MSA and Nexus. To address this, the North East Bus Partnership Board was formed in 2023 which provides effective and strategic governance to drive sound performance against the Bus Service Improvement Plan Key Performance Indicators (BSIP KPIs) detailed in section 5.10 of the strategic case. Programme delivery updates are provided to the quarterly meetings, with risks and issues reported by exception. The Partnership Board is comprised of bus operator representatives, a representative from Nexus, a representative from both Northumberland and Durham County Councils, an officer based in Tyne and Wear who is a member of the Heads of Transport Highways subgroup, the Director of Transport at the MSA, passenger representatives, such as Bus Users UK and Transport Focus, and an independent chairperson.
- 2.1.3. The MSA employs a Transport Customer Experience team which is responsible for managing the MSA's part in the EP and includes programme management capacity. This team is in place to deliver the plan, monitor performance of the management of the partnership agreement, and oversee marketing and stakeholder activities designed to drive growth in bus patronage.
- 2.1.4. A Bus Advisory Board has also been established which intends to provide a forum for all parties, public and private, with a vested interest in the bus network to discuss its direction and priorities.
- 2.1.5. Local bus boards in each local authority (LA) area are a forum for discussion between representatives of local areas on the local network and any proposed changes to services. These representatives include elected members, LA officers, bus operators, and other relevant stakeholders.
- 2.1.6. The MSA has delegated certain transport functions to Durham County Council (DCC), Northumberland County Council (NCC) who work to assist the MSA in the management of EP delivery alongside delivery of other transport functions. Nexus is the Passenger Transport Executive (PTE) for Tyne and Wear and delivers transport functions on behalf of the MSA in that area.

2.1.7. The following provides an overview of the role of both the public sector, and private operators, in delivering bus services in the current EP. Further detail on can be found in section 10 of the strategic case.

Policy

2.1.8. The public sector is responsible for preparing a Local Transport Plan (LTP), and BSIP, both of which help to set the intended strategic direction of the regional transport network. Further detail on this process can be found in the strategic case.

2.1.9. Home to school transport and discretionary enhancements to the English National Concessionary Travel Scheme (ENCTS) entitlements are set by the relevant local education authority, and travel concession authority, respectively. There are existing internal policy differences between the regional transport delivery bodies of Nexus, DCC, and NCC, such as regarding their respective approaches to processes such as contract procurement and management.

2.1.10. Local transport authorities are also responsible for setting policy around secured services.

Fares and ticketing

2.1.11. Operators are responsible for setting fare levels, in particular, they are required by competition law to set their single fares independently of other operators. These fares are currently capped by the MSA's Capped Fares Scheme, branded as 'The Mayor's Fares', which subsidises the cost of single tickets beyond the national fare cap of £3, providing a maximum £2.50 single ticket on services operated by participating operators. A further £1 single fare cap is in place for under-22s. The MSA also works with operators to offer a series of multi-operator/multi-modal ticketing products, including a £3 day ticket for under-22s. This has built on a long-standing integrated ticketing offer in the region, Network One.

2.1.12. Local authorities and Nexus are able to set fares on their supported services.

Customer relations

2.1.13. Operators are responsible for operating their own customer relation functions, such as contact centres and social media channels, and the largest three operators in the region have their own customer charters.

2.1.14. The EP has introduced a network-wide North East Bus Passenger Charter with additional measures, such as a 'taxi guarantee' which provides a taxi for wheelchair users where they cannot be accommodated on a bus service (providing waiting for the next bus would not be quicker than waiting for a taxi).

Network performance monitoring

2.1.15. The MSA currently monitors the performance of the bus network against the KPIs outlined in the BSIP. This data feed utilises information provided by operators and the Bus Open

Data Service (BODS). The MSA can use this information to take operators before the Traffic Commissioner (TC) if they are failing to meet agreed standards.

Bus Priority Infrastructure

- 2.1.16. Highways responsibilities are held by the region's seven local authorities; each are responsible for delivering and maintaining bus priority infrastructure in their areas as part of programmes developed by the MSA.
- 2.1.17. The MSA is also responsible for developing, adopting and maintaining a key route network (KRN). The North East KRN, originally adopted in 2017, has been redrafted in more detail; identifying the nature, functional importance and performance of each of the routes. This reflects the importance to understand their role as transport arteries and local economic and place functions in the region. This evidence base also forms the foundation of the future planning, operation, and use of a North East KRN.
- 2.1.18. The KRN will be determined at Cabinet in response to national legislation enacted in 2026 which has provided several duties to mayoral strategic authorities (MSAs)¹ in relation to the KRN. As such the KRN has become a tool that MSA's can use to deliver an efficient road network.

Secured services

- 2.1.19. As discussed further in the strategic case, Nexus and local authorities with transport power delegations are responsible for contracting secured services, using public funds to maintain services that would otherwise be lost due to a lack of commercial viability, or to address emerging and changing demand where a commercial service does not already exist. Once these contracts have been awarded, Nexus or the relevant LA is responsible for contract management.

Asset management

- 2.1.20. Bus stations are provided within many of the region's cities and towns. These facilities are often owned and managed by the respective local authority (or Nexus for some station facilities within Tyne and Wear). Bus shelters, funded and maintained by the respective local authority or parish council, are typically provided at busier stops as well as those in exposed locations where passengers may be impacted by poor weather. In some parts of the region bus shelters are provided and maintained by third party advertising companies, such as Clear Channel UK in Newcastle.
- 2.1.21. Operators are responsible for provision and management of vehicles and depot sites across the region. In limited instances they are also involved in bus station ownership and/or management. Further information can be found in the commercial case.

1

Passenger information

- 2.1.22. Each of the large operators and many small operators have their own websites and/or apps which have journey planning information for their own services, in addition to paper timetables and social media channels.
- 2.1.23. Nexus, DCC and NCC also provide web-based journey planning information – in some cases signposting to commercial operators’ pages. Nexus, DCC and NCC are each responsible for installing the timetable information at bus stops in their respective areas. Nexus designs and prints the timetable information for Tyne and Wear as well as Northumberland (through a contract with NCC), resulting in some design inconsistencies across these areas. DCC design and install paper timetable information in their area separately. Real time information displays are available at around 400 stops in the North East, typically at major stops and key transport hubs².

2.2. Responsibility split under EP

- 2.2.1. In a deregulated market, such as the one in which the EP exists, private operators assume financial, commercial and legal responsibility for setting their own routes, fares, timetables and service standards as well as producing their own marketing and publicity. Local authorities provide bus waiting facilities, passenger information, such as timetables at bus stops, and the road networks (including bus lanes and other bus priority infrastructure) that buses operate on. Strategic and local authorities also provide funding for service improvements such as secured services, fares schemes, along with facilitating integrated marketing for region-wide fare initiatives such as ‘Get Round for £1’.
- 2.2.2. The following table outlines the current split of responsibilities between the MSA, Northumberland and Durham County Councils (exercising transport powers delegated from the MSA), Nexus, the Tyne and Wear Local Authorities (LA5), and operators:

Table 1: Responsibilities under the EP³

Responsibility		North East MSA	Nexus	NCC and DCC ⁴	Tyne and Wear Local Authorities (LA5)	Operators
Strategy and Policy	EP management	X				
	Setting policy in regard to secured services, home to		X	X	X	

² The contract for Real Time Passenger Information is managed by Newcastle City Council as part of their ITS01 Bus Priority / Traffic Signal Control / RTPi project.

³ This table is intended to be indicative by providing a general position on each area of responsibility. There may be small exceptions and/or areas of nuance depending on the exact way in which each responsibility is delivered.

⁴ For the purposes of this table DCC’s responsibilities as the operator of the ‘Link2’ DRT service are captured in the ‘Operators’ column.

Responsibility		North East MSA	Nexus	NCC and DCC ⁴	Tyne and Wear Local Authorities (LA5)	Operators
	school transport, ENCTS					
	Governance/ funding	X	X	X	X	
Network Planning and Management	Network and timetable planning		X	X		X
	Procurement and contract management		X	X		
	Other services: Demand Responsive Transport, taxi card etc.		X	X		
	Payments to operators for secured services		X	X		
	Planning and delivery of bus priority infrastructure			X	X	
Assets	Ownership and operation of bus stations/ shelters		X	X	X	X
	Fleet acquisition and ownership					X
	Fleet maintenance					X
	Depot acquisition and ownership					X
	Depot maintenance					X
Operation	Running of registered					X

Responsibility		North East MSA	Nexus	NCC and DCC ⁴	Tyne and Wear Local Authorities (LA5)	Operators
	local bus services					
	Branding of bus services					X
	Marketing/ advertising of services	X	X	X		X
	Providing passenger information		X	X		X
	Customer relations and support					X
	Fares and ticketing	X	X	X		X
	Overall network performance monitoring	X				
	ITS (e.g. ticket machines, AVL etc.)					X

2.3. Competencies to deliver the EP

2.3.1. As outlined in section 8 of the strategic case, the EP option presented in this assessment is identical to existing arrangements. Therefore, through delivery of the EP, the public sector has demonstrated that it already possesses the required competencies to continue managing day-to-day EP delivery in the future, with the ability to adapt to deliver upcoming initiatives, such as fleet decarbonisation, within the current operational model.

2.4. Existing resource

2.4.1. As discussed in section 4 of the strategic case and broken down in Table 1, local authorities and Nexus have extensive responsibilities for the transport network, such as tendering secured service contracts to operators. Bus stations are owned and managed by the respective local authority, Nexus, or a commercial owner. Bus shelters are funded and maintained by the respective local authority, parish council, or Nexus in some cases in Tyne and Wear. Some shelters in Newcastle upon Tyne are owned by Clear Channel. A number of different town, parish, metropolitan and county councils as well as other public and private sector bodies own the region's approximately 13,000 bus stops. Durham County Council and Northumberland County Council have dedicated in-house staff who assist with delivery of these functions, as does Nexus who do so on behalf of all LAs in Tyne and Wear. These functions are fulfilled alongside supporting delivery of the EP.

2.4.2. The MSA employs a number of staff dedicated towards EP management, the North East Transport Customer Experience team. This team is responsible for monitoring the fare schemes funded by the MSA, proposing new EP-related initiatives, and working directly with operators and local authorities to manage the delivery of BSIP funded schemes.

2.4.3. MSA, Nexus and Durham and Northumberland County Council staff working to deliver the EP can be broadly categorised into the following:

- Network planning, design and management
- Commercial and contract management
- Customer relations
- Asset management
- Information, marketing, communications and engagement
- Passenger safety and revenue protection
- Other, such as policy and strategy development.

2.4.4. Other support functions provided by their relevant organisation are also involved in EP delivery to varying degrees, such as finance, procurement, HR and data.

2.4.5. As the existing EP is the comparator case for this assessment, the resource currently in place across the region is considered to be sufficient to deliver the ambitions of the EP going forwards.

Key insights from this section	
Governance framework	The EP is a legal framework that allows the public sector to work more closely with private bus operators to improve the bus network in the current deregulated market. This is accomplished through a governance framework that brings different stakeholders together in the form of three advisory boards (North East Bus Partnership Board, Bus Advisory Board, and Local Bus Boards) with varying influence on matters pertaining to the EP. The MSA's Transport Customer Experience team is responsible for managing the MSA's part in the EP.
Policy	The public sector is responsible for setting the strategic direction for the regional transport network through its policies (e.g. LTP) and programmes (e.g. secured service management).
Fares and ticketing	Operators are legally required to set single fares independently of other operators with the MSA intervening to cap fares through its Capped Fares Scheme, multi-operator/multi-modal ticketing products, and its introduction of cheaper capped tickets for under-22s.
Customer relations	Operators are responsible for operating their own customer relation functions with the EP introducing a North East Bus

Key insights from this section	
	Passenger Charter with additional measures like the taxi guarantee.
Network performance monitoring	The MSA monitors the bus network's performance against BSIP KPIs using operator provided data and systems such as BODS.
Bus Priority Infrastructure	Highways responsibilities are held by the region's local authorities who are responsible for the delivery of bus priority infrastructure in their areas as part of programmes developed by the MSA. The MSA is also responsible for developing, adopting and maintaining a KRN.
Secured services	Nexus, DCC, and NCC are responsible for contracting secured services and use public funds to maintain bus services that would otherwise be lost due to a lack of commercial viability.
Asset management	Off-bus infrastructure (bus stations, stops, and shelters) is mostly owned and managed by the relevant local authority or parish council. Operators are responsible for the provision and management of vehicles and depot sites across the region.
Passenger information	All large regional operators and some SMOs have their own websites and/or that provide journey planning information for their own services. Nexus, DCC, and NCC are responsible for installing timetable information at bus stops in their respective areas and also provide web-based journey planning information (in some cases signposting to operator websites).
Responsibility split under the EP	Table 1 (above) outlines how different responsibilities associated with the delivery of the regional bus network are shared across the various public and private sector entities in the region that have some responsibility for delivering the regional bus network.
Competencies to deliver the EP	The EP option presented in this assessment is identical to existing arrangements. Therefore, through the delivery of the EP, the public sector has demonstrated that it has the competencies required to manage EP delivery while also possessing the capacity to adapt in order to deliver initiatives like decarbonisation.
Existing resource	- DCC, NCC, and Nexus have dedicated in-house staff who assist in the management of all off-bus infrastructure owned by public sector organisations. - The MSA employs a number of staff dedicated to EP management whose responsibilities range from monitoring MSA-funded fare schemes to engaging with operators to manage the delivery of BSIP-funded schemes.

3. Steady-state management of the proposed franchising scheme

This section will:

- Outline the governance framework of the proposed franchising scheme
- Outline the roles of the public sector and the private sector in delivering the proposed franchising scheme
- Outline the competencies that the public sector needs to deliver the proposed franchising scheme

3.1. Management of the proposed franchising scheme

- 3.1.1. As the franchising authority under section 123A(4)(a) of the TA2000, the MSA would make the franchising scheme. Section 123G(4) specifies that this decision must be made by the Mayor acting on behalf of the MSA.
- 3.1.2. Most operational management would be delivered by a delivery body (DB) on behalf of the MSA, and in partnership with local authorities. This delivery body would be responsible for undertaking activities such as the tendering, awarding and managing local service contracts; planning and management of the franchised network; and providing information to customers travelling on the franchised network.
- 3.1.3. Establishment of the transport DB is being examined and progressed by the MSA as part of a separate, but interdependent, workstream. The DB's functions and responsibilities would span the wider integrated transport network and a commitment to investigate the potential of establishing a transport delivery body for the whole region was included within the North East devolution deal.
- 3.1.4. A key assumption during the development of the FSA has been that the DB will be a public sector executive body working across the MSA's geography and built on the existing powers of both the MSA and Nexus. The assumption of a delivery body was made on the basis of the devolution deal agreed with central government. Costs which are solely associated with the establishment of the DB are therefore considered out of scope of the transition costs of franchising; such costs will be determined separately and presented as part of any decision to establish the DB.
- 3.1.5. The proposed use of a single delivery body reflects the requirement set out in our devolution deal to explore alternative delivery models, the conclusions of practitioner-level workshops across the region, and the fact that the North East MSA is the single party holding the statutory powers to implement franchising and let franchise contracts. The North East MSA continues to explore the alternative delivery models available to ensure that the model selected to use for delivery is best suited to delivering the benefits of the proposed franchising scheme. Where a better model is developed this may form part of the decision-making process.
- 3.1.6. Although day-to-day responsibility for franchising would sit with the DB, the MSA would retain strategic responsibility. MSA responsibilities would include setting the overall vision and strategy for buses and the wider integrated transport network, agreeing the DB's

budget, setting fares, and approving network reviews. Approval for such measures would be provided by Cabinet. Further detail can be found in section 9.4.

- 3.1.7. Local authorities would remain important partners, alongside being constituent members of the MSA (and therefore having a vote on Cabinet decisions). These responsibilities include delivery of bus priority infrastructure (as the highways authorities in their respective areas), ownership of some bus stations, stops and shelters and a continued role managing exempt services such as DRT and some home to school travel⁵.
- 3.1.8. The commercial case describes how some functions would be split between the public and private sectors, sitting wholly or partly as the responsibility of operators. In particular, this includes providing and maintaining bus fleets and providing ITS systems.
- 3.1.9. The following provides a brief summary of the roles and responsibilities of the MSA, DB, and local authorities under the franchising scheme, in order to inform the work on organisational implications. Further detail on these arrangements can be found in the commercial case.

Policy

- 3.1.10. Under franchising, the MSA would be able to set a coherent, integrated, transport strategy for the whole region, and would have the appropriate levers to manage its delivery through the DB's management of franchised operations. Local authorities and the DB would also provide strategic input into strategy and policy development.
- 3.1.11. While franchising may represent an opportunity to harmonise policy differences such as those mentioned in section 2.1.8, the costs and requirements of doing so are beyond the scope of this assessment.

Fares and ticketing

- 3.1.12. Under the franchising scheme the public sector would assume revenue risk for the regional bus network. As such, the MSA will become wholly responsible for setting fare levels as part of the budget setting process for the DB and managing ticketing arrangements across the franchised network. Where the service is subject to a service permit (including many cross-boundary services), the DB would typically be responsible for ensuring that the relevant operator/authority is compensated for accepting MSA fare products on their services (where doing so is a condition of the service permit). ENCTS reimbursement for cross-boundary journeys would continue to be the responsibility of the relevant travel concession authority.
- 3.1.13. As discussed in the strategic case, discretionary enhancements to the ENCTS offer are inconsistent across the North East. A review will take place at a later date to investigate harmonising these enhancements for concessionary passholders, however such a review is considered to be out of scope of this assessment. It would, however, likely be easier to

⁵ For the purposes of this assessment these services are referred to as "type 3" (registered schools services that also take payment from 'unentitled' scholars that are not eligible for BSOG) and "type 4" (Closed contracts, which are not registered as local, schools, or works services but which may take payment from 'unentitled' scholars). Further information can be found in the commercial case.

harmonise concessionary enhancements under franchising as – given the MSA holds revenue risk – there would be no need to negotiate arrangements with operators. As such, harmonisation is considered to be a further investment opportunity possible under franchising. Further information can be found in section 9.8 of the strategic case.

Customer relations

- 3.1.14. The DB will host a customer contact centre to respond to customer queries. It is also likely that any queries regarding lost property would be submitted through this channel, who would then be responsible for liaising with the relevant operator on the customers behalf.

Network planning

- 3.1.15. Network planning will primarily become the responsibility of the DB under franchising. The DB will be able to identify opportunities for integration with other modes, such as Metro, with a view to ensuring a seamless experience for customers, and efficient use of public resources. Local authorities will be able to input into network planning both through their Cabinet membership, and direct input to the DB. The DB would be responsible for developing the network specification (informed by input from local authority partners); while Cabinet would be ultimately responsible for its approval. Section 9.4.8 provides further detail on the governance arrangements under franchising and opportunities for local authorities to participate in advisory and decision-making capacities.
- 3.1.16. Any changes to the network during the life of a contract would be data-led and would primarily be in response to feedback from customers, local authorities or operators to ensure that the network meets the changing needs of users. Proportionate delegation arrangements will be in place to enable the DB to progress minor network amendments within a framework agreed by Cabinet. As outlined in section 9.4.8, local authorities will provide tactical input to the DB to inform any such changes.
- 3.1.17. Services such as Special Educational Needs and Disabilities (SEND) home-to-school transport, taxicard, taxibus, and community transport will be exempt from both the franchising scheme and service permit regime. Further information on these services, including justification for their exemption, can be found in section 5.4 of the commercial case.

Service contract management

- 3.1.18. The DB would be responsible for procuring, monitoring, and managing service contracts with operators. In performing this function, the DB will simultaneously be exercising its responsibility to monitor the performance of the network by assessing operator performance against the criteria specified in their contracts. Contracts will be designed in a way that ensures they deliver on relevant policy objectives. The DB may also need to undertake contract variations and engage in dispute resolution procedures.

Asset management

- 3.1.19. The DB will be responsible for the provision of a number of strategic depots across the North East. Day-to-day depot maintenance will become the responsibility of the occupying operator, while delivery of major capital renewal / upgrades will be the responsibility of the DB.
- 3.1.20. Ownership and management of bus stations, stops, and shelters will continue in line with arrangements under the status-quo⁶, as will the role of local authorities in the planning and delivery of bus priority infrastructure.
- 3.1.21. Operators will be responsible for providing vehicles to a specification set by the DB – expected to be in-line with industry standards. This specification may include both general requirements for all vehicles, and additional requirements for specific routes.

Passenger information

- 3.1.22. The DB will become responsible for the provision of proactive and reactive service information to passengers, such as route changes, timetable changes, and network disruption. The DB will develop an app and website to provide real-time journey planning information to passengers which is intended to replace, in the North East, existing apps and websites provided by Nexus, local authorities, and operators.

Management of the service permit regime

- 3.1.23. The DB would be responsible for working with operators to develop the service permit regime, before becoming responsible for its overall management.

Transition arrangements

- 3.1.24. The DB is responsible for the smooth transition of services from the deregulated market to service contracts. Further information on this process can be found as section 4.

Brand and marketing

- 3.1.25. The DB will be responsible for brand execution within the broader integrated transport network concept. The DB will also be responsible for undertaking marketing initiatives to promote the network and brand.

3.2. Responsibility split under franchising

- 3.2.1. The following table outlines the anticipated split of responsibilities between local authorities, the DB, the MSA, and operators as part of the proposed franchising scheme:

⁶ This includes any stations privately owned and/or managed by incumbent operators.

Table 2: Responsibilities under the proposed franchising scheme⁷

Responsibility		North East MSA	DB	NCC and DCC ⁸	Tyne and Wear Local Authorities (LA5)	Operators
Strategy and policy	Franchising strategy management	X				
	Setting policy in regard to home to school transport and ENCTS		X ⁹	X	X	
	Governance and funding	X	X	X	X	
Network planning and management	Network and timetable planning	X	X			X
	Procurement and contract management		X			
	Other services: Demand Responsive Transport, taxi card etc.		X	X		
	Payments to operators for franchised services		X			
	Planning and delivery of bus priority infrastructure			X	X	
Assets	Ownership and operation of bus stations/ shelters		X	X	X	X

⁷ This table is intended to be indicative by providing a general position on each area of responsibility. There may be small exceptions and/or areas of nuance depending on the exact way in which each responsibility is delivered.

⁸ For the purposes of this table DCC's responsibilities as the operator of the 'Link2' DRT service are captured in the 'Operators' column. These responsibilities include ownership and maintenance of dedicated fleet and depot facilities.

⁹ Responsibility for setting ENCTS discretionary entitlements in Tyne and Wear would be inherited by the DB from Nexus.

Responsibility		North East MSA	DB	NCC and DCC ⁸	Tyne and Wear Local Authorities (LA5)	Operators
	Fleet acquisition and ownership					X
	Fleet maintenance					X
	Depot provision		X			X
	Depot maintenance		X			X
Operation	Operation of local bus services					X
	Branding of bus services		X			
	Marketing/ advertising of services	X	X			
	Providing passenger information		X			
	Customer relations and support		X			
	Fares and ticketing	X	X			
	Overall network performance monitoring	X	X			
	ITS (e.g. ticket machines, AVL etc.)		X			X

3.3. Competencies to deliver the proposed franchising scheme

3.3.1. The following table provides an overview of functions and competencies required by the DB to deliver and manage the proposed franchising scheme. The table outlines the extent to which the DB would be able to deliver these functions and competencies using resource currently available to the public sector, and how much change would be required to do so if available resource is insufficient.

Table 3: Competencies required by the DB to deliver the proposed franchising scheme

Function	Competencies	Additional resource required?
Operational performance	- Real-time operational management - Data analysis (and interaction with both network management and contract management) - Managing major events, planned and unplanned disruptions - Managing process with highways scheme promoters, LAs and utility companies to plan for network disruption and mitigation	Additional resource required. Operational performance functions exist in the public sector's existing transport establishment, including real-time management through the Urban Traffic Management Centre's (UTMC) management of the road network, but there would be a significant growth in broader transport establishments responsibilities, and the associated resource requirements, under franchising.
Network management	- Implementing overall bus strategy - Continuous innovation with the aim of improving overall service delivery - Network planning, design and updates – the ability to specify routes, first and last buses, bus capacities and frequencies by peak/off peak period and day and publish timetables - Service specifications for services under local service contracts - Managing planned and unplanned disruptions - Reviewing applications for service permits and issuing if appropriate	Additional resource required. There is existing public sector resource dedicated to both strategy development and network planning (for secured services), but franchising would require a considerable expansion in network planning resource to deliver this function at the scale necessary for the whole network.
Revenue management	- Revenue collection, processing and reconciliation - Revenue forecasting and monitoring of revenue risk - Monitoring of demand and revenue for commercial insight and general finance management - Increasing demand and revenue receipts through sales.	Additional resource required. There is limited dedicated resource to bus revenue management in the region's existing public transport establishment. The MSA proposes a gross cost franchising model as described in the commercial case; the DB would therefore need capacity to handle multi-hundred-million-

Function	Competencies	Additional resource required?
	Developing and monitoring pricing and ticketing strategies; analysing and setting fares	pound revenues and contract payments, as well as tight oversight of the revenue risk.
Contract management	- Procurement of local service contracts (tendering, evaluation, selection and award). - Contract governance and management, including variations. - Managing service delivery (for example, operator performance against KPIs). - Managing dispute resolution procedures. - Contingency planning for failing operator scenarios to ensure continuity of service	Additional resource required. Public sector bus contract management is currently largely limited to secured services which account for a small proportion of the overall network. Under franchising, the clear majority of local bus services would be delivered under local service contracts - successful delivery and management of this would require a substantial expansion in contract management capacity.
Revenue protection & customer safety	- On bus activity to discover and deter fare evasion. - On bus activity to deter and report threats to passenger safety - Reporting of trends and hotspots for fare evasion and customer safety issues	Additional resource required. Operators currently take revenue risk on their commercial services (and some secured services), meaning that they are responsible for revenue protection activities. This would transfer to the DB under franchising, requiring a growth in revenue protection resource (which has been assumed) The MSA is currently working to deliver TravelSafe officers through the EP to deter violence against women and girls (VAWG) on the network; this function would be retained under franchising as part of the customer safety focus.
Asset management	- Land and lease management - Infrastructure planning and development - Depot management - Monitoring of fleet - Maintenance of assets and infrastructure	Additional resource required. The proposed franchising model would transfer the responsibility for owning and undertaking major capital works to strategic depots to the public sector. Resource would be required to fulfil this responsibility.

Function	Competencies	Additional resource required?
Customer relations	• Real-time and planned customer messaging • Operating the customer contact centre to manage customer complaints and queries on issues such as lost property • Management of transport information, including information and technology management • Shaping and delivery of customer experience	Additional resource required. Most customer information and messaging currently flow through operators, who have their own contact centres. Although the MSA and partners receive some correspondence from the public relating to bus services at present, this is likely to grow considerably once the MSA/DB become visibly associated with the network.
Communications & engagement	• Branding and marketing strategies • Stakeholder relationships	Additional resource required. The MSA and partners have some existing communications and engagement resource that promote bus, and public transport more broadly. An expansion of this capability is, however, likely necessary as the DB would be assuming primary responsibility for this function from operators.

3.4. Resource to deliver the proposed franchising scheme

- 3.4.1. Delivering the proposed franchising scheme would require a significant expansion of the public sector's resource across various capabilities involved in the management of the delivery of local bus services.
- 3.4.2. Section 2.4 identifies that existing resource is present in the region's existing public transport establishment across a variety of functions under the EP; there is therefore existing institutional expertise across these functions. This expertise provides a platform which the MSA/DB can build upon.
- 3.4.3. However, the existing expertise itself is insufficient to deliver franchising in the North East, both in the exact nature of existing skills, and in the scale required. Franchising would require the DB to manage significantly more complex contracts, handle a significantly greater amount of revenue, and plan and oversee a much wider network than the region's existing public transport establishments are required to for existing secured services.
- 3.4.4. While development of the DB is out of scope of this assessment, it is critical for the assessment to understand what is required of it to deliver the franchising scheme. Therefore, the MSA has developed an initial estimate of the resource required to deliver and manage the franchised bus network in the business-as-usual environment, informed by the commercial model outlined in the commercial case and benchmarked against the resource estimates of FSAs conducted in other authorities (which have proposed similar commercial models) to provide assurance. In developing this, the MSA has:
- Identified and accounted for resource in the region's existing public sector transport establishments as the starting point.
 - Identified which additional capabilities would be required to manage franchising.
 - Identified the areas where there is sufficient capacity and the areas where, under franchising, increased activity would require additional resources and new expertise.
- 3.4.5. The MSA assumes that the following capabilities would be required to manage the delivery of franchising:
- 3.4.6. **Operational performance:** An operational performance capability would enable the DB to deliver and oversee a framework to monitor the performance of the North East franchised bus network. Network intelligence and data analysis provided by this capability would support both the contract management function, who would liaise with operators in relation to issues, and the future planning of network management, which would use such insight to inform any necessary changes to the network.
- 3.4.7. **Revenue management:** Revenue management would enable the DB to identify opportunities to grow and maintain revenues in the franchised bus network – in line with the DB taking on revenue risk. This would include forecasting future revenue, assessing how potential network changes may affect revenue, and assessing the possible effect of

potential schemes or initiatives on revenue to support the leadership function to take informed decisions.

- 3.4.8. **Revenue protection & customer safety:** Responsible for on-bus activity to identify and deter fare evasion as well as other behaviour that threatens the safety or confidence of other passengers, particularly women and girls, when travelling by bus.
- 3.4.9. **Network management:** Responsible for network planning and design, identifying opportunities for new or expanded bus services, responding to challenges which may require intervention in the network and overseeing the service permit regime.
- 3.4.10. **Contract management** This capability would enable the DB to possess the commercial skills and expertise required for working with a wider procurement function to award and manage local service contracts, setting the required standards for service delivery. In conjunction with an operational performance capability, contract management would also enable the DB to monitor whether commitments were being delivered by operators in accordance with the contractual obligations set out in the performance regime, potentially with the aid of a bus contract management system, and where this is not the case follow dispute escalation procedures and enforce remedial plans with operators. With capability in both contract and network management, the DB would work with operators to manage contract changes and be responsible for calculating the service payments.
- 3.4.11. **Asset management:** Responsible for managing the authority's ownership of the assets identified in the commercial case.
- 3.4.12. **Customer relations:** Responsible for providing customer information and staffing the contact centre for customer queries.
- 3.4.13. **Communications and engagement:** Responsible for managing MSA/DB's relationship with bus industry stakeholders as well as oversee its marketing of the bus network and bus as a travel choice to new and existing passengers.

Table 4: Estimated FTE requirement to deliver each function

Function	FTE
Asset management	3
Communications and engagement	10
Contract management	20
Customer relations	37
Network management	16
Operational performance	11
Revenue management	19
Revenue protection & customer safety	30
Total (including leadership resource)	150

- 3.4.14. Additional leadership resource will be required to oversee the management of franchised bus services in the region. This is estimated to require an additional 4 FTE. The exact organisational structure of the DB will be developed during transition.

- 3.4.15. In addition to the capabilities required above, additional competencies and resources would be required from wider corporate functions to support the successful ongoing management of the franchised network. These functions would provide additional specialist expertise across a range of areas. 10 FTE are assumed to be required across various support functions, such as accounting, risk, IT, procurement, legal, engineering and project management. A full team of 160 FTE is therefore the anticipated required level of resource to manage the delivery of the proposed franchising scheme in the steady-state environment.
- 3.4.16. 56 FTE within the current staff at the MSA, Nexus, and local authorities perform similar functions to those required to manage the franchised bus network; these roles would remain part of public transport delivery under franchising. Therefore, there is an incremental resource requirement of 104 FTE. It is anticipated that recruitment of these roles would involve a mix of external competitive recruitment and the up/re-skilling of existing public sector staff. Further information on the DB's anticipated recruitment strategy can be found in section 4.13.
- 3.4.17. For the financial modelling (undertaken in the financial case of this assessment) it is estimated that 58 FTE would no longer be required by the existing operators in areas where their responsibilities are expected to transfer to the DB under franchising. The cost associated with these roles is also present in the EP option and would be redeployed in the franchising option to replace the affected roles.
- 3.4.18. The incremental steady-state resource requirement as modelled in section 6 of the financial case is approximately 47 FTE. This reflects the forecast franchising staff FTE requirement of 160, subtracting existing staff working in both the public sector, and for operators.
- 3.4.19. Incremental staff costs for managing the delivery of franchising have been incorporated into the financial model and included in the costs summarised in the financial case. Indicative salaries were assigned from existing public sector pay scales with on-costs applied.
- 3.4.20. Table 5 below summarises the forecast steady-state cost requirement for the incremental resource required. This excludes staff currently in the public sector transport establishment and those roles assumed to no longer be required by the existing operators that are captured in the operator base cost for the financial model.

Table 5: Forecast steady-state resource cost for franchising (FY31/32)

Cost	FTE	£million
Franchising Staff FTE & Cost	160	6.48
Less: Existing Staff FTE	56	-
Less: Roles no longer required by Operator FTE	58	-
Total Incremental Franchising Staff FTE & Cost	47	2.34

3.5. Delivery of bus service improvements through local service contracts

3.5.1. Key aspects of the proposed franchising model were detailed in the commercial case, including section 5.2 which states that the DB will provide depots to reduce barriers to entry, section 5.3 which discusses how responsibility for fare-setting will move fully to the public sector, and section 5.4 which specifies that bus services will display a unified integrated transport network brand.

Network identity and branding

3.5.2. Franchised bus services would be delivered as part of an integrated transport network and, as described in section 9.2 of the strategic case, this would be reflected in the branding of bus services. Local service contracts would require operators to display the specified integrated transport network branding on buses.

Asset provision

3.5.3. The DB would provide strategic depots to the holders of the anticipated five large contract packages as part of its efforts to promote competition for these packages by removing a potentially significant barrier to entry.

3.5.4. The DB would let these depots to the successful bidding operator for the period of the local service contract as part of that contract. Operators would assume responsibility for the day-to-day running of the depot.

3.5.5. Precise contract terms, including the arrangements for depot letting, will be finalised in the transition phase.

3.5.6. As set out in the commercial case, operators holding smaller local service contracts would remain responsible for providing a suitable depot site to deliver the services included in those contracts. Justification for this approach can be found in section 5.2 of the commercial case.

Timetable setting and change

3.5.7. As discussed in section 5.3 of the commercial case, there are two broad approaches to timetabling that could be adopted under franchising. The MSA/DB intends to undertake further analysis to determine which approach is most suitable (and different approaches may be suitable for different sizes of contracts). Both approaches give the DB significant influence over the design and setting of timetables:

- The DB could specify timetables in full, with some potential for operator input. The DB could consider a range of factors and objectives it wishes to achieve (such as enhanced integration), balancing these with operational considerations, and define timetables for operators to bid against.
- Operators could be responsible for designing timetables within parameters set by the DB. The DB would identify which 'red line' parameters it wished to incorporate (for example, specifying a service must arrive/depart from an interchange at a

certain time). Operators would then be responsible for designing compatible timetables.

3.5.8. Timetables may need to be changed over the life of a local service contracts for a variety of reasons, such as to respond to better road conditions as a result of installing bus priority infrastructure, roadworks, road closures or, conversely, poorer road conditions if congestion worsened without intervention. The DB will consider when and how mid-contract timetable changes may be permitted as part of transitioning to a franchised network.

3.5.9. Bus priority infrastructure has an important role in improving journey times, punctuality and reliability – and therefore attracting passengers to the bus (as described further in the strategic case). Such initiatives involve a significant capital financial commitment from the public sector but may, in some cases, also reduce operator costs. Operating cost savings are expected to be re-invested in the network (e.g. offering enhanced frequencies or expanding the reach of the network).

Fares and ticketing

3.5.10. Responsibility for fares and ticketing would transfer to the public sector under franchising; the ability to set fares and determine ticketing products across the integrated transport network is key to meeting the MSA's strategic aspirations. Section 9.3 of the strategic case explains how the MSA intends to use control over fares and ticketing to achieve a significant simplification of the fares and ticketing landscape.

3.5.11. As described in the commercial case, the DB will determine the ticketing products to be sold across the network with fare prices set by Cabinet due to the relationship between fares and public finances. Fare-setting will take account of various policy and financial considerations, including the costs of modal competitors, the MSA/DB's strategic priorities (e.g. reducing child poverty) and the quantum of funding available.

3.5.12. Economic modelling has assumed the fare level rises by RPI+2% until FY28/29, in line with commercial agreements and as operators seek to achieve target profitability levels. Thereafter, with the introduction of franchising, the MSA/DB is assumed to hold increases to the anticipated fare level to RPI+0 until 2038/39 when a further policy decision is required on the level of public sector investment in the network. Further detail can be found in section 4.4 of the economic case and section 7.2 of the financial case.

3.5.13. As described in the commercial case, the MSA is developing a medium-term fares and ticketing strategy, which will inform the fares and ticketing products offered from FY28/29. Simplified bus fares are expected to sit as part of a wider multi-modal transport offering, with a multi-modal daily cap offering value for passengers taking multiple journeys on any mode of transport on the integrated network.

3.5.14. Local service contracts would require that operators sell and accept the MSA's range of ticketing products, such as multi-modal tickets, for journeys wholly within the scheme area, and that no products other than those specified by the MSA/DB are sold for these

journeys. Operators would pass any revenue raised through retailing these products to the DB.

Customer information and service

3.5.15. The DB would assume responsibility for providing customer information and service as part of the integrated transport network, providing a single source of truth for customers.

3.5.16. As described in the commercial case, the DB would launch a single website and application to provide real-time information and sell tickets to passengers. Existing public sector responsibilities around paper and digital information at bus stops are expected to continue according to the status quo. There is not expected to be a difference compared to the EP around the level of paper and digital information provided at individual stops.

3.5.17. The DB would also operate a customer contact centre, allowing customers to contact the DB with feedback, complaints or queries around the bus network – including raising lost property issues or seeking redress arrangements. Some issues, including lost property, would require the contact centre to liaise with operators on the customer's behalf. The DB will consider how this is operationalised during the transition period.

3.5.18. Operators are required to provide on-bus audio-visual announcements to passengers under the Public Service Vehicles (Accessible Information) Regulations 2023; improving the journey experience for all passengers, particularly those who are disabled. This requirement would continue to apply to operators of franchised services. The DB would expect operator compliance with their legal obligations – including the provision of accessible on-bus information.

Driver training

3.5.19. Operators are responsible for delivering their driver training programmes in the status quo. Drivers are required to complete 35 hours of periodic training every five years to keep their Certificate of Professional Competence, and additional training may be completed at the operator's discretion.

3.5.20. Operators would retain responsibility for recruiting and training drivers under franchising, including ensuring that they comply with all regulatory requirements around training. The DB will consider the merits and costs of any additional policy-driven requirements around driver training in areas such as safety and disability awareness, and how this additional training could be implemented, as part of the transition period.

Staff conditions and TUPE transfers

3.5.21. Across the North East there are around 4,000¹⁰ people working for bus operators of all sizes, many of whom may transfer to a new employer in the event of a franchising scheme being implemented¹¹. Transfers may occur when one operator assumes contracts/services

¹⁰ Information drawn from the latest publicly available accounts for the largest three operators which amount to 3893 employees. No data available for small operators.

¹¹ As required by the Franchising Schemes and Enhanced Partnership Schemes (Application of TUPE) (England) Regulations 2017.

previously provided by a different operator; this applies both at the initial commencement of franchising and subsequent procurement rounds. Staff considered “*principally connected*” with the provision of existing local services would be eligible to transfer their employment to the new operator under the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE).

3.5.22. TUPE regulations are designed to protect the rights of employees in the event of business transfers, or changes in service provision. For the purposes of implementing and operating a franchising scheme, TUPE applies by virtue of the latter circumstance. Under TUPE, the new employer is required to take over employees’ contracts, including:

- all the previous terms and conditions of employment, such as pension arrangements
- any failures of the previous employer to observe employees’ rights
- holiday entitlement
- period of continuous employment - an employee’s start date is the same as before the transfer, so continuous employment is not broken
- any collective agreements previously made

3.5.23. The MSA wishes for this process to be as seamless as possible for all those involved. Therefore, the MSA/DB will work with existing local operators and employee representatives with the aim of agreeing criteria for staff considered to be “*principally connected*” to the delivery of affected local services. If agreement is not reached then the statutory definition will apply which includes any employee who, on average, spends 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 services¹².

3.5.24. Additionally, the depot strategy detailed in the commercial case has been designed in such a way that prioritises continuity of staff to the greatest extent possible. Roles which may be impacted by this change could include drivers, engineers, and support staff.

3.5.25. It is important to note that while not all those employed by operators will be eligible for TUPE transfer to the new operator, the DB will be preparing to deliver the proposed franchising scheme by recruiting to acquire the resource outlined in section 3.4.

3.5.26. While TUPE regulations are designed to ensure that employees should not lose their existing employment rights, this does not mean that the new employer cannot enact positive change. The MSA aspires to make the North East the home of real opportunity, and to create a new deal for North East workers; franchising presents an opportunity to lead by example by setting new standards in staff working conditions for the bus industry in the North East. To that end, the DB will include conditions relating to employment

¹² [The Franchising Schemes and Enhanced Partnership Schemes \(Application of TUPE\) \(England\) Regulations 2017, regulation 3, paragraph 5.](#)

practices in local service contracts. These conditions include Shine¹³ accreditation and a commitment to pay the real living wage as a minimum. The MSA has informally engaged with representatives from trade unions that represent bus sector employees in the region and will continue to do as the principles in this assessment (such as those on pay and conditions) are operationalised for transition and implementation, following a decision to make a franchising scheme.

Pensions

3.5.27. Pension arrangements for staff transferring employer upon commencement of both the franchising scheme, and any subsequent change in operator, are subject to regulations made through the Transport Act¹⁴. In order to comply with these regulations, the MSA will provide employment and pension protection for impacted employees in the service contracts agreed with operators. In line with other TUPE regulations, this will ensure that transferring operators retain their existing pension arrangements as a minimum.

Key insights from this section	
Governance framework	• A Delivery Body would manage the operation of the proposed franchising scheme and the wider integrated transport network, on behalf of the MSA, and in partnership with local authorities. • The MSA would retain strategic responsibility over matters like setting fares and drafting the overall bus/integrated transport network strategy. • Local authorities, alongside being constituent members of the Cabinet, would play an important role in the delivery of local bus services through their responsibilities as owners of off-bus infrastructure, highways authorities, and managers of certain exempt services like DRT and some home to school travel.
Policy	• The MSA would be able to set a coherent and integrated regional transport strategy, with input from local authorities and the DB, while also having appropriate levers to manage delivery through its influence on the DB.
Fares and ticketing	• The public sector would take revenue risk for the bus network with the MSA becoming responsible for setting fare levels and managing ticketing arrangements across the network.
Customer relations	• The DB will host a customer contact centre to respond to customer queries (including lost property).
Network planning	• The DB would be responsible for network planning and the MSA Cabinet would be responsible for approving network specifications developed by the DB.

¹³ Shine is the MSA's free employer accreditation scheme which was developed through extensive engagement with trade unions and supports employers to do right by their people through fair pay, secure work, inclusive practices, and opportunities to grow.

¹⁴ [Franchising Schemes and Enhanced Partnership Schemes \(Pension Protection\) \(England\) Regulations 2017](#).

Key insights from this section	
	- Proportionate delegation arrangements will be in place to enable the DB to progress minor network amendments within a framework agreed by Cabinet. - Certain services like community transport and SEND home to school transport will be exempt from both the franchising scheme and the service permit regime.
Service contract management	The DB would be responsible for procuring, monitoring, and managing service contracts with operators.
Service permit management	The DB would work with operators to develop the service permit regime, before becoming responsible for its overall management.
Asset management	The DB will be responsible for the provision of a number of strategic depots in the region. Routine depot maintenance will be the occupying operator's responsibility, while longer-term investment in depots will be a DB responsibility. Other off-bus infrastructure ownership structures will continue as under the status-quo.
Passenger information	The DB will become responsible for the provision of proactive and reactive service information to passengers.
Transition arrangements	The DB is responsible for the smooth transition of services from the deregulated market to service contracts.
Responsibility split under the proposed franchising scheme	Table 2 (above) outlines how different responsibilities associated with the delivery of the regional bus network will be shared across various public and private sector entities in the region that will have some responsibility for delivering the regional bus network.
Brand and marketing	The DB will be responsible for brand execution within the broader integrated transport network concept and will also be responsible for undertaking marketing initiatives to promote the network and brand.
Competencies and resource required to deliver the proposed franchising scheme	- Delivering the proposed franchising scheme would require an expansion of the public sector's resource across various capabilities involved in managing the delivery of local bus services. Table 3 provides an outline of the various competencies that the DB will require to deliver the proposed franchising scheme. - The MSA assumes that 160 FTE is required to equip the DB with the capabilities necessary to manage the delivery of the proposed franchising scheme

Key insights from this section	
Service improvements through local service contracts	- Local service contracts would require operators to display the specified integrated transport network branding on buses. - The DB would provide strategic depots to the holders of the five large contract packages as part of its efforts to promote competition by removing barriers to entry. - The DB will determine the ticketing products to be sold across the network with fare prices set by Cabinet. Local service contracts would require that operators sell and accept these ticketing products for journeys wholly within the scheme area, and that no products other than those specified by the MSA/DB are sold for these journeys. - The DB would assume responsibility for providing customer information and service as part of the integrated transport network (via an app, website, and customer contact centre). - Operators to retain responsibility for recruiting and training drivers including ensuring that they comply with all regulatory requirements around training. The DB will consider the merits and costs of any additional policy-driven requirements around driver training in areas such as safety and disability awareness. - The DB aims to include conditions relating to employment practices in local service contracts like Shine accreditation and a real living wage commitment while also facilitating TUPE. The MSA will also provide employment and pension protection for impacted employees in the service contracts agreed with operators

4. Transitional change and mobilisation

This section will:

- Present a track record of the regional public sector's ability to successfully deliver major projects
- Provide some insight into the scale and costs of transitional change and mobilisation required for the successful delivery of the chosen delivery option.
- Provide some insight into the various activities that will take place during the transition and mobilisation period for the franchising delivery option.

4.1. Track record of successful delivery of major projects and contracts

4.1.1. Should the Mayor choose to proceed with the proposed franchising scheme, it will be one of the largest projects ever delivered by the public sector in the North East, though projects of this scale are not entirely unprecedented. The North East has extensive experience of delivering both major projects and contract management. Regional public sector bodies such as local authorities, Nexus, and the MSA all have experience of procuring and managing contracts which is crucial to support the delivery of any future operating model.

4.1.2. Existing competencies and experience will be utilised, additional skills will be acquired, and assistance will be procured where necessary in order to support the delivery of the chosen option.

4.1.3. The following examples have been presented to demonstrate occasions where the North East has delivered major projects at a region-wide scale:

Nexus Metro Flow (TCF Tranche 2)

4.1.4. The Metro Flow project was a £104m project, led by Nexus, which involved twin-tracking of the Metro between Pelaw and Bede by converting an under-used national freight line, owned by Network Rail, to take Metro trains as well. Nexus converted the line through installation of overhead power supplies and appropriate signalling which allowed Metro and freight traffic to share the track in the same manner as between Pelaw and Sunderland, thereby providing new services and capacity on the Tyne and Wear Metro. In their January 2023 review, Arup commended the project citing:

- The benefit of having an established organisation and resources in Nexus to progress this scheme

4.1.5. Delivered to time and budget, the scheme opened December 2022, enabling initial future transport benefits with additional benefits from 2024 when new rolling stock was introduced to take advantage of capacity and train service frequencies enabled by this project.

- Highlights the importance of resources and resource funding to pump-prime work on capital programmes to help mitigate slippage.

Northumberland Line

- 4.1.6. The Northumberland Line is the £336m project, led by Northumberland County Council, to realise the long-held ambition to reintroduce rail passenger services between Ashington and Newcastle. The council worked in collaboration with the DfT, Network Rail, Northern rail and the MSA to take the scheme from inception through to the phased opening of six new stations between December 2024 and Spring 2026.
- 4.1.7. In less than 12 months, the line has served over 800,000 passengers, transforming public transport accessibility for residents of South East Northumberland. One of the key project successes was the integration of fares and ticketing between the Northumberland Line and the Tyne and Wear Metro which provides passengers with affordable fares and seamless interchange between the heavy rail and metro network.
- 4.1.8. The project further exemplifies the region's ability to make the case for large scale investment, manage and deliver a complex transport project, and work with a range of key stakeholders, including members of the public, often during periods of significant disruption.

BSIP fare initiatives and Capital Programme

- 4.1.9. In April 2022 the North East was allocated £163.5 million in BSIP funding to deliver a number of schemes to improve bus services in the region. Among these were a number of fares initiatives aiming to simplify ticketing for customers and grow patronage through affordable multi modal and multi-operator daily price caps.
- 4.1.10. Delivered by the North East EP, the following fare initiatives were introduced:
- May 2023: A £1 single fare for passengers aged 21 and under
 - September 2023: 21 & Under day ticket introduced
 - November 2023: Adult day tickets within County Durham, Northumberland, Tyne & Wear alongside a regional variation
 - January 2025: With the revision of the Department for Transport Bus Fares Cap Grant, increasing the adult single fares cap from £2 to £3, a £2.50 cap was introduced with funding
- 4.1.11. From May 2023 to September 2025, 44.3m journeys have been made on 21 & Under tickets, with 20.4m journeys made on adult tickets within the region. Over 53 million tickets have been sold, saving residents nearly £49 million.
- 4.1.12. Alongside these larger initiatives have been other projects aiming to provide support for passengers within the region including the provision of free travel to young people aged 18 to 25 who have left care to support them into adult life. Passenger feedback from this initiative has suggested a positive impact, removing the financial barriers allowing these young people to travel to work, education and to socialise.

4.1.13. The BSIP capital programme (worth £73.75m) comprises of several sub-programmes, namely bus priority infrastructure, safe and accessible bus infrastructure, intelligent transport systems (ITS), and pocket park and ride. Schemes which form these sub-programmes have been designed and developed by local authorities and Nexus to deliver improvements focusing on improving the bus network and make it more attractive to passengers.

4.1.14. In total, there are over 35 individual schemes across the region, including both urban and rural geographies. All schemes will be in contract by March 2026, with delivery thereafter.

Zero-emission buses

4.1.15. The MSA was successful in its £7.4 million bid to bring 43 electric buses to the region utilising ZEBRA 2 (Zero Emission Bus Regional Areas) funding. The project involves the three main bus operators (Arriva, Go North East and Stagecoach). Coupled with a successful Levelling Up Fund bid of £16.3 million for 52 electric buses, the MSA worked with bus operators to ensure zero emission buses are brought to all seven local authority areas in the North East. The projects are well on track to be delivered on-time by March 2026 (while December 2025 was written into the bid, the conditions attached to the funding dictated that this funding simply needed to be spent by March 2026) and collectively will bring 95 zero emission buses (ZEBs) to the region, making the total number of ZEBs in the region 113.

4.1.16. Across the joint projects, the first 20 buses have been deployed at the Stagecoach Sunderland Wheatshaf depot, operating a fully electric service on the E1/E2/E6 services between Sunderland and South Tyneside. Positive feedback has been received by passengers, and the vehicles themselves are reported to be more reliable than conventional ICE vehicles in terms of maintenance.

Metro Futures Fleet Replacement Programme

4.1.17. Nexus is undertaking a major renewal of the fleet that operates Tyne and Wear Metro services, replacing vehicles originally manufactured in the early 1980s with new and purpose-built rolling stock at a cost of £362 million¹⁵. Nexus is working in contract with rail manufacturing firm Stadler to deliver the new fleet and associated activities – including maintenance of the existing fleet while the new fleet is introduced.

4.1.18. Significant activity within Nexus has been required to both oversee the programme and transition to the new fleet, including undertaking conversion training for over 200 Metro drivers to enable them to drive the new trains. Training includes classroom-based learning, use of a state-of-the-art Metro train driving simulator and lessons spent driving the new train out on the system.

Secured service contracts

4.1.19. Nexus, DCC and NCC are each responsible for managing secured service contracts in their respective areas. As discussed in the commercial case (section 3.3), there are

¹⁵ “[How the new Metro train fleet will be introduced](#)”. Nexus. 2025.

approximately 344 secured service contracts across the North East. These contracts have an estimated annual cumulative value of £32 million.

- 4.1.20. Secured service contracts therefore require significant procurement and contract management capacity within Nexus, DCC and NCC. This includes significant institutional knowledge of the market and local needs – including those of rural communities who are more commonly served by secured services.

Tyne Tunnels contract management

- 4.1.21. The Tyne Tunnels are jointly owned by the region's seven local authorities, the interests of the local authorities are represented and administered by the MSA. Day-to-day management and operations of the tunnels are administered by TT2 Ltd through a concessionaire agreement with the MSA.

4.2. Transitional change and mobilisation for the EP option

- 4.2.1. Should the Mayor choose not to proceed with the franchising option, the EP would continue to remain in place as described in section 2.1 of this case. As a result, no transition would take place, and no mobilisation would be necessary. All existing resources, including staff, would continue and are not considered transitional.

4.3. Establishing the proposed franchising scheme

- 4.3.1. Should the Mayor choose to proceed with the franchising option, additional resources would be required by the DB to facilitate the transition. In addition to establishing the resource required to deliver the functions and competencies outlined in section 0, the service permit regime for franchising will also need to be established.
- 4.3.2. The franchising scheme would include provisions to revoke the EP in the areas that the franchising scheme relates to at the end of the transition period, so that the EP would cease to be a functioning legal instrument once the franchising scheme is made¹⁶. Mitigation measures would need to be in place should service levels need to be maintained in response to operator cuts during transition.

4.4. Transition to franchising

- 4.4.1. A mayoral decision to make the proposed franchising scheme would initiate a transition period, during which commercial services would move from being provided by the deregulated market to being provided under local service contracts.
- 4.4.2. As with the EP option, it is assumed that all existing in-scope resources, including staff, will be maintained and are not considered transitional.

¹⁶ Under section 123H(6) of the TA2000, if a franchising scheme relates to an area to which an EP relates, the franchising scheme must include a provision revoking the scheme so that it ceases to relate to any part of the area to which the franchising scheme relates.

4.4.3. The estimated costs of various activities that are essential for facilitating a smooth transition and ensuring operational readiness are presented in the table below and discussed in the sections that follow.

Table 6: Implementation Cost

Implementation activities: FY27/28 - FY31/32	Cost (£m)
Transition Procurement	3
Office Equipment	1.73
Transition training	0.01
Service Permit	0.15 ¹⁷
Depot Acquisition & Lease Cost	27.90
Overall Brand Design and implementation	6.47 ¹⁸
Marketing launch campaign	2.50
Website and App	2.42
Performance Monitoring Software	0.44
ITS & Data	3.62
Transition Continuity	5.00
Total	53.26

4.5. Implementation programme

- 4.5.1. To implement franchising, an effective transition plan would be required to prevent disruption to passenger services. The DB would put in place measures to manage the risk of service reductions during transition and in the mobilisation period, further detail on these measures can be found in section 4.16.
- 4.5.2. The implementation programme would require a variety of activities to take place simultaneously. These activities would include upskilling the DB to deliver on its newfound responsibilities, undertaking procurement exercises for new systems and software, and acquiring strategic depots. The cost implications of doing so can be found in Table 6. Further detail around costs can be found in the financial case.
- 4.5.3. The table below provides a brief outline of a number of these activities, with a summary of key tasks. Further detail of the proposed commercial model can be found in the commercial case.

Table 7: Activities during implementation

¹⁷ The cost of operating the service permit regime will commence in the transition period and is expected to continue for the duration of the franchise agreement.

¹⁸ This is the total cost for overall brand design which is expected to end in 2033/34 (i.e. extend beyond the transition period).

Item	Key tasks / notes
DB mobilisation – capacity, capability, etc	• A detailed plan for each responsibility the DB will assume is required e.g. network management, asset management, fares and ticketing. • Overarching plans for employee engagement, communication etc will also be required. • Consideration of TUPE impacts and development of the TUPE agreement as under the franchising regulations. • Software procurement and implementation
Governance arrangements	• Governance between DB and the MSA – including where decision-making responsibility for various items sits, is discussed further in section 9.4. • Operational governance and liaison arrangements between DB and local authorities.
Network planning	• Network change monitoring during transitional period. • Identification of appropriate date to ‘lock down’ routes for the purposes of contract development.
Contract development and procurement approach	• Development of ‘template’ contract form and specification in tandem with development of procurement approach and documents.
Market engagement	• Market engagement on a variety of topics will be required. • What is engaged on and when will need to be developed.
Strategic depots	• Negotiate the acquisition of strategic depots, and/or progression of alternative sites for strategic depots. • Define ongoing maintenance requirements and any split of responsibility.
Vehicles / vehicle specification	• Development of detailed vehicle specification including any variants by route.
Branding	• Developing the detailed branding specification and implementation arrangements.
Fares and ticketing	• Developing the detailed fares and ticketing regime and implementation arrangements.
Customer communication and relations	• Website/app development – items including journey planning, service disruption, live tracking.

Item	Key tasks / notes
	Developing the plan for customer relations, including considering TUPE and role of operators.
Stakeholder relations and engagement	Communication with affected / interested groups throughout implementation to keep them informed and respond to concerns.
Other franchising requirements	Service permit regime – further detail on service permit regime implementation can be found in section 4.8
Other areas	- Contract management - Marketing - Communications management - Customer information - Web site management
Timelines	Developing timelines for all activities in order to ensure programme dates are met.

4.5.4. The implementation programme would be designed so that the DB has all relevant management systems in place to meet its obligations under the franchising scheme and service permit regime. It would be particularly important for the DB to ensure that there are sufficient resources available to manage the letting of the round 1 franchise contracts and the issue of service permits for cross-boundary services operating in the newly franchised areas.

4.5.5. As demonstrated by Table 7, and section 4.4, the transition and implementation period will require extensive resources. The DB would also need to implement a plan to enable successive franchise contracts to be let and managed.

4.5.6. The intended approach of awarding franchise contracts in separate rounds would enable the DB to achieve the benefits of franchising relatively quickly, whilst ensuring that the procurement process is manageable. It would also allow the DB to refine its contract and procurement processes based on experience gained in letting the earlier rounds of franchise contracts.

4.6. Procurement

4.6.1. Various activities will take place during this period including running the procurement exercises for franchise contracts. Section 5.6 of the commercial case further describes expected procurement activity and timescales.

4.6.2. Each tranche of procurement is expected to follow the same process:

4.6.3. **Market engagement** - an initial three-month market engagement and evaluation exercise would commence, which would allow for some of the detail relevant to the contracts in that particular tranche to be informed by the market.

- 4.6.4. **Procurement preparation and launch** - three months have been allotted for procurement preparation, and launch, which covers the preparation of the documents that are specific to the tranche, e.g. route specifications, timetables, depot information, route performance data, employee data.
- 4.6.5. **Bid** - the DB is likely to make use of a competitive flexible procedure under the Procurement Act 2023. This is likely to entail a period of engagement/dialogue with bidders and time for them to finalise and submit their bids. Depending on approach this may involve some form of interim bid submission, including potentially down selection; there are several ways the competitive flexible procedure can be used. Five months have been allowed for this approach; however, this is indicative and will need further development as it will be dependent on the level of interest, and negotiation, required. The DB also has the option to make use of an open procedure under the Procurement Act 2023 which, including a time period for requests for information (RFIs), is assumed to require two months. It is likely that the competitive flexible procedure would be employed for the large packages, with the open procedure reserved for small packages.
- 4.6.6. **Evaluation** - consists of various elements including financial, quality, and technical. This is expected to take two months.
- 4.6.7. **Contract award** - one month permitted for the proposed contract to go through the required governance process, and then the subsequent standstill period.
- 4.6.8. **Mobilisation** - franchised services are expected to commence six months after the finalisation of procurement.
- 4.6.9. These stages, and their length and ordering, is indicative. The Procurement Act 2023 allows for a different approach to be taken (for example, conducting market engagement once a tender has launched) – and so the order of stages, their place in timeline, and activity completed in each stage may vary. An overall timescale of approximately 20 months, however, remains likely.
- 4.6.10. There will be a significant period of time between the Mayor making a decision to implement the proposed franchising scheme, and all services being operated as franchised services. This period will be valuable for ongoing engagement with incumbent operators to help manage service continuity, and for the DB to sufficiently resource itself to deliver the scheme, although there is also risk of network change during this period (as discussed in Table 11). As discussed in section 5.6 of the commercial case, the three procurement exercises will not be taking place concurrently. This will allow for the DB to refine the procurement process with lessons learned from previous tranches.
- 4.6.11. The transition period will extend for multiple years, lasting until every in-scope bus route is operated under a franchise contract. Due to the risks of network instability during this period, a transition plan will be developed which aims to provide clarity and guidance on:
- How to ensure operators can mobilise their drivers, fleets, and maintenance arrangements in time to provide a reliable service.

- How to make sure the DB's transition approach does not disadvantage certain operators—particularly new entrants who may require more time to mobilise.
- How to maintain continuity of services and prevent customer confusion during the transition period, when both franchised and non-franchised services will be operating simultaneously.
- How to ensure the DB has the necessary staff, systems, and processes in place to manage franchise contracts and carry out other franchising-related responsibilities (such as network planning and timetabling), while also ensuring that resources and processes are adjusted to reflect the growing number of franchised services and the management of service permits.

4.6.12. As detailed in section 5.6 of the commercial case, a provisional packaging strategy has been developed. Depots have been grouped together in order to create 10 large-sized packages of contracts, with services outside of these packages let as individual contracts (which can be combined into group bids). The table below summarises this provisional transition strategy:

Table 8: Summarised provisional packaging strategy

Month	Large packages	Small packages
September 2029	A – Washington and Riverside	7 routes with PVR between 1 and 3
September 2030	B - Deptford, Sunderland, South Shields	13 routes with PVR between 1 and 4
	C – Belmont and Consett	39 routes with PVR between 1 and 11
September 2031	D – Percy Main, Ashington, Blyth	17 routes with PVR between 1 and 5
	E – Slatyford and Walkergate	14 routes with PVR between 1 and 13

4.7. Delivery Body personnel

- 4.7.1. The DB would need to expand and develop its team structures and recruit additional resource. As shown in Table 9 below the filling of permanent franchising roles has been profiled over the transition period. Roles will be filled by the transfer of existing staff into franchising roles or internal/external recruitment. The incremental staff costs of franchising during the transition to steady-state is presented in section 6.3 of the financial case.
- 4.7.2. Post-transition Business as Usual (BAU) staff recruitment will be one of the first exercises undertaken during the transition period, enabling them to provide the necessary staffing resource to support other transitional activities. Consultants and agency staff will be employed to provide skills and expertise specifically required for the transition period. The costs associated with this are included in Table 5.
- 4.7.3. The timing of the recruitment would be important, particularly as some of the positions would require specialist skills for which there may be a limited supply in the market. The DB would undertake recruitment in line with the principles outlined in section 4.13.

Table 9: Cumulative staff requirement

Cumulative staffing requirement	FY27/28	FY28/29	FY29/30	FY30/31	FY31/32
Cumulative FTEs - Bus Team	29	43	124	140	150
Cumulative FTEs - Support Services	3	6	10	10	10

4.7.4. Included in the transition costs is an allowance for office equipment and training to onboard new and existing recruits.

4.8. Implementing a service permit regime

4.8.1. Franchising would be implemented simultaneously across the whole of the North East, with contracts let in three separate procurement rounds. This would mean that all services which are not franchised or exempt from the scheme would need to operate under a service permit regime.

4.8.2. During transition this would be a significant number of services as the rounds will be phased. The services which are not yet operating under a local service contract will therefore require a service permit, this is in line with approach taken in Liverpool City Region.

4.8.3. The DB is required to apply the statutory test for whether to grant a permit, which currently requires that service permits are not granted where the service could undermine franchised services.

4.8.4. Section 6 of the Bus Services Act 2025 amends the TA2000¹⁹ to relax this test, providing the DB with greater discretion to grant the service permit if they are satisfied that the benefits to the economy, and to people living in the area, outweighs any adverse effects on franchised services. Additionally, the DB has even greater flexibility to approve cross-boundary service permit applications as, further to the above, they are also able to grant the permit if the benefits to people making journeys on that proposed service outweigh any adverse effects on franchised services. It is assumed at the time of writing that these provisions will come into force before the proposed North East Franchising Scheme could be made.

4.8.5. Certain other types of service considered as not suitable for franchising would need to operate under a service permit regime. These include services such as specific cross-boundary routes, special event or one-off services and tourist services. This regime would contain specific requirements for operators running services within the area to ensure that services are of comparable standards.

4.8.6. In order to implement a service permit regime, the DB would need to consult on the proposed detail of the service permit regime which will be reflected in its service permit policy statement once finalised (including a description of the proposed application

¹⁹ [Bus Services Act 2025, section 6.](#)

procedure and proposed information required from operators) and also any conditions to be attached to service permits. The exact scope of the service permit regime would be subject to formal consultation with operators and other relevant parties. However, legislation sets out those areas where the DB could propose certain types of condition to be attached to the service permits (such as conditions requiring the acceptance and issue of tickets of a specified description), and different conditions could apply to different types of service. This would allow the DB to specify requirements that were beneficial to passengers, such as conditions related to acceptance of tickets in regional ticketing schemes. Further detail on the proposed conditions applied to the service permits can be found in the commercial case.

- 4.8.7. As many routes operated under the service permit regime would be cross-boundary, engagement with neighbouring authorities is necessary. The MSA has already engaged with all relevant authorities, understands their general requirements, and will consider and consult with them when designing the regime. Further detail of this engagement can be found in section 9.9 of strategic case (engagement with neighbouring authorities).
- 4.8.8. Once conditions are finalised, the DB would need to consult on both the proposed service permit regime (section 123R(3)(2)(b) of the TA 2000 and any proposed conditions (per section 123R(5) of the TA2000). This consultation would be separate to the franchising scheme consultation. While possible, there are no requirements to hold the service permit consultation concurrently to the wider consultation on franchising as the service permit regime only needs to be in place for the implementation of the first local service contracts, meaning that this consultation could take place during the transition and implementation period. The consultation also has the benefit of mitigating the legal and commercial risk of different regimes being in place, particularly during the transition period, and allowing for neighbouring authorities to comment on the approach to cross-boundary services.
- 4.8.9. The DB would need to coordinate the publication of its service permit policy statement, as such publication could not be any earlier than the date of the publication of the franchising scheme.
- 4.8.10. It would be important for the MSA/DB to set conditions in the service permit regime which support the smooth integration between services run under the service permit regime and those provided within the larger franchising offering. The final form of these conditions will be established following the consultation process.

4.9. Depots

- 4.9.1. During transition, it will be critical for the overall commercial strategy for the DB to secure ongoing access to the strategic depots outlined in the commercial case for franchise operators, or for suitable alternative sites to be identified and developed. Initial valuations of strategic depots have been undertaken to inform the estimated costs of depot acquisition, reflecting the preferred approach to acquire such sites through a negotiated agreement – but final costs can only be determined through negotiation with the owner. The risk posed by the uncertain costs of acquiring the requisite depot sites are outlined in Table 11, alongside proposed mitigations.

- 4.9.2. There are no plans to purchase any other depots than the strategic sites specified in the commercial case.
- 4.9.3. Responsibility for depot maintenance will be split between the MSA/DB and operators, with day-to-day management and maintenance within the gift of operators. More substantial works may require the involvement of the MSA/DB.
- 4.9.4. The incremental staffing requirements for franchising includes asset management resource, as well as engineering support staff dedicated to depot provision.
- 4.9.5. A long-term depot strategy requires development to set the future vision for depot provision in the region. This could include provision of new depot sites (in more optimal locations, if identifiable and feasible) and disposal of existing depots (for example, due to age, condition or limited decarbonisation potential).

4.10. Brand and marketing

- 4.10.1. A new brand will be developed for the franchised network, including a new logo, which will be applied to bus liveries, bus stops, paper information, marketing material, the website, and app. A detailed branding specification will be developed, with bespoke implementation arrangements for each item. The cost of implementing the brand is expected to cost c. £6.5 million, although this will extend beyond the transition period as a result of the timelines associated with bus re-liveries.
- 4.10.2. As with the brand, those responsible for communications and engagement design and deliver the marketing campaigns developed for the launch of franchised services. These campaigns would incorporate the new brand and advertise to the public that change has taken place and communicate what they can expect from reformed bus services. Running these campaigns, including associated staff time, is expected to cost £2.5 million during the transition period.

4.11. Website and app

- 4.11.1. A single app and website would be developed over the transition period which would replace the existing digital offer from operators, local authorities, and Nexus. It is anticipated that these channels will be fully featured and include functionality such as merchandising, real-time information and journey planning. Development is expected to cost £2.42 million and will need to occur early in the transition and implementation period in readiness for franchising.

4.12. Organisational change to support franchising

- 4.12.1. Should franchising be implemented, significant organisational change will be required to support this process. The overall resource required to deliver franchising is detailed in section 3.4 of this management case, and the personnel required by the delivery body to do so can be found in section 4.7.

4.13. DB personnel recruitment strategy

- 4.13.1. The DB would base its recruitment strategy on existing recruitment policies and processes of those existing in regional public sector bodies such as the MSA, local authorities, and Nexus. The strategy would be tailored to take account of the development of existing staff, the potential for staff to join from existing operators and public sector bodies, and the external recruitment of staff. In addition, the strategy would take account of the demand for specialist roles, particularly in the light of proposals for franchising in other areas.
- 4.13.2. The DB's recruitment strategy will be developed into a detailed recruitment plan. This plan will detail the resourcing plan to bring in the required commercial experience and appropriately upskill existing staff to deliver the transition and manage new responsibilities effectively from the start of franchising. A bespoke strategy may be developed depending on the nature of the specific market, or of the role required.

4.14. System changes to support franchising

- 4.14.1. The transitional period gives the DB a potential opportunity to improve efficiency and customer experience by consolidating and better integrating existing IT systems. The MSA/DB will therefore have the opportunity to assess whether wider existing IT systems (hardware or software) could be adapted for use under franchising.
- 4.14.2. Systems have been developed to manage the data requirements to assist the delivery of the EP and are therefore included in the baseline. This includes data such as operating performance, patronage, financial and mileage data, strongly aligned to the data requirements set out in section 5.6.
- 4.14.3. A cost associated with procuring network planning software has not been included in this assessment as such software is already in use by the MSA. This capability is considered sufficient for the purposes of franchising. Network monitoring software, necessary for management of the operational performance regime will require procurement.
- 4.14.4. AVL (automatic vehicle location) chips will continue to be owned by the public sector and provided to operators²⁰, who will also receive a detailed specification for the requirements of their electronic ticket machines. Further information can be found in section 5.2 of the commercial case, with cost estimates found in section 6.3 of the financial case, however for the purposes of this case it should be noted that these systems will have to be integrated with the network monitoring software to ensure the accuracy of service performance reporting.
- 4.14.5. Additional system requirements may include systems to manage franchise contracts and lost property, increase stakeholder communications and monitoring and evaluation. These systems are considered to be within the baseline or to have minor costs associated and therefore have not been costed.

²⁰ Further information can be found in section 5.2 of the commercial case.

4.15. Mobilisation for franchising

- 4.15.1. Transition must run smoothly if the franchising scheme is to meet its objectives, this includes ensuring that customers do not have a negative first impression of franchised services during the mobilisation period.
- 4.15.2. As part of the procurement process, operators will submit their mobilisation plans for review by the DB to ensure that operators and the DB are able to work together effectively to ensure a smooth transition for operators, the DB, and the travelling public.
- 4.15.3. DB resource will be deployed to support the smooth mobilisation of franchised services. DB personnel will support delivery of the new fares structure, monitor network stability, implement any necessary contingencies, and generally ensure operational continuity (further detailed in section 4.16). HR capability will be available to assist with the TUPE transfer of staff to the incoming operator, and with any potential pension implications (although this would be advisory, and responsibility would ultimately remain with the incoming and outgoing operators). The DB will ensure that any depot sites included in a given package are ready for the handover.

4.16. Operational continuity

- 4.16.1. There is a risk that incumbent operators may choose to withdraw their services from the region ahead of the introduction of franchising. In this context, withdrawal could take many forms ranging from cancelling commercially marginal services, to fully deregistering their network and leaving the region. Assuming that operators abide by their statutory notice periods for service deregistration, the public sector is unable to prevent this from taking place. Consequently, the viability of the commercial network during the transition period is at risk.
- 4.16.2. To mitigate this risk, if local bus services are franchised the MSA/DB will look to extend the deregistration notice period to a maximum of 112 days in line with The Public Service (Registration of Local Services) (Franchising Schemes Transitional Provisions and Amendments) (England) Regulations 2018 which would give the MSA more time to put contingency plans in place in the event that an operator withdraws existing services.
- 4.16.3. Operators may also maintain their network in a form of stasis, choosing not to invest in any improvements/changes to services that they may not be operating in the future. They could also reduce the quality of the service, such as worsened vehicle standards or cleanliness and punctuality, as the reputational impact of such choices would be substantially mitigated by the introduction of the franchising scheme.
- 4.16.4. The DB must manage an effective and efficient transfer of services to franchised operations during the transitional period in order to sustain customer confidence. To achieve this the DB may elect to secure additional services to reinforce network stability during this period. Additionally, a specific plan to deal with operational continuity will be developed to manage relevant risks, and to plan for contingency replacement services if an operator decides to withdraw from the region before the relevant franchise contracts begin. The DB would continue to maintain a dialogue with incumbent bus companies to

manage any issues as they arise, and to obtain early warning of any changes to services, including through the code of conduct for service changes.

4.17. Secured services

- 4.17.1. The anticipation is that the volume of secured services would gradually reduce throughout the transition phase as services transition to operating under local service contracts. Residual secured services contracts would continue to be carefully managed to ensure that capacity and quality of service is maintained before services begin franchised operations, as well as managing spend on de minimis contracts to ensure this remains within the expenditure limit as this reduces as fewer secured services operate.
- 4.17.2. The MSA/DB, working with the existing public sector transport authorities, would ensure that the expiry date of any secured services contracts let during the transition phase are coterminous with commencement of the relevant franchise contracts where appropriate and handover requirements specified where necessary.
- 4.17.3. The MSA/DB would actively engage with neighbouring authorities regarding cross-boundary services operating with financial support to understand and agree renewal dates (if appropriate) and/or to ensure that the existing contract specifications meet the requirements of the service permit regime in the same way commercial services would be expected to.

4.18. Fares and ticketing

- 4.18.1. Under franchising, responsibility for fares and ticketing will transfer to the public sector, enabling the MSA to set fares for all services operating under franchise contracts. As the franchising scheme is implemented, the existing multi-operator tickets will be replaced by the new ticketing regime. Electronic Ticket Machines (ETMs) are assumed to be owned by the MSA/DB and provided to operators, as outlined in the commercial case, providing consistent data to the MSA/DB and a consistent experience for passengers.
- 4.18.2. The MSA/DB has the opportunity during the transition period to market the new fare and ticketing offer to customers, to ensure common messaging for customers.
- 4.18.3. The DB would be responsible for working closely with the operators of service permitted services to include the acceptance of relevant products of the new ticketing regime, and to negotiate a reimbursement approach for ticketing products used on a cross-boundary service operated under a service permit.

Key insights from this section

- The public sector in the North East has extensive experience of delivering major regional projects (like BSIP fare initiatives and the Northumberland Line). This experience will aid the public sector in implementing either delivery option (franchising/EP) across the region.
- Should the Mayor choose not to proceed with the franchising option, the current EP would remain in place and no transition will be required.
- Should the Mayor choose to proceed with the franchising option, additional resources would be required by the DB to facilitate this transition. The costs

Key insights from this section
associated with the various activities that are essential to facilitate a smooth transition have been provided in Table 6.
• The DB would put in place measures to manage the risk of service reductions during transition and in the mobilisation period. • The implementation programme for franchising would also require a variety of activities (outlined in Table 7 of this management case) to take place simultaneously. The programme would be designed so that the DB has all relevant management systems in place to meet its obligations under the franchising scheme and service permit regime.
• Each tranche of procurement is expected to follow the same (indicative) six-step process starting with 'market engagement' (three months) followed by 'procurement preparation and launch' (three months). Two to five (or more) months have been set aside for operator bidding (depending on the approach chosen). Bids will then be evaluated (two months). The chosen bid will be awarded the contract within a month. Following the standstill period, franchised services are expected to mobilise six months after procurement finalisation. An overall timescale of approximately 20 months is likely to be required to complete this procurement process.
• The expansion of the DB to deliver franchising will take place through the transfer of existing regional public sector staff into franchising roles, and through external recruitment which would provide opportunities for existing operator staff.
• Some bus services that are designated as requiring a service permit would need to operate under a newly designed service permit regime. The DB would need to consult on both the proposed detail of the regime and also on any conditions attached to it.
• During transition, the DB will seek to secure ongoing access to the strategic depots for franchise operators. Responsibility for depot maintenance will be split between the MSA/DB and operators, with day-to-day management and maintenance being an operator responsibility. Substantial works would invite MSA/DB involvement.
• A new brand will be developed for the franchised network, including a new logo, which will be applied to bus liveries, physical infrastructure, paper information, marketing material, the website, and app. The app and website - providing merchandising, real-time information and journey planning- would be developed over the transition period and would replace the existing digital offer from operators, local authorities, and Nexus.
• A review of existing IT hardware and software will be conducted before this transition period with a view to supporting both the transition to, and the operation of, franchising.
• Various DB resources will be deployed to support the smooth mobilisation of franchised services with operators expected to submit detailed mobilisation plans for review to the DB.
• There is a risk that incumbent operators may choose to stop running or reduce investment in their services in the region ahead of the introduction of franchising. The DB will develop an operational continuity plan to mitigate such risks and engage with operators to manage an efficient transfer of services to franchised operations during the transition period.
• The volume of secured services is anticipated to gradually reduce throughout the transition phase as services transition to operating under local service contracts.

Key insights from this section

- As the franchising scheme is implemented, the existing multi-operator tickets will be replaced by the new ticketing regime. The DB has the option during this process to design the new fares and ticketing system in a way that is similar to the one that it is replacing. The MSA/DB also has an opportunity during this period to market the new fares and ticketing offer to customers to ensure common messaging for customers.

5. Performance and benefits management

This section will:

- Set out the process that the MSA will employ to ensure that the chosen delivery options deliver the benefits associated with the strategic aims of the BSIP and the LTP.
- Set out the different data types that the MSA will use to monitor the delivery of these benefits.

5.1. Enhanced Partnership

5.1.1. The EP aims to deliver a wide array of benefits to passengers. These are monitored against several BSIP KPIs which focus on bus patronage, performance, customer satisfaction and vehicle standards.

5.2. Current activities

5.2.1. The EP has been operational since 2023 and therefore there are well-established processes that govern the management of the EP. Partners are able to raise performance and benefits delivery issues formally via governance channels and informally through well established relationships between the public and private sector.

5.3. Process overview

Performance monitoring and benefits realisation is currently achieved through a five-step process:

- 5.3.1. **Identification of benefits** – The first North East BSIP identified the benefits that needed to be delivered through an EP in 2021. With each refresh of the BSIP, the MSA has received a better picture of the benefits that could be delivered through the implementation of an EP.
- 5.3.2. **Benchmarking** – EP partners have worked together to create Key Performance Indicator targets (KPIs) to track the annual delivery of these benefits. These KPIs are not static. They evolve in response to changing circumstances. For example, patronage KPI baselines were adjusted in 2023 to account for the impact of the Covid-19 pandemic on patronage levels.
- 5.3.3. **Responsibility assignment** – The MSA has created a Transport Customer Experience team to monitor the EP and assist in the realisation of benefits. This team is expected to remain in place under the EP option.
- 5.3.4. **Monitoring and assessment** – The aforementioned team produces a six-monthly report to the Partnership Board that sets out the latest available data by which to measure the EP's performance against its KPIs. This report also contains commentary on why targets are being met, not met, or exceeded, and will include supplementary information such as long-term trends, social and economic trends that helps contextualise the data. Finally, the report also includes qualitative data to evidence how users feel about the network.
- 5.3.5. **Managing underperformance** – The monitoring report also includes details of actions taken in the past six months and details of actions planned for the next six months, partly informed by the data in the monitoring report. In the face of consistent underperformance, the MSA could seek to take actions such as making variations to the EP with the

agreement of bus operators. In the most severe circumstances, the MSA could report non-compliant operators to the TC that can, after requesting an investigation of said non-compliance from the DVSA, pursue enforcement action like cancelling service registrations for said non-compliance.

- 5.3.6. For the purposes of this assessment the MSA has assumed that all operators are currently compliant with their obligations regarding providing information to the Bus Open Data Service (BODS).

5.4. Franchising

- 5.4.1. Bus franchising aims to deliver a wide array of benefits to passengers. The realisation of these benefits depends on the ongoing monitoring of various benchmarks associated with the North East LTP's objectives and the strategic objectives for bus reform (see section 11 of the strategic case).

5.5. Process Overview

- 5.5.1. The monitoring of performance and the realisation of benefits would be achieved through a five-step process:
- 5.5.2. **Identification of benefits** – franchising is expected to deliver benefits along the lines of the reform objectives outlined in section 6 of the strategic case (see below) and the objectives of the North East LTP. It is important to note that the bus reform objectives and BSIP are strategically aligned to the LTP and wider MSA objectives.

A North East we are proud to call home		
Strategic Objective	Outcome	Measure
Buses at the heart of an integrated transport network: 'The Angel Network'	There should be a single, integrated source of journey information and customer support that is easy to understand	Improved satisfaction with information provision within the first three years of implementation
	A unified and integrated North East transport network	The Angel brand will apply to all buses – and other bus infrastructure assets as well as some other transport assets within the first three years of implementation
	Bus fares should be affordable, and tickets should be easy and simple to use	Sustain or improve perception of value for money within first five years of implementation Improved simplicity in fare structure within first year of implementation

A North East we are proud to call home		
Strategic Objective	Outcome	Measure
		Improved access to contactless or smartcard capping across all buses within the first year of implementation
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles	Accelerate the transition to zero emission bus vehicles in the region, working towards all buses being zero emission by 2035
	Information, including real time information, should be accurate, integrated and accessible through a single source	Increase in real time information provision within the three years of implementation
	The delivery model encourages use of bus as part of a multi modal network	Higher relative bus ridership than reference case
Improve bus punctuality and reliability	Passengers should be confident that that buses will operate as scheduled	Improved punctuality and reliability within the first five years of implementation, working towards the traffic commissioners' targets for bus performance
Make the bus network resilient	The bus network should be financially sustainable and resilient in the long term	On a long-term basis, the North East's bus network will be financially stable and affordable, allowing for financial planning of the bus network Bus ridership should be stabilised leading to financial resilience
Make the bus network accessible and inclusive to all	The bus network should be accessible to all communities and demographics, including disabled and older residents	Bus network satisfaction should increase amongst older and disabled bus users
	The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible	The reduction in bus mileage should be stabilised and new services should be introduced where financially possible
Ensure that everyone feels safe when	People's safety should be central to the network – including at bus stops and stations, with a particular	Perceptions of safety should be improved, especially for women, girls and other vulnerable groups

A North East we are proud to call home		
Strategic Objective	Outcome	Measure
travelling, especially women and girls	focus on the safety of women and girls and other vulnerable groups	
Create regional pride in its buses	Buses should play their part in delivering regional outputs, such as economic growth, carbon emission reduction and improved public health	The North East bus network KPIs should benchmark well against comparable networks
	North East residents should be advocates of the bus network	Perceptions of the bus network should improve within the first five years of implementation

5.5.3. **Benchmarking** – each of the reform objectives has at least one outcome associated with it (see section 6 of the strategic case). Each outcome has a measure associated with it which will be converted into a KPI (if possible) that will be used to track delivery against said outcome. Suitable baseline values for KPIs will be identified on the basis of data available before the first round of franchising.

5.5.4. **Responsibility assignment** – both the MSA and DB will hold some responsibility for benefits realisation and performance management. The DB will handle these matters operationally, for example engaging in contract management procedures if the performance of an operator is below expectations. The MSA retains a strategic interest as the sponsor and funder of the franchising scheme.

5.5.5. **Monitoring and assessment** – once franchising has been fully implemented, an ongoing assessment and testing regime would need to be designed and operated by the DB. It is likely that the DB would consider the following while designing said regime:

- how outputs and success are measured, such as a scoring metric which focusses on achievement of objectives
- what data needs to be collected to allow for benefit testing and monitoring
- how often will benefits be measured and tested
- escalation procedures
- a plan/timescale for the review (and potential rebasing) of the benefits to ensure they are still relevant

5.5.6. **Managing underperformance** – poor performance is likely to negatively impact perceptions of the franchised network and passenger demand. Poor performance will be managed and mitigated by a variety of measures, including:

- a performance regime, focused on punctuality and reliability, which is incorporated into local service contracts. This regime is expected to offer incentive payments for performance that exceeds the relevant target and deductions where performance falls below the target. The mechanics of the performance regime are discussed further in section 5.5 of the commercial case.
- other standard obligations specified in local service contracts, with remedies available (such as making and agreeing rectification plans) to address areas of poor performance.
- installation of additional bus priority infrastructure by the region's highways authorities, likely informed by the DB's analysis of areas where (for example) congestion is having a negative impact on bus punctuality and reliability.

5.6. Data requirements

5.6.1. The public sector would require access to a sufficient level of data to ultimately test whether benefits are being achieved. As a minimum, data that operators would be expected to provide to perform this assessment would include:

- Operating performance data
- Net cost of delivery
- Operated mileage
- Progress on delivering any other obligations committed to by operators

5.6.2. The list provided above is not exhaustive. The DB will hold some of the necessary data itself (such as patronage, farebox revenue, and punctuality) and data from external sources such as Transport Focus will also be analysed for information on important metrics like customer satisfaction.

5.6.3. The operator will also be obliged to continue to report all relevant data to the Bus Open Data Service (BODS) on behalf of the MSA.

Key insights from this section

- This section outlines a five-step process to monitor the performance of both delivery options and ensure that benefits are realised under both options. The steps involved in this process are 'identifying benefits', 'benchmarking', 'assigning responsibilities', 'monitoring and assessment', and 'managing underperformance'.
- For the EP, the BSIP identified benefits that needed to be delivered through the EP. Partners collaborated to develop KPI benchmarks. The MSA took responsibility for benefits realisation and formed a team to monitor the EP. This team produces KPI monitoring reports every six months for Partnership Board to assess EP performance. This report also details actions to be taken in the next six months to manage any underperformance with the MSA being able to vary the EP or report operators to the TC in cases of high underperformance.
- The strategic bus reform objectives identified benefits that could be delivered through franchising. Each reform objective is associated with at least one measurable

Key insights from this section

outcome that can be converted into a KPI. Operational responsibility for benefits realisation and performance management is likely to fall to the DB, with the MSA retaining strategic oversight.

- An assessment and testing regime would be operated by those responsible for performance management to monitor benefits realisation under franchising. Performance regime incentives aim to encourage operators to maintain high levels of performance with the MSA being able to address underperformance through measures ranging from mandatory corrective actions to terminations of franchise contracts.
- The public sector will require access to a sufficient level of data to ultimately test whether benefits are being achieved. Some of this data will be held by the DB itself (e.g. patronage) while the rest of the data will be sourced from operators (e.g. net cost of delivery) and from external providers like Transport Focus (e.g. customer satisfaction).

6. Network change

This section will:

- Outline the network change process for both delivery options.

6.1.1. The MSA recognises that changes to the North East bus network will be required in the future, regardless of the chosen delivery option (franchising / EP). Variations of the bus network may be made in response to factors such as customer feedback, operational costs, bus usage needs, new housing or industrial developments, new traffic management arrangements, and to improve journey times and reliability. The mechanism to introduce changes to the bus network will vary depending on the selected option.

6.2. Enhanced Partnership

6.2.1. Under an EP, regional bus operators make changes to the bus network to maximise profitability and commercial efficiency. To mitigate the impacts of these network changes, the public sector (local authorities, the MSA, and Nexus) and regional bus operators have worked together to develop the North East Bus Service Code of Conduct.

6.2.2. This Code of Conduct is intended to introduce a consistent standard to ensure that network changes can be made in an orderly manner. It also attempts to ensure that communities and bus users are adequately consulted with, when such changes are made. It is important to note that this does not allow the public sector to reject planned changes to commercial services, instead giving the public sector more time to consider better mitigation measures. This Code of Conduct is expected to remain in place under the EP.

6.2.3. As described in the strategic case, however, there have been incidences of non-compliance with the Code of Conduct, particularly in relation to engagement with affected communities.

6.3. Franchising

6.3.1. Under the proposed franchising model outlined in section 5 of the commercial case, the public sector would assume responsibility for making changes to the regional bus network, informed by opportunities for operator input.

6.3.2. Network changes will be necessary under franchising over time, in order to respond to permanent and temporary changes in demand and road conditions. As set out in the commercial case, however, the MSA assumes that initial network change would be minimal to smooth the transition for passengers and communities.

6.3.3. Permanent network changes could generally take place as part of a planned network review process, coming into effect on set dates each year. Flexibility would be required for changes necessary at short notice, such as in response to road closures arising from planned works. Operators would be responsible for managing emergency road closures on an ad-hoc basis, diverting routes and communicating these changes to the DB for dissemination through its channels to passengers as soon as possible.

6.3.4. Network reviews would take place on a planned basis once franchising has been fully implemented across the region; this approach allows for sufficient capacity to be available in the DB to undertake the review, as well as giving the DB data from the operation of the bus network that can inform the review. Network reviews would be led by the DB in discussion with the MSA and would include engagement with local authorities, customers, local communities and politicians.

6.3.5. The DB will determine the process for conducting network reviews, and the objectives for each review, as part of its planning process. An initial network review is likely to involve consideration of potential duplication of services arising from any competing services in the deregulated market (though this is expected to be limited), as well as other any other objectives considered relevant at that time. Any efficiencies gained through improvement in journey times as a result of the delivery of bus priority infrastructure will be considered as part of any subsequent network reviews.

6.3.6. Major changes to the bus network proposed by the DB as a result of network reviews would be subject to approval from Cabinet, as detailed in section 9.4. Further development of the DB's governance procedures, including the extent to which it is authorised to make minor changes to the network (as Nexus/DCC/NCC can for their secured service contracts), will be considered as part of the establishment of the DB.

Key insights from this section

- Under the EP, operators make network changes to maximise profitability and commercial efficiency. To mitigate the impact of these changes, the public sector and operators have worked together to develop a Code of Conduct to ensure that network changes are made in an orderly manner. However, this Code of Conduct does not give the public sector veto rights over planned network changes.
- Under the proposed franchising model, the public sector would assume responsibility for making changes to the regional bus network, informed by opportunities for operator input. Network reviews would take place on a planned basis, on set dates each year, once franchising has been fully implemented across the region.

7. Stakeholder engagement and consultation

This section will:

- Outline the approach to how groups, communities and organisations with an interest in the bus network are engaged with under the EP.
- Outline the different engagement requirements under franchising and will detail how the proposed franchising scheme intends to meet these requirements.

7.1.1. There are a range of groups, communities and organisations who have an interest in the delivery of high-quality bus services in the North East. First and foremost are passengers and their representatives, but there remain a number of other interested parties such as local authorities, bus operators, employees of bus operators and their representatives, regional employers, healthcare providers, educational institutions, national parks authorities, police, and our neighbouring authorities. The MSA recognises the importance of working with these stakeholders and this section sets out high-level engagement plans to ensure that the MSA is able to effectively engage and consult stakeholders in a way that is inclusive of all views.

7.1.2. For an authority making a franchising scheme, legislation prescribes when, and with whom, an authority must consult. This section sets out how the MSA will respond to these consultation requirements.

7.2. Engagement and consultation in the EP

7.2.1. A strong working partnership between local authorities and bus operators is critical to the success of the EP. The EP comprises of an EP Plan and an EP Scheme that outlines the objectives for bus services in the North East and the specific actions required to achieve said objectives.

7.2.2. The various governance and engagement structures of the EP outlined in section 2.1 and section 2.2 (the North East Bus Partnership Board, Bus Advisory Board, Local Bus Boards) of this management case provide multiple avenues for interested groups, communities and organisations to engage with the EP Plan and the EP Scheme. However, the ultimate power to modify or revoke the EP lies with the MSA and operators.

7.2.3. The North East Bus Service Code of Conduct, drafted through collaboration between the region's bus operators and local authorities, as well as the MSA and Nexus, is aimed at ensuring that network changes can be made in an orderly manner, and that communities and bus users are adequately consulted with. This provides a further opportunity for stakeholders to get their opinions heard on bus service changes. However, it is important to note that this code of conduct's effectiveness is limited by the fact that it is non-binding, with examples of non-compliance discussed in section 5.6 of the strategic case.

7.2.4. The MSA has also carried out ad-hoc rounds of consultation to understand the views of residents. This includes the Big Bus Conversation conducted by Transport North East (TNE) in 2023 to help inform reviews of the BSIP. The MSA also received significant feedback from residents on local bus services during consultation rounds held in 2024 to

inform the Mayor's Local Transport Plan. The MSA may consider holding further ad-hoc rounds of public consultation in the future.

- 7.2.5. The opportunities for stakeholders engage to engage with the EP and bus network outlined above are expected to remain in place without any major changes.

7.3. Engagement and consultation in franchising

Service permit scheme consultation

- 7.3.1. The TA2000 requires local authorities to conduct a consultation in instances where they intend to operate a service permit scheme alongside their franchising scheme. Service permits are part of the commercial model for local bus services in the region proposed by the MSA in this FSA, particularly in relation to cross-boundary services. This consultation will engage with operators as to the conditions the DB proposes will be attached to the service permits.

- 7.3.2. Following the completion of this consultation, the MSA will consider the responses received and update its service permit scheme accordingly (if needed). The MSA will then publish a consultation response setting out a summary of the consultation responses received and the MSA's proposed actions in light of these responses. Alongside this document, in accordance with regulation 3(2) of the Franchising Schemes (Service Permits) (England) Regulations 2018, the MSA will also publish its service permit policy statement which will set out the final details of the service permit scheme.

Future consultation and engagement

- 7.3.3. Franchising is intended to be a long-term intervention in the regional bus market in North East England. This makes stakeholder engagement and public consultation critical to franchising, as feedback gathered through these modes of engagement will help the scheme evolve as needed, thereby ensuring that the bus network meets the needs of its users.

- 7.3.4. There will be various modes through which feedback regarding franchised bus services would be solicited during the operation of the franchising scheme. Some notable examples include customer queries and complaints to the DB, contract relationship management between the DB and contracted operators, and political and officer-level discussions with constituent local authorities. This engagement would allow the DB, and through it, the MSA, to gather a range of perspectives on the operation of local bus services in the region.

- 7.3.5. Under the proposed governance arrangements, local authorities will have a formal role in decision-making through their representation at Cabinet. This guarantees that their perspectives influence strategic choices such as fare-setting, network reviews, and investment priorities. Beyond Cabinet-level involvement, local authorities will regularly engage with the DB, ensuring that operational decisions are informed by local priorities and constraints.

- 7.3.6. Such engagement will be continuous and multi-layered. The DB will establish clear liaison arrangements with each local authority, supported by stakeholder officers, to maintain open channels for feedback and collaboration throughout the life of the franchising scheme. By embedding local authority input into both strategic governance and day-to-day operational processes, the MSA aims to create a model of partnership that delivers a coherent regional vision while respecting and leveraging local knowledge. Further detail on these governance arrangements can be found in section 9.4.
- 7.3.7. In addition to the steps outlined above, the MSA/DB will remain mindful of its statutory obligations under the TA2000 and associated franchising guidance. Legislation requires the franchising authority to set out its plans for consultation with bodies representing users of local services, to seek their views on how well the franchising scheme is operating. Under the franchising guidance, this is expected to be an ongoing process throughout the life of the scheme.
- 7.3.8. To ensure compliance with statutory obligations, the MSA/DB will undertake consultation with Transport Focus (or any successor body), as a minimum, no later than 36 months after the commencement of the first local service contract. This engagement will provide an independent and representative view of passenger satisfaction and service performance. Further consultations will take place at least every 36 months thereafter to maintain a holistic understanding of how the scheme is operating across the franchising area.
- 7.3.9. The MSA/DB will draw on information gathered through the engagement methods described earlier (such as market testing and performance benchmarking) to provide a baseline understanding of passenger experience and market performance.

Key insights from this section

- The various EP governance and stakeholder engagement structures (the North East Bus Partnership Board, Bus Advisory Board, Local Bus Boards) provide different stakeholders with multiple avenues to engage with the EP Plan and Scheme. The Code of Conduct also provides stakeholders with a further opportunity to get their opinions heard on bus service changes.
- The MSA will consult on the service permit regime and any conditions that the MSA proposes to attach it. If franchising were to be implemented, there would be various modes through which feedback regarding franchised bus services would be solicited (e.g. customer queries and complaints to the DB, DB contract relationship management with contracted operators). Local authorities will have multiple forums through which they could engage with the MSA/DB on matters pertaining to local bus services (e.g. representation on MSA Cabinet, regular engagement opportunities with the DB through dedicated stakeholder officers). The proposed franchising scheme will also detail arrangements to engage with organisations representing bus users during the operation of the franchising scheme.

8. Risk and risk management

This section will:

- Outline how risk management has been considered for the purposes of this FSA
- Outline the risk management principles of the future delivery body responsible for delivering the proposed franchising scheme
- Outline key risks associated with both delivery options and mitigation approaches to manage identified risks

8.1. Risk management

8.1.1. Risk management is an essential part of scheme delivery, setting out the necessary approach to manage the negative impacts of the uncertainty that are inherent in any project and ensures that potential issues are proactively addressed and enable informed decision-making.

8.2. Risk management principles

8.2.1. The DB will need to develop its own risk management policy, informed by the scale and nature of risks it is expected to manage and the resources at its disposal. This risk management policy is assumed to be informed by those of the region's existing transport bodies, which are described below, with the DB developing such a policy and approving it through its governance procedures once established. The MSA will also have some risk management responsibility under franchising; there is an existing risk management policy and reporting schedule, with any necessary changes to be considered in transition and implementation.

8.2.2. Durham County Council's current risk management policy was adopted in 2024 and is based on the principles listed in the ISO 31000:2018 guidance on the characteristics of effective and efficient risk management.

8.2.3. Northumberland County Council's current risk management strategy was adopted in 2025. The current version of this policy has been developed in accordance with the Accounts and Audit Regulations (England) 2015 (April 2015), the British and International Standard BS ISO 31000: 2018, the UK government's Orange Book and the joint CIPFA/SOLACE publication Delivering Good Governance in Local Government: Framework (2016). The council's risk management principles are derived from the latter three documents.

8.2.4. Nexus' risk management strategy was adopted in 2024 and is based on the principles of the latest International Standard on Risk Management (ISO 31000).

8.2.5. The following table outlines the MSA's risk reporting schedule, applicable to risks managed by the MSA. The DB's risk reporting schedule will be developed as part of its own internal governance procedures once established.

Table 10: Risk reporting schedule

Group	Report Owner	Frequency	Risk Report
Cabinet	Director of Finance and Investment	Six monthly	Report on strategic risks
Audit and Standards Committee	Director of Finance and Investment	Quarterly	Report on strategic risks
Investment Board	Director of Finance and Investment	Quarterly	Programme risk as part of Performance Update Report
Senior Leadership Team (includes Statutory Officers)	Director of Finance and Investment	Quarterly	Report on strategic risks Programme level risks as part of Performance Update Report
Programme/Project Steering Groups	Programme/Project Senior Reporting Officer (SRO)	Quarterly as a minimum (may vary in line with Terms of Reference (ToR) and meeting schedule)	Programme/Project Risk Report

8.2.6. Whilst the risk management principles adopted by the MSA, Durham County Council, Northumberland County Council, and Nexus are tailored to their own respective operational contexts, they do share commonalities in their approach to risk management. The standard approaches to risk management can be attributed to the policies having to be informed by ISO 31000. Clear accountability, resilience, and transparency in managing risk are key principles that are prioritised in the risk management strategies.

8.3. Risk ownership

8.3.1. Franchising risks would be managed by the DB. The DB will develop a risk management policy reflecting its organisational risk appetite, the nature of the risks it is tasked with managing and the resources at its disposal.

8.3.2. Whilst the DB assumes the greatest direct risk under franchising, the MSA itself also assumes some risk, as it will be reputationally and financially intertwined with the DB. The MSA's risk management framework was adopted in 2024 and has been designed along the lines of the HM Treasury's Orange Book²¹. The Orange Book's risk management principles are themselves informed by BS ISO 31000:2018. The MSA's risk management framework recognises that regular risk reporting is central to the success of the organisation as it demonstrates that action is being taken to identify and manage risks and that records are relevant to the current context. Table 10 outlines the risk reporting schedule of the MSA.

²¹ ["The Orange Book Management of Risk – Principles and Concepts"](#). Government Finance Function and HM Treasury. 2023.

Project level risks will also be reported to the programme assurance team which provides a second line of defence assurance through the appraisal of business cases, claims, and monitoring risks.

8.4. Key risks managed by the public sector under franchising

- 8.4.1. Franchising gives the public sector much greater control over bus services in the region. This increased public control requires a commensurate increase in risk management activities for the public sector as it takes on greater risk under a franchising model.
- 8.4.2. The main risks managed by the public sector under franchising include revenue and reputation risks. Justification behind the decision for the public sector to assume revenue risk can be found throughout the commercial case, but in general such an approach exposes the public sector to risks associated with unexpected events such as economic downturns, changes in travel behaviour, and increased competition from other modes. Regarding reputation risk, under the current deregulated bus network, passengers associate their bus service with the relevant operator. Poor performance (whether in the form of unreliability, disruption, or negative interactions with staff) mostly reflects on the operator providing that service and not the public sector.
- 8.4.3. The public sector (in particular, the DB and the MSA) will be strongly associated with bus service provision under franchising. Franchised bus services will be the very visible backbone of the region's integrated transport network, with the introduction of franchising closely associated with the region's political leadership.
- 8.4.4. Improvements to bus services (and the integrated wider transport network) would likely reflect positively on the MSA and DB, but the public sector is taking on additional reputational risk as poor performance (even if outside the direct control of the DB or the MSA) will reflect poorly on the public sector and not bus operators.
- 8.4.5. It is important to caveat the above with the fact that awareness of the current arrangements for bus service delivery is generally low. Some either believe that the public sector controls the bus network in its entirety or believe that the public sector can exert greater control over bus services and operators than is possible in a deregulated system. Therefore, under the deregulated system, the public sector therefore already assumes some of this reputational risk without any significant control of the bus network.

8.5. Key risks managed by operators under the Enhanced Partnership

- 8.5.1. Under the current deregulated system, bus operators hold the revenue risk for the vast majority of bus services in the region. They are responsible for reaching and maintaining a profitable financial position by identifying and running commercially viable services that meet passenger demand. Bus operators have a financial duty to their shareholders, and they are likely to take corrective action to achieve desired profit margins (such as reducing frequencies or cutting services) if services underperform financial expectations.
- 8.5.2. Additionally, operators also currently carry much of the reputation risk associated with poor network performance.

8.6. Risk register

- 8.6.1. In line with the above risk management principles, risk registers have been populated for both options being considered in this assessment: franchising and EP.
- 8.6.2. Each risk register identifies the risks associated with each option and likely consequences of each risk materialising. It includes a qualitative estimate of the likelihood of each risk arising and the impact associated with each risk, leading to an assignment of 'high', 'medium' or 'low'. The actions that have or will be taken to mitigate and manage each risk are captured in the risk register.
- 8.6.3. The franchising risks identified as 'high' – i.e. risks deemed to have a potential significant impact upon the successful implementation of the franchising scheme – were quantified using a proportional multi-point probability analysis (see section 6.4 of the financial case). Risks are identified but not quantified for the EP because these risks are not incremental to the status quo and would be responded to as part of normal operations.
- 8.6.4. The risk registers are live documents and continually evolve in response to progress in the project and wider local, national and international developments. Therefore, the risk registers only provide a point-in-time view.
- 8.6.5. Risk registers for the 'high' franchising and EP risks can be found in Table 11 and Table 12 respectively.

Table 11: Risk Register Summary – Franchising

Risk	Risk Category	Impact	Mitigation
The MSA/DB does not have sufficient resource and / or knowledge during the transition or implementation periods.	Transition	Delays to key areas of transition lead to delays in the transition to or implementation of franchising, potentially incurring additional costs.	- Early identification of the critical path for transition and the required resource / knowledge - Early development of recruitment and training plans, informed by resource / knowledge needs. - Development of a phasing plan that smooths resource peaks and allows for learning to be embedded. - Contingency budget for consultant support if recruitment cannot be achieved
Changes required to facilitate transition to and optimal ways of working in the DB are not delivered.	Change management	- The DB becomes under-resourced due to increased staff turnover. - Costs are increased as staff seek higher wages due to changes to roles under franchising - There is a decline in service quality (and thereby patronage) due to sub-optimal ways of working in the DB.	- Input from Nexus/DCC/NCC in the development of the FSA and management case, and further close working during transition. - Proactive engagement with staff potentially affected by the transition to a DB, including formal consultation with trade unions as appropriate. - Ongoing change management in the DB once established to build and embed effective ways of working during franchising BAU.
The MSA/DB does not engage with affected groups and organisations early enough.	Communication/engagement	- Affected groups and organisations do not have the opportunity to engage with franchising proposals, fostering confusion and apprehension. - Additional costs are incurred as late changes to the design of the scheme are required to respond to concerns.	- Early development of planning and materials for engagement and consultation - Informal engagement with key groups and organisations ahead of the formal consultation

Risk	Risk Category	Impact	Mitigation
		Delays to the implementation of franchising due to changes required following engagement.	
The MSA/DB struggles to recruit sufficient skilled resource to oversee the mobilisation of franchising.	Transition	- Key areas of mobilisation are overlooked which leads to a delay in the implementation of the scheme. - Recruitment challenges, or prolonged transition, incur additional costs and potentially disrupt the smooth mobilisation and operation of franchised services.	- Identification of necessary functions to deliver franchising in this management case; further analysis prior to transition to confirm necessary roles. - Early development of recruitment and training plans, informed by resource / knowledge needs, along with clear mobilisation plans. - Development of a phasing plan that smooths resource peaks and allows for learning to be embedded. - Contingency budget for consultant support if recruitment cannot be achieved. - Tender documentation which clearly sets out operator requirements during mobilisation.
The MSA/DB struggles to recruit sufficient skilled resource to oversee franchising in the BAU environment.	Operational	- Passengers experience underperformance across areas of DB responsibility, leading to reputational damage and reduced patronage. - Staff become overworked and pursue other opportunities or seek higher wages, leading to further shortages or higher costs.	- Identification of necessary functions to deliver franchising in this management case; further analysis prior to transition to confirm necessary roles. - Early development of recruitment and training plans, informed by resource / knowledge needs. - Development of a phasing plan that smooths resource peaks and allows for learning to be embedded. - Contingency budget for consultant support if recruitment cannot be achieved.
Inaccurate patronage and revenue forecasts due to poor data inputs and unrealistic	Benefits realisation	Financial viability is affected, resulting in funding gaps that could require fare increases or service reductions to restore financial viability.	- Assessment uses a robust, multi-year demand model, including high-quality and up-to-date data. - Sensitivity testing undertaken to understand the impact of a range of scenarios. - Regularly update forecasts with real world monitoring data post-implementation.

Risk	Risk Category	Impact	Mitigation
assumptions affecting financial viability.		Decisions (about services, investments or funding) are made on inaccurate forecasts, meaning the scheme fails to achieve the economic outcomes expected in this FSA.	
Overestimation of operational savings and efficiencies achievable under the franchising model.	Benefits realisation	Franchising scheme fails to deliver anticipated economic benefits, or could require additional subsidy, affecting the value-for-money proposition.	Benchmark costs/savings against comparable schemes; use conservative estimates; sense check savings with to avoid overstatements.
There is not sufficient fleet in the supply chain / used vehicle market, meaning essential assets are not available. Applicable whether fleet is provided by operators or the MSA.	Benefits realisation	- Difficulties transitioning to franchising and/or attracting competitive bids due to a lack of available fleet. - Potential inability to meet intended service levels or quality, leading to reduced passenger numbers and confidence. - Potential higher transition costs.	- Clearly specified contractual obligations for timely fleet readiness; introduce penalties for delays; engage suppliers early to ensure alignment with economic delivery objectives. - Early procurement and supplier engagement (before franchise go-live) - Phased/parallel delivery approach: Roll out changes in steps to spread risk - Strong contractual penalties/incentives for meeting fleet and supply milestones - Sufficient contingency budget and reserve assets for delays - Regular, transparent progress monitoring with both supply and fleet providers - Continued engagement with operators and manufacturers to understand ongoing timescales for fleet delivery

Risk	Risk Category	Impact	Mitigation
Franchised bus services are not well-integrated with the wider transport network as intended.	Benefits realisation	• Could depress ridership/revenue by limiting accessibility and connectivity, reducing catchment and diminishing broader economic impacts. • Potential users may choose cars or alternative modes if the overall journey is harder, costlier, or less reliable than intended, affecting the forecasts in this FSA. • Bus services may only appeal to “captive” riders and not attract new ones, blunting wider economic/social returns.	• Build robust integration requirements (joined-up timetables, ticketing, information) into franchise contracts & KPIs • Regular collaboration forums with rail/metro/other bus/active travel providers • Marketing and incentives to promote multimodal journeys • Well-designed DB structures and processes
Demographic and/or economic shocks cause significant fluctuations in public transport demand patterns.	Social/political/reputational	• Invalid demand/revenue assumptions would require reactive service changes that affect economic viability and value for money. • Associated reputational damage to the MSA/DB if changes to services or fares are required to respond to these exogenous shocks outside its control. • Service plans, vehicle/fleet sizing, or investment in depots may be misaligned. • Sharp increases in fuel or energy costs: Can have mixed effects—bus may become more attractive	• Sensitivity testing of potential shocks as outlined in the financial case. • Maintain contractual flexibility for service scaling; incorporate volume/risk-sharing to protect the scheme’s economic resilience. • Build-in possible service scalability. • Maintain contingency and resilience funding/budgets. • Regularly update forecasting with new macroeconomic data

Risk	Risk Category	Impact	Mitigation
		or completely unaffordable for some riders, and operator costs may rise National or global recession/depression: Reduces commuting, discretionary travel, and farebox revenue.	
Service continuity is disrupted as operators wind down operations ahead of franchising commencing.	Transition	- Operators start to wind down operations/ withdraw services as they perceive risk to winning future franchises and prefer to prioritise business / assets elsewhere. - Increased costs due to a requirement for the DB to step in and fund services which have been withdrawn (or otherwise increase funding across the network). - Delay in service implementation affecting overall project timelines. - Could temporarily reduce revenue and ridership, weaken public trust, and reduce intended demand boosts.	- Detailed transition and mobilisation plan to be developed ensuring that risks associated with incumbent operators are mitigated. - Potential intervention if an operator should choose to withdraw. - Engage operators early and maintain regular communication. - Develop a stakeholder engagement plan that includes regular meetings, feedback sessions, and clear communication of expectations. - Risk quantified and contingency incorporated into financial projections.
Limited or no value-for-money bids are received due to an unattractive franchising offer and/or insufficient	Commercial	- Higher costs due to lack of competition or as operators price in of additional risk (e.g. due to poor quality information provision) - Reduced quality of bid due to lack of competition or low levels of market interest, with operators	- Market testing exercise completed as part of this FSA to gauge market appetite; commercial model subject to further development to respond to feedback. - Conduct market engagement sessions to gather insights and expectations from potential bidders, ensuring that the procurement process is attractive and competitive.

Risk	Risk Category	Impact	Mitigation
information for bidders.		preferring to focus resource into bidding for contracts in other franchising authorities. • Potential delays in procurement timelines, leading to increased pressure on staff and/or delays to implementation. • Pricing adjustments may be required post award to reflect assumptions made by bidders due to lack of information.	• Detailed approach to development of commercial model including risk transfer. • Where there is insufficient quality data to provide to bidders to allow them to price competitively, agreed assumptions can be provided to ensure a level playing field.
Operation of the franchised network is inefficient because of a sub-optimal packaging strategy.	Commercial	• Increased costs, poorer value for money bids and failure to capitalise on benefits of franchising. • Potential delay and complexity if changes must be made at a later stage. • Phasing occurs too quickly and there is not sufficient opportunity for learning from earlier procurements to be embedded and/or resource peaks to be smoothed.	• Provisional packaging strategy outlined in the commercial case, which considers: ○ Financial performance and profitability of bus routes / depots; ○ Cross-boundary Services; ○ Depot availability and suitability; ○ Service Permit Regime; ○ Potential inefficiencies or overlapping services ○ Phasing and transition strategy including the order and timing of implementation across the region. • Further analysis and development of packaging strategy ahead of procurement to ensure continued suitability, including consideration of future network aspirations and depot capacities.
The DB is unable to acquire or construct the necessary depot	Commercial	• Implementation of franchising is delayed as required assets cannot be provided to operators.	• Development of a comprehensive depot strategy that includes site acquisition plans, capacity assessments, and contingency plans (e.g. use of CPOs if necessary).

Risk	Risk Category	Impact	Mitigation
facilities on-time and within budget.		• Potential increased cost associated with purchases and/or rectification costs • Significantly increased cost / timescales if current sites are not appropriate and construction is required. • Sub-optimal depots for franchising.	
New Intelligent Transport Systems (ITS) requirements act as barriers to entry for non-incumbent operators.	Commercial	• Increased costs as bidders price cost of asset into contract life. • Reduced competitiveness of non-incumbents in future rounds (leading to increased costs).	• Market testing exercise completed as part of this FSA to gauge market appetite; ITS strategy subject to evolution following feedback. • Further market engagement ahead of procurement exercise to clarify ITS model and understand views of potential bidders.
Potential expectation for operators to provide fleet (or the specification of such fleet) limits competition.	Commercial	• Increased cost and reduced quality driven by reduced competition and/or lack of information. • Potential delays to mobilisation.	• Market testing of provisional approach to fleet undertaken as part of this FSA, further analysis to take place on approach to fleet in response to feedback (as discussed in commercial case). • Further market engagement ahead of procurement exercise to clarify adopted fleet model and understand views of potential bidders.
Operators' operational costs exceed those estimated during the procurement process, resulting from aggressive	Financial	• Operators experience increased operating costs (relative to those expected), leading to a reduction in service quality and/or increased contractual disputes with the DB.	• Budgeting process with regular monitoring and adjustments to account for potential cost increases. • Indexation mechanism proposed for various cost risks (see commercial case), mitigating potential for some external factors (e.g. inflation) to change operator projections.

Risk	Risk Category	Impact	Mitigation
bidding and/or external factors affecting operators.			
SMO business models are jeopardised following unsuccessful franchised bids and associated loss of income, increasing operational cost for other areas of the business (e.g. private hire for schools).	Reputational	- Customers of other areas of SMO businesses (e.g. local authorities) experience higher costs. - MSA/DB experiences reputational impact as franchising is blamed for such increased costs.	- Linked to the packaging strategy, ensuring packages are designed to promote competitive bids from SMOs - Procurement restrictions on number of franchise contracts that can be awarded to any one bidder per round
Public expectations of transport network performance are heightened by franchising, which are not met.	Reputational	- The MSA/DB experiences reputational damage as these expectations are not met. - Passenger confidence in the bus network is damaged, impacting future attempts to grow patronage.	- Clear communications throughout consultation, transition and ongoing operation on franchising's benefits for passengers. - Active promotion of benefits achieved.
SMOs are unsuccessful in securing a proportionate market share in initial franchising contracts.	Reputational	- SMOs lose the revenue provided by local bus services, potentially increasing costs elsewhere in business (see above). - SMOs potentially cease operating, or cease interest in providing local bus services, reducing competition	- Packaging strategy developed to promote competitive bids for SMOs, with a significant proportion of the network allocated to small contracts. - Potential for procurement restrictions on the number of contracts that can be awarded to any one bidder per round to encourage sustained competition.

Risk	Risk Category	Impact	Mitigation
		for second and subsequent rounds.	Consideration of opportunities for SMOs in development of the commercial model, as discussed in the commercial case.
Government funding for the bus network and improvements is reduced or withdrawn during transition and implementation.	Financial	There is reduced funding available to the MSA/DB to meet the costs of the franchised network. This could require fare increases, network reductions or the identification of new funding sources.	- Ongoing engagement with DfT. - Various additional potential sources of funding outlined in the financial case which could be considered. - MSA-wide consideration of budget demands and potential reallocation of funding reflecting priorities.

Table 12: Risk register summary – EP

Risk	Category	Impact	Mitigation
A secured service is not provided by the contracted operator and/or service contract is terminated.	Operational	- Passenger confidence and satisfaction is damaged by the service not being provided. - Cost of the re-tender exercise, and any cost difference between the original and new contracts.	- Ongoing working with and engagement with secured service operators. - Contingency plans to respond to insolvency or performance issues.
Economic benefits from interventions modelled under the EP are overstated.	Benefits realisation	Assumptions in this FSA become unrealistic, affecting the costs and economic benefits modelled.	- Assumptions used in the FSA are considered to be realistic and robust. - Regular reviews of benefits in operation to understand performance.
Demographic and/or economic shocks cause significant fluctuations in public transport demand patterns.	Social/political /reputational	- Invalid demand/revenue assumptions by operators and the public sector that could require reactive service changes that affect economic viability and value for money. - Associated reputational damage to both operators and public sector if changes to services or fares are required to respond to these exogenous shocks. - Sharp increases in fuel or energy costs: Can have mixed effects—bus may become more attractive or completely unaffordable for some riders, and operator costs may rise - National or global recession/depression: Reduces commuting, discretionary travel, and farebox revenue.	Build demand flexibility into plans, scenario stress-testing, maintain capacity for adjustment.
Further decline in patronage and network owing to failures to deliver initiatives (such as a fares	Commercial	Patronage and revenues decline, affecting the financial viability of the bus network.	Continued development of initiatives assumed under the EP and engagement with operators.

Risk	Category	Impact	Mitigation
and ticketing policy) and a lack of cohesion in network design.		- Measures to address financial viability further damage bus demand (e.g. increased fare prices). - Reputational damage to the MSA due to failure to achieve its aspirations. - Areas of the North East are disproportionately affected by network reductions.	Continued engagement with operators and affected communities on network changes.
Commitments made in the EP are not delivered by operators / other partnership members and/or future changes to improve the transport offer are not agreed.	Commercial	- Further deterioration to patronage. - Reputational damage to the MSA as promised improvements to the bus network are not delivered.	Continued engagement and partnership working with operators to understand progress to delivering agreed improvements or where other improvements to the customer offer can be achieved.
Deterioration of the relationship with operators, potentially caused by too ambitious targets, poor communication, or unmet expectations.	Commercial	- Additional resources needed to manage the EP. - Increased risk of poor operator performance and withdrawal of marginal routes.	Establish clear dispute resolution procedures and assign dedicated managers to oversee relationships with each operator.
Operators continue to de-register or reduce frequency/evening services on marginal routes, leading to a larger supported service for Nexus/DCC/NCC to manage and/or a reduced overall network.	Commercial	- Nexus/DCC/NCC experience an increased financial and/or resource burden to procure and manage secured services. - Reduction in the overall size of the network, meaning some passengers cannot travel by bus and instead rely on other modes of transport / do not travel.	- Continued engagement with operators to understand market growth and risks. - Engagement with operators and affected communities during proposed network changes to influence decisions.

Risk	Category	Impact	Mitigation
Government funding for the bus network and improvements is reduced or withdrawn during transition and implementation.	Financial	- Reduced funding for the bus industry and to the MSA/Nexus/DCC/NCC. - Fare increases and/or service reductions are required for commercial services; affecting passenger demand - Tender costs increase for secured service, with risk that some services are lost to restore financial stability. - Public confidence in the bus network affected by measures required to resource financial sustainability.	- Ongoing engagement with the DfT. - Monitoring of costs and risks to secured service provision. - Engagement with operators.
Implementation or operating costs (e.g. infrastructure, enforcement and staffing) for interventions in the EP escalate beyond forecasts.	Financial	Benefit-cost ratio affected, potentially requiring additional funding or impacting the realisation of economic benefits.	Conservative cost estimation, strong project controls, inflation contingencies.
Decline in commercial patronage and profitability requires a significant increase in secured service provision	Financial	- Increased cost to Nexus/DCC/NCC to procure and fund such services. - Potential reduction or withdrawal of lower priority secured services to manage budget pressures. - Reputational damage to both operators and public sector transport bodies.	- Interventions under the EP are intended to support bus use. - Nexus/DCC/NCC retain own policies on secured service prioritisation. - Advocate for further interventions that promote and support a modal shift to public transport.
Lack of contractual recourse mechanisms risks one or more	Operational	- Intended benefits are not delivered in a timely manner. - Increased management time and cost.	Continued work with operators to understand realistic timeframes for commitment delivery.

Risk	Category	Impact	Mitigation
operators not delivering EP commitment in the short-term		- Service performance suffers where issues remain unresolved. - Potential for issues to escalate to withdrawal from the EP.	
Franchised bus services are not well-integrated with the wider transport network	Benefits realisation	- Could depress ridership/revenue by limiting accessibility and connectivity, reducing catchment and diminishing broader economic impacts. - Potential users may choose cars or alternative modes if the overall journey is harder, costlier, or less reliable than intended, affecting the forecasts in this FSA. - Bus services may only appeal to ‘captive’ riders and not attract new ones, blunting wider economic/social returns.	- Interventions introduced under the EP to enhance opportunities for integration within the existing framework. - Collaboration with bus operators and other transport providers.
Operators’ industrial relations with trade unions decline.	Reputational	- Potential industrial action disrupts services, meaning that passengers cannot travel and affecting passenger confidence. - Reputational damage to the region’s bus network due to negative publicity.	Operator engagement with trade unions to build and maintain positive relationships.

Key insights from this section

- The risk management policy of the future DB is likely to be informed by the risk management policies of the MSA, DCC, NCC, and Nexus. These policies have been informed by ISO 31000 and place clear accountability, resilience, and transparency at the heart of their risk management strategies.
- Franchising risks would be managed primarily by the DB with the MSA also assuming some of this risk through its reputational and financial exposure to the DB. The main risks that the public sector will manage under franchising are reputational and revenue risks. Accepting revenue risk exposes the MSA to risks associated with unexpected developments that affect travel behaviour. The public sector (DB and MSA) will be strongly associated with bus service provision under franchising and, therefore, will have significantly greater reputational risk than under the current deregulated system.
- Risk registers for both the franchising and the EP delivery options have been developed. Summaries of both risk registers containing only high risks (risks deemed to have a potential significant impact upon the successful implementation of the franchising or EP options) have been set out in Table 11 and Table 12.

9. Programme management and governance

This section will:

- Describe the internal delivery and governance arrangements for the Bus Reform Project
- Outline the high-level governance arrangements for both the proposed franchising scheme and the EP.

9.1. Project delivery

- 9.1.1. This assessment has been delivered by a core bus reform project team within the MSA. Officers with policy and project management expertise sit within the project team, with leadership provided by the MSA's Head of Bus Reform. External advisors have supported the delivery of the Bus Reform Project, including contributing specialist expertise across the five cases and legal support.
- 9.1.2. A sponsorship model provides oversight, engagement and direction to the delivery of the project. Sponsors were identified for each of the five cases of the assessment, plus the audit phase and the consultation phase. Selected for their expertise of the area they are sponsoring, and their seniority within their organisations, sponsors have been drawn from the MSA, Nexus, NCC and DCC.
- 9.1.3. The Bus Reform Project itself has been sponsored by the MSA's Assistant Director – Transport Network Transformation, who holds responsibility for delivering the project and steering the project team.

9.2. Project governance

- 9.2.1. Internal governance arrangements were implemented for the bus reform project, with a Bus Reform Programme Board (BRPB) established. BRPB convenes senior transport officials from the MSA and its partner organisations, as well as subject-matter experts from associated functions. All sponsors referenced in section 9.1 are members of BRPB, with the full BRPB membership listed below:

Table 13: Bus Reform Programme Board membership

Job title and organisation
Director of Transport, North East MSA (BRPB Chair)
Assistant Director – Transport Network Transformation, North East MSA (BRPB Deputy Chair, project sponsor)
Head of Bus Reform, North East MSA
Assistant Director – Communications, North East MSA
Head of Transport Customer Experience, North East MSA
Director of Finance and Investment, North East MSA (financial case sponsor)
Assistant Director – Transport Policy, Partnerships and Contracts, North East MSA (strategic case sponsor)
Assistant Director – Legal and Governance, North East MSA
Corporate Director of Neighbourhoods and Environment, Durham County Council (audit and consultation sponsor)

Job title and organisation
Strategic Transport Manager, Northumberland County Council (economic case sponsor)
Managing Director, Nexus (commercial case sponsor)
Director of Operations, North East MSA (management case sponsor)
External legal advisor

9.2.2. BRPB has met once every other month since the mobilisation stage of the project, with the first meeting in November 2024. BRPB meetings provide members an opportunity to review project status and milestones, discuss and resolve key issues, make decisions about the project and ensure alignment with wider organisational goals.

9.2.3. There has also been significant engagement with sponsors and senior stakeholders outside the formal BRPB meetings, allowing their expertise and input into the assessment and proposed franchising scheme. This engagement includes multiple workshop sessions to define the high-level principles for the proposed franchising scheme's commercial model, input into the strategic objectives, and review periods during the drafting of this assessment.

9.2.4. A review of the ongoing governance requirements of the project will be conducted following a mayoral decision on whether to proceed with the proposed franchising scheme.

9.3. Mayoral strategic authority governance

9.3.1. Delivery of the bus reform project requires partnership working across the region, but the MSA is the organisation responsible for its delivery.

9.3.2. The MSA is a politically led organisation which is led by the Mayor and Cabinet. The North East Mayor is elected every four years and chairs Cabinet. Leaders of the MSA's seven constituent authorities comprise the rest of Cabinet's voting membership²², with two non-voting representatives from the business, and community and voluntary sectors.

9.3.3. In line with legislative requirements for local government bodies, the MSA has two formal committees comprised of politicians nominated by the constituent councils to reflect the political balance of the region. The Overview and Scrutiny Committee enables local councillors to challenge the Mayor and Cabinet with a view to influencing their decisions and policy. The Audit and Standards Committee support and monitor the governance, risk management, external and internal audit and financial reporting of the MSA.

9.3.4. The MSA also convenes portfolio advisory boards that bring together key stakeholders to support and advise Cabinet in steering and delivering the MSA's strategies and

²² Each constituent authority also names two substitute members, one of whom can attend and vote on behalf of that authority if the leader is absent. There is no legal requirement that the constituent authorities appoint their leader to Cabinet, but that has been the practice to date in the North East and other mayoral strategic authorities.

programmes. The Transport Advisory Board (TAB) is chaired by the MSA's Portfolio Holder for Transport and brings together councillors with responsibility for transport in the MSA's constituent authorities. TAB has been updated on the project's progress during the development of this assessment.

- 9.3.5. Day-to-day management of the organisation is the responsibility of the MSA's officer Senior Leadership Team (SLT). SLT is comprised of the authority's Chief Executive and Directors. A scheme of delegation approved by the MSA's Cabinet at its inaugural meeting and revised in December 2025 allows SLT members to take some decisions on behalf of the MSA, such as procurement and contract awards up to the value of £1 million (with the Chief Executive able to authorise awards up to the value of £5 million).
- 9.3.6. The MSA is the LTA for the region but, reflecting previous arrangements, Cabinet delegated some operational transport functions to NCC and DCC at its inaugural meeting. Officer teams in these authorities deliver those functions (such as securing bus services) and are responsible to their political leadership.
- 9.3.7. Nexus is responsible for transport delivery in Tyne and Wear, acting as both a PTE and officer of the MSA. Nexus has its own internal leadership structure and board, but it ultimately reports to the North East Mayor and Cabinet.

9.4. Governance of the proposed franchising scheme

- 9.4.1. Section 123G(4) of the TA2000 specifies that a decision to make a franchising scheme is "exercisable only by the Mayor acting on behalf of the combined authority". The North East Mayor is therefore individually responsible for deciding whether to make the proposed North East franchising scheme, although they may consider the view of Cabinet members (in addition to other material) in reaching this decision.
- 9.4.2. Variations to the scheme are subject to a statutory process set out in section 123M of the TA2000. Variation of the scheme is also a mayoral function, with the MSA obliged to consult a range of stakeholders (including operators, trade unions and organisations representing passengers) prior to any decision whether to vary the scheme.
- 9.4.3. Overall responsibility for the scheme would continue to sit with the MSA. Cabinet will be responsible for budget setting for the DB.
- 9.4.4. The DB would be responsible for the day-to-day management of the proposed franchising scheme. In order to fulfil this responsibility, the DB will undertake the following activities:
- Procurement and management of local service contracts, including 'open' scholars' services
 - Depot asset management
 - Network specification
 - Passenger information
 - Fleet specification

- Performance monitoring
- Fares and ticketing
- Branding
- Marketing

9.4.5. The DB would inherit the ownership and management responsibilities for bus stations and interchanges from Nexus, with no changes planned for arrangements in Northumberland and County Durham. Responsibility for registered local services which serve schools would be provided under local service contracts, a responsibility inherited from local authorities and Nexus. While the DB would also be responsible for developing the network specification for operators ahead of the introduction of franchising, and for conducting network reviews, it is Cabinet which would grant final approval for major network changes.

9.4.6. The MSA would delegate decision-making authority and budget to the DB to enable it to effect tactical network changes quickly and respond to live issues without the need to obtain approval from the MSA in advance. This authority would be essential in situations where changes are required in response to unique or urgent circumstances, such as those listed in section 5.4 of the commercial case.

9.4.7. Overall responsibility for the scheme would continue to sit with the MSA which would become the commissioner and funder of the bus network, continuing to set policy and strategy while providing oversight to the DB. Cabinet will set a budget for the DB which will then administer these funds on behalf of the MSA. As part of this budget setting process, Cabinet will also determine fare levels.

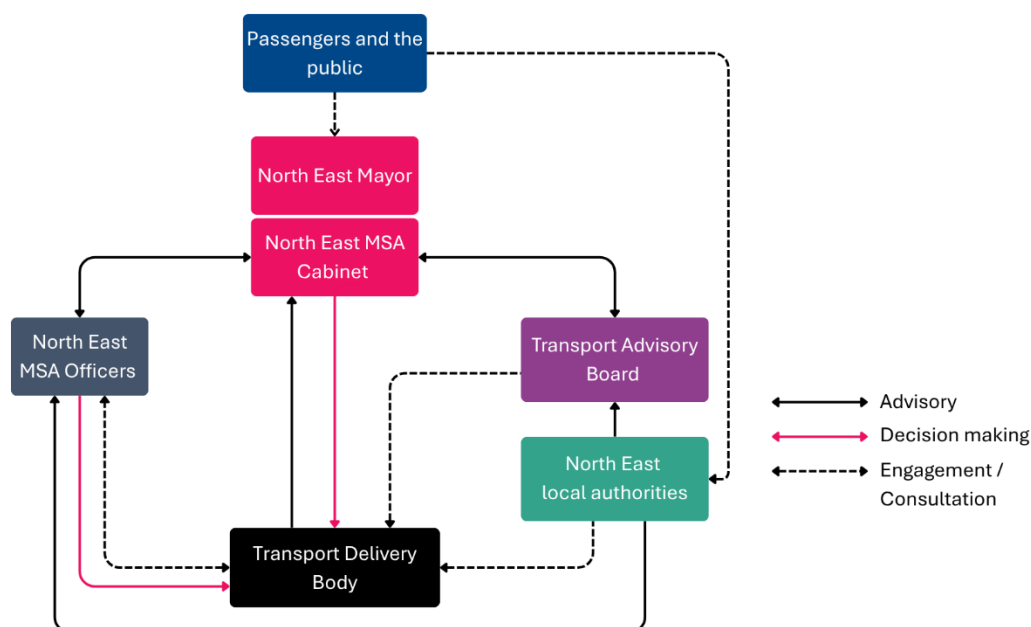
9.4.8. Further to their political representation at Cabinet where they have a vote on decisions, (such as those concerning fares, ticketing, and network planning), local authorities will retain a role in the network. This is through their continued ownership of assets such as bus shelters and interchanges and their continuing role as highways authorities, responsible for planning and delivery of bus priority infrastructure.

9.4.9. Local authorities would also provide strategic input (e.g. into strategy/policy development and around output specifications provided to the DB) to the MSA, and tactical input via engagement with the DB, including around areas such as service requirements and network changes, though any mid-contract network changes are expected to be minor. Responsibilities which would transfer from local authorities to the DB include secured bus services, passenger information, and some home-to-school transport. Eligibility for statutory home-to-school transport, and organisation of closed-door home-to-school services, will remain the responsibility of local authorities. Further detail can be found in section 5.4 of the commercial case.

9.4.10. The existing Transport Advisory Board would act as a sounding board for Cabinet and would provide a further avenue for strategic input from local authorities.

9.4.11. Figure 1 provides an illustration of the proposed governance arrangements.

Figure 1: Indicative governance structure



9.4.12. Franchising changes, but does not eliminate, the role of the Traffic Commissioner in overseeing the North East bus network. Some current Traffic Commissioner functions would no longer be necessary under franchising while new functions would arise.

9.4.13. Under franchising, the responsibilities held by the Traffic Commissioner would include:

- **Enforcement against operators running in contravention of the franchising scheme**, such as attempting to operate a local bus service which is not exempt from the scheme.
- **Registration of exempt services operating in the scheme area**; local bus services exempt from franchising (e.g. community transport) would remain required to register with the Traffic Commissioner.
- **Registration of the portion outside the scheme area for cross-boundary routes**; operators would still need to register any portion of a service operating outside the scheme area, even if that service operates under a local service contract or service permit inside the scheme area.
- **Issues in relation to safety or good repute**. Franchising guidance specifies that the Traffic Commissioner would retain responsibility for oversight of operator safety and good repute.

9.4.14. Current responsibilities held by the Traffic Commissioner that would no longer be applicable include:

- **Registering services provided under a local service contract or service permit (where wholly within the scheme area).** The TA2000 removes this requirement for franchised services; the DB would effectively control this via issuing local service contracts and approving service permits.
- **Enforcing service standards where services are provided under a local service contract or service permit.** The DB would assume responsibility for delivery of services to standards it specifies (enforced through contractual mechanisms and/or the performance regime), replacing the Traffic Commissioner's punctuality and reliability standards. A breach of these conditions means the DB could revoke the service permit.

9.5. Governance of the Enhanced Partnership

9.5.1. The North East JTC made the region's EP Plan and EP Scheme on 30 March 2023. This followed negotiation with the region's operators and statutory operator objection and consultation periods. The EP Plan and Scheme continued when the North East JTC was superseded by the MSA in May 2024.

9.5.2. As described in the strategic case, the MSA engaged with operators during the development of the assessment around the EP option for the assessment and received no objection to the proposal to use the current EP as the reference case for the assessment with no additional proposals to incorporate. No immediate variations to the EP are therefore expected. Any future variations remain subject to the mechanisms in the EP Scheme.

9.5.3. Variations may be proposed by the MSA, Nexus, a local authority, an operator or an organisation represented on local bus boards. If there is agreement between the MSA, each affected authority and each affected operator, the EP Scheme can be varied accordingly. A statutory operator objection mechanism is in place for situations where a proposed variation is supported by the MSA and each affected local authority, but not all affected operators. A valid operator objection must meet one of the below criteria:

- If there are more than four operators in the area, at least three object; if there are less than four, all object; and the registered distance of all qualifying local services operated by objecting operators is at least 25% of the qualifying network in that area.
- At least 50% of operators running qualifying local services object, and these operators collectively account for at least 4% of the qualifying network in that area.

9.5.4. The North East Bus Partnership Board meets quarterly with a membership specified in the EP Scheme, including senior transport officials from the MSA, Nexus, Tyne and Wear, DCC and NCC; senior representatives from Go North East, Arriva and Stagecoach; a local representative from the Confederation of Passenger Transport; senior representatives from Bus Users UK and Transport Focus; and an independent chairperson. This board provides

governance to the EP and is the forum for discussion on the future of the EP scheme. The board also fulfils a vital monitoring and evaluation function for the North East BSIP and provides a forum for discussion to ensure that all recommendations are made in the spirit of partnership.

9.5.5. The EP Scheme also provides for the establishment of Local Bus Boards in each local authority area, which are forums for discussion on the EP Plan, Scheme and other matters affecting local bus services. Each Local Bus Board determines its own terms of reference, attendees and frequency of meetings. A Bus Advisory Board has also been established which intends to provide a forum for all parties, public and private, with a vested interest in the bus network to discuss its direction and priorities.

Key insights from this section
Whilst the EP continues, the Traffic Commissioner (TC) will continue to be responsible for licensing operators and registering services in the North East. They will also continue to enforce service reliability standards and ensure that operators adhere to their registered timetable. Should an operator fail to meet the obligations imposed on it by the EP Scheme, the MSA may report them to the TC who can take enforcement action against that operator which can include cancelling the registration of the relevant service. In practice however it is unlikely that this would be used as an enforcement mechanism given the impact that this could have on the provision of services.
The bus reform project, including this assessment, is being delivered by a core project team within the MSA. A sponsorship model has identified sponsors for each of the five FSA cases and the potential audit and consultation phases who provide oversight, engagement and direction to the delivery of the project. The project itself is sponsored by the MSA's Assistant Director – Transport Network Transformation.
Internal project governance is coordinated by the Bus Reform Programme Board that meets monthly and convenes senior transport officials from the MSA and its partner organisations alongside subject-matter experts from associated functions.
The MSA is responsible for the delivery of the bus reform project. It is an organisation led by the Mayor and Cabinet. The Cabinet comprises of voting members (from the LA7 leadership) and non-voting members drawn from businesses and civil society. The MSA also has formal committees (e.g. Audit and Standards Committee) and portfolio advisory boards (e.g. Transport Advisory Board) that perform a range of critical functions ranging from governance monitoring to policy advice. Day-to-day management of the MSA is the responsibility of the SLT. The MSA is the LTA for the region, but Cabinet has delegated some transport functions to NCC and DCC.
- The North East Mayor is individually responsible for deciding whether to make the proposed North East franchising scheme (and vary it in the future if such a need arises). - Overall responsibility for the scheme would sit with the MSA and Cabinet will be responsible for budget setting for the DB. - The DB will be responsible for the day-to-day management of the franchising scheme. - Cabinet will have multiple avenues to influence the operation of the DB and the franchising scheme including but not limited to network specification approvals and fare level determination.

Key insights from this section

- Local authorities will continue to play a role in the delivery of local bus services through their representatives at Cabinet, ownership of bus-related assets, continued role as highways authorities, and through tactical input provided directly to the DB.
- The TC would be responsible for the registration of exempt services, registering the portion of cross-boundary services operating outside the scheme area, enforcement against operators running in violation of the franchising scheme, and dealing with issues pertaining to safety.
- The North East JTC made the region's EP Plan and EP Scheme on 30 March 2023 which continued after the JTC was superseded by the MSA in May 2024. The MSA engaged with operators during the development of the assessment to agree that the current EP was the best possible EP.
- Variations to the EP may be proposed by the MSA, Nexus, a local authority, an operator or an organisation represented on local bus boards. However, the scheme can only be varied if the MSA, affected local authority, and affected bus operator agrees to the variation. If the variation is backed by the MSA and an affected local authority but not the affected operator, a statutory objection mechanism exists that decides whether the variation is adopted.
- The EP has also created a number of Boards (North East Bus Partnership Board, Local Bus Boards, and a Bus Advisory Board) to provide forums where all stakeholders with an interest in the delivery of local bus services in the region can discuss matters pertaining to local bus services.
- The TC, under the EP, will continue to responsible for licensing operators, registering services, enforcing service reliability and timetable adherence.

10. Conclusion

- 10.1.1. This management case has outlined the delivery arrangements for both the existing EP, and the proposed franchising scheme. The current management arrangements for the EP have been detailed throughout and are considered suitable for its continued delivery.
- 10.1.2. The arrangements for the EP are already in place and are assumed to continue as detailed in section 2; dependent on a Mayoral decision, delivery of the proposed scheme is dependent on the implementation of a new operating model for bus services in the North East. Franchising would represent one of the largest transport projects recently undertaken by the public sector in the North East, and would therefore require significant investment in resources, and re-organisation of the existing structure of bus service delivery.
- 10.1.3. This new operating model would require the delivery body, which this assessment has assumed will be established for the whole region, to assume responsibility for activities currently undertaken by commercial operators. The DB would therefore need to develop competencies and capacity above those currently available. The resource associated with Business as Usual (BAU) delivery of franchising is 160 FTE, at an annual cost of £6.48 million, which represents an incremental increase on existing resource present in both the public sector and operators, of 47 FTE and £2.34 million annually. Further detail can be found in section 3.
- 10.1.4. A mayoral decision to make the franchising scheme would commence a transition and mobilisation period, in which the MSA and DB would further develop the detailed operational arrangements for the scheme, recruit the required personnel to equip itself to and run procurement exercises for local service contracts. Implementation activities undertaken during this transitional period have been estimated to cost £50.93 million from FY27/28-FY31/32, inclusive of staffing requirements. Details concerning the nature of these activities can be found in section 4. Should the Mayor choose to continue with the EP, a transition and mobilisation period will not be necessary as the EP is already in effect.
- 10.1.5. Under the EP, the MSA is responsible for undertaking performance and benefits management. The success of the franchising scheme will be assessed against benchmarks informed by the objectives of the North East LTP, and the strategic objectives of bus reform. The DB would be responsible for managing operator performance as part of the scheme, with the details around performance and benefits management found in section 5.
- 10.1.6. A franchising scheme would significantly increase the level of risk that the public sector is exposed to from its involvement in the bus network compared to the status-quo, such as through the transfer of revenue risk from operators to the MSA. Existing risk management principles have been analysed, and the risk management exercises which have been undertaken during the preparation of this assessment have been discussed. Further detail can be found in section 8.
- 10.1.7. A range of stakeholders have an interest in the delivery of high-quality bus services in the North East. Passengers, their representatives, local authorities, bus operators, bus

employees and numerous public and private sector organisations all have different requirements in terms of stakeholder engagement. The proposed approach to meeting these requirements is detailed in section 7.

- 10.1.8. A new governance structure to provide democratic oversight of the proposed franchising scheme would be required. The proposed governance structure detailed in this case places overall responsibility for the scheme with the MSA who would become commissioner of the network and would continue to set regional transport strategy and policy. The MSA would be responsible for budget setting for the delivery body who would, in turn, administer these funds on the MSA's behalf. Through this budget setting process, Cabinet would be required to set fare levels for the budgeted period. The delivery body would conduct planned network reviews- any proposed changes would be subject to Cabinet approval. The proposed approach to network change can be found in section 6 where it is compared to the status-quo. Further detail on existing and proposed governance arrangements can be found in section 9.
- 10.1.9. While the delivery body would inherit many of the responsibilities currently held by Durham County Council, Northumberland County Council, and Nexus, local authorities would retain a role in the bus network through ownership of key assets such as bus stations, and their ongoing role as highways authorities. Further to their representation on Cabinet, at which they have a vote, local authorities would provide strategic input to the MSA, and tactical input to the delivery body into areas such as in-contract network changes.
- 10.1.10. In summary – this management case has demonstrated that the arrangements proposed would enable the successful transition to, and operation of, the franchising scheme. As the deliverability of the existing EP is self-evident, both the Enhanced Partnership and the proposed franchising scheme are considered deliverable.

Franchising Scheme Assessment:

Conclusion

March 2026

1. Introduction

- 1.1. The North East Mayoral Strategic Authority (the MSA) has completed this assessment of its proposed franchising scheme (FSA), which assesses the option of making a franchising scheme against continuing with the current Enhanced Partnership (EP).
- 1.2. The FSA considers the strategic, economic, financial, commercial and management cases for bus regulatory reform, in line with the requirements of the Transport Act 2000 and statutory franchising guidance.
- 1.3. Individual conclusions are provided within each case, focused on the content of that case and how the EP and franchising options perform on the areas tested in that case. This section provides an overarching conclusion to the FSA as a whole, sharing key messages from across the five cases as well as a recommendation to the North East Mayor.

2. Key messages from the assessment and rationale for recommendation

- 2.1. Buses play an important role across the North East's urban, rural and coastal communities. Buses are the region's most used form of public transport, with almost 116 million journeys taken in 2024/25¹⁵. Nearly half of all North East bus users (47%) have no alternative transport options; they depend on bus services to travel¹⁶.
- 2.2. Strong bus links are an essential enabler to make the North East the home of real opportunity. Buses connect employees to their workplaces; students to schools, colleges, and universities; friends and family with each other; and tourists to visitor economy destinations across the region. Poor bus links make it harder for people to access the destinations that matter to them and reduce their independence and opportunity.
- 2.3. There has been a significant, long-term, and ongoing decline in the North East bus market. Ridership and mileage across the North East have fallen by 31% and 32%¹⁷ respectively between 2009/10 and 2024/25, a continuation of decades-long trends¹⁸. Many services are consequentially operating at reduced frequencies – reducing convenience for passengers – or have been lost entirely – removing a travel choice for those passengers. These trends are worse in the North East than the rest of England outside of London.
- 2.4. Demand modelling forecasts a sharp continued decline to ridership without intervention over the 30-year appraisal period. Ridership will fall to 48 million journeys by 2059, which is a reduction of 58% compared to ridership in 2024/25.
- 2.5. Significant public funding is required to sustain the network, provided through various disparate funding streams from local authorities, Nexus, the MSA, and central government – many of which have no long-term certainty. These streams include subsidy for commercially unviable services, reimbursement for carrying older and disabled passengers free-of-charge,

¹⁵ "[Bus statistics data tables: BUS01](#)". Department for Transport. 2025.

¹⁶ "[Your Bus Journey – Transport Focus Data Hub](#)". Transport Focus. 2024.

¹⁷ "[Bus statistics data tables: BUS02](#)". Department for Transport. 2025.

¹⁸ "[Bus statistics data tables: BUS01](#)". Department for Transport. 2025.

and partial subsidy for fuel costs. 51% of operator income in the North East is estimated to be funded by the public sector.

- 2.6. The North East EP has been in place since 2023, enabling the introduction of interventions through negotiation and agreement with the region's operators. Partnership working – and central government funding – has enabled improvements such as providing new and maintaining existing secured services, partial decarbonisation of the region's bus fleet and 'The Mayor's Fares'.
- 2.7. Public influence in the EP is, however, limited and does not reflect the level of public funding required. Interventions need to be agreed with operators – often requiring complex commercial negotiations and reimbursement mechanisms that make it difficult to ascertain value for money. The size and shape of the commercial network is independently determined by operators with limited influence from affected communities and local politicians.
- 2.8. The MSA's proposed franchising model includes:
- A significant simplification of the fares and ticketing offer, replacing the approximately 370+ different bus tickets on offer with a simple zonal system for single tickets and multi-operator / multi-modal daily plus weekly caps.
 - Fares will not increase above inflation, and the size of the network will be maintained, for at least the first ten years of franchised services.
 - Introducing a single integrated transport network brand – the Angel Network - across bus services, including on vehicles and at bus stops and stations.
 - A single website and application providing digital information – in addition to journey planning and merchandising functions – and serving as a single source of truth.
 - Greater ability for communities, and their local elected representatives, to input into network planning and change decisions.
- 2.9. Franchising makes a greater contribution to achieving the MSA's six strategic objectives compared to the EP as shown in the table below – facilitating the creation of a green and integrated transport network as set out in the LTP. Continuation of the EP largely fails to meet these objectives, offering limited opportunities for integration, while the network will continue to shrink and public sector costs continue to grow.

Objective	Outcome	Delivery option	
		FS	EP
Buses at the heart of an integrated transport network: 'The Angel Network'	There should be a single, integrated source of journey information and customer support that is easy to understand.	Green	Yellow
	A unified and integrated North East transport network.	Green	Red

	Bus fares should be affordable and tickets should be easy and simple to use.		
	The North East should achieve the highest sustainable standards for a fleet of green bus vehicles.		
	Information, including real time information, should be accurate, integrated and accessible through a single source.		
	The delivery model encourages use of bus as part of a multi modal network.		
Improve bus punctuality and reliability	Passengers should be confident that that buses will operate as scheduled.		
Make the bus network resilient.	The bus network should be financially sustainable and resilient in the long term.		
Make the bus network accessible and inclusive to all	The bus network should be accessible to all communities and demographics, including disabled and older residents.		
	The network should be responsive to the needs of urban, rural and coastal communities, preserving and widening the reach of the network where possible.		
Ensure that everyone feels safe when travelling, especially women and girls	People's safety should be central to the network – including at bus stops and stations, with a particular focus on the safety of women and girls and other vulnerable groups.		
Create regional pride in its buses	Buses should play their part in delivering regional outputs, such as economic growth, carbon emission reduction and improved public health.		
	North East residents should be advocates of the bus network.		

2.10. Ridership is forecast to be comparatively lower under the EP option, with 25.7 million fewer journeys annually at the end of the initial investment period in 2039 when compared to the franchising scenario. The modelling assumes that the MSA would invest to prevent above-inflation fare increases and maintain the size of the network for the first ten years (2029 - 2039), with largely stable ridership over this period. In the absence of this investment in the EP option, by 2039 the network would be operating 12.18 million fewer miles, and fares would be 22% higher.

2.11. A cost-benefit analysis has assessed the economic, environmental and social impact of franchising relative to continuation of the current EP. Franchising offers greater value for money than the EP option, with a Benefit to Cost (BCR) of 1.98 and a Net Present Value

(NPV) of £761 million. Value for money is consistent across a range of sensitivity tested scenarios.

- 2.12. Financial backing is required for both continued interventions under the EP and delivering the proposed franchising scheme. Franchising is forecast to require £83.8 million cumulatively above assumed existing public sector spending to FY38/39. The FSA considers that this is affordable to the MSA, with an appropriate range of funding sources able to meet the identified investment needed. It will ultimately be for the Mayor and Cabinet to determine the budget allocation for franchised services (and what interventions are affordable within this budget envelope) as part of the annual budget setting process.
- 2.13. Proposed commercial arrangements have been developed and described in the FSA, including the intended terms of local service contracts and the allocation of risk between the public and private sectors. The MSA will assume responsibility for key demand and revenue drivers such as fares and ticketing, branding, and marketing – revenue risk will therefore also transfer from operators to the MSA.
- 2.14. Assuming a mayoral decision on introducing a franchising scheme is taken in March 2027, the first franchised services are expected to run in September 2029. Further rounds of franchised services would enter the network annually, with the network fully franchised by September 2031.
- 2.15. The FSA determines that franchising offers a commercially viable model which is expected to stimulate competition for local service contracts while increasing public sector influence over the network. Initial market testing with incumbent operators and potential new entrants shows interest in delivering franchised services in the North East.
- 2.16. Although both the EP and franchising (FS below) are commercially viable, franchising performs stronger against the six commercial objectives – through which the MSA seeks to achieve a commercial model capable of fulfilling its strategic aspirations. Franchising more directly facilitates achieving these strategic aspirations as a result of significantly increased public sector control, which allows it to directly specify the network and the desired improvements through local service contracts.

Commercial objective	FS	EP
The public sector should be able to influence the bus network and the outcomes it delivers for customers		
Ensure that any implementation and transition phases are timely, practical and sustainable, with limited disruption for passengers		
Competition is stimulated		
Arrangements should achieve best value for the public pursue while balancing risk		
Maintain opportunities for small-and-medium sized operators to access the North East bus market		
Region-wide implementation		

- 2.17. Franchising will involve a significant transfer of responsibility from the private to the public sector – successful delivery will require a significant expansion of the region’s existing capacity and competences. A Delivery Body (DB) will be responsible for operational delivery of franchised services, with the MSA providing strategic direction, funding, and oversight – similar to the existing arrangements for the Tyne and Wear Metro. The Mayor and Cabinet will determine fare levels and approve the network specification.
- 2.18. The MSA considers that management arrangements proposed above and set out in greater detail in the management case will enable a successful transition to, and operation of, franchised bus services in the North East.

3. Recommendation

- 3.1. Across the five cases, the FSA has carefully evaluated making the proposed franchising scheme against continuing with the current EP, in line with the requirements in the Transport Act 2000 and statutory guidance. Franchising is affordable, feasible and deliverable – and offers benefits including significantly greater value for money, increased public influence, and greater fulfilment of the MSA’s strategic objectives as discussed above.
- 3.2. Franchising will make the greatest contribution to achieving the LTP’s aim of creating a green and integrated transport network that works for all – facilitating the creation of the Angel Network.
- 3.3. In line with the rationale articulated above and conclusions of the five cases, and subject to independent audit and statutory consultation, the FSA accordingly recommends that the North East Mayor makes the proposed franchising scheme.

Franchising Scheme Assessment:

Appendix A – Proposed franchising scheme

March 2026

Transport Act 2000

The North East Franchising Scheme for Buses [20**]

Made

[20**]

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The North East Franchising Scheme for Buses [20**]

- A The Transport Act 2000 (as amended) (**2000 Act**) makes provision for a franchising authority to make a franchising scheme covering the whole or any part of its area. The North East MSA is a franchising authority as defined in the *2000 Act*.
- B The North East MSA gave notice of its intention to prepare an assessment of a proposed scheme in accordance with sections 123B and section 123C(4) of the *2000 Act* on 8 August 2024. Having complied with the process as set out in the *2000 Act*, the North East MSA may determine to make the scheme in accordance with sections 123G and 123H of the *2000 Act*.

Now, therefore, the Mayor on behalf of the North East MSA, in exercise of the powers conferred by sections 123G and 123H of the *2000 Act*, and of all other enabling powers, hereby **makes the following franchising scheme (Scheme)**:

1 Citation and commencement

- 1.1 This Scheme may be cited as the North East Franchising Scheme for Buses [] and is made on [].
- 1.2 This Scheme shall come into operation on [30 September 2029] and shall remain in operation thereafter unless varied or revoked in accordance with the *2000 Act*.

2 Interpretation

In this Scheme:

1985 Act means the *Transport Act 1985*.

2000 Act has the meaning given to it in recital A.

EP Plan means The North East Joint Transport Committee Enhanced Partnership Plan for Buses made on 21 March 2023 pursuant to section 138A of the *2000 Act* by:

- (a) **The** Durham, Gateshead, South Tyneside and Sunderland Combined Authority, then known as the North East Combined Authority and whose constituent councils then comprised Durham, Gateshead, South Tyneside and Sunderland;
- (b) The Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority, then known as the North of Tyne Combined Authority and whose constituent councils then comprised Newcastle, North Tyneside and Northumberland;
- (c) Durham;
- (d) Gateshead;
- (e) Newcastle;
- (f) Nexus;
- (g) North Tyneside;
- (h) Northumberland;

- (i) South Tyneside; and
- (j) Sunderland.

EP Scheme means the North East Joint Transport Committee Enhanced Partnership Scheme for Buses made on 21 March 2023 pursuant to section 138A of the 2000 Act by:

- (a) **The** Durham, Gateshead, South Tyneside and Sunderland Combined Authority, then known as the North East Combined Authority and whose constituent councils then comprised Durham, Gateshead, South Tyneside and Sunderland;
- (b) The Newcastle Upon Tyne, North Tyneside and Northumberland Combined Authority, then known as the North of Tyne Combined Authority and whose constituent councils then comprised Newcastle, North Tyneside and Northumberland;
- (c) Durham;
- (d) Gateshead;
- (e) Newcastle;
- (f) Nexus;
- (g) North Tyneside;
- (h) Northumberland;
- (i) South Tyneside; and
- (j) Sunderland.

Durham means The County Council of Durham of County Hall, Aykley Heads, Durham, DH1 5UZ.

Franchising Scheme Area means the North East MSA Area.

Gateshead means The Borough Council of Gateshead of Civic Centre, Regent Street, Gateshead, NE8 1HH.

Local Service Contract has the same meaning as in section 123A(5) of the 2000 Act.

Local Services has the same meaning as in section 2 of the 1985 Act.

Newcastle means The Council of the City of Newcastle upon Tyne of Newcastle Civic Centre, Barras Bridge, Haymarket, Newcastle upon Tyne, NE1 8QH.

Nexus means Tyne & Wear Passenger Transport Executive of Nexus Head Office, The Spark, Newcastle Helix, St James Boulevard, Newcastle upon Tyne, NE4 5DE.

North East MSA means the North East Mayoral Combined Authority established on 7 May 2024 pursuant to *The North East Mayoral Combined Authority (Establishment and Functions) Order 2024*, whose constituent councils are the councils for the local government areas of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland.

North East MSA Area means the area consisting of the areas of the councils for the local government areas of Durham, Gateshead, Newcastle Upon Tyne, North Tyneside, Northumberland, South Tyneside and Sunderland (as shown for illustrative purposes only in the plan at Annex 2).

North Tyneside means The Council of the Borough of North Tyneside, The Quadrant, The Silverlink North, Cobalt Business Park, North Tyneside, NE27 0BY.

Northumberland means Northumberland County Council of County Hall, Morpeth, NE61 2EF.

Scholars' Service means a Local Service providing transport for pupils to and/or from schools within the Franchising Scheme Area which does not provide transport to the general public.

Service Permit means a "service permit" as defined in section 123P(2) of the *2000 Act* which is granted by a franchising authority to an operator of a Local Service in accordance with the *2000 Act* and *The Franchising Schemes (Service Permits) (England) Regulations 2018*.

South Tyneside means The Council of the Borough of South Tyneside of Town Hall & Civic Offices, Westoe Rd, South Shields, NE33, 2RL.

Sunderland means The Council of the City of Sunderland of City Hall, Plater Way, Sunderland, SR1 3AA.

Transport Focus means the executive non-departmental public body sponsored by the Department for Transport which is the independent watchdog for transport users or any successor body.

3 The Franchising Scheme Area

- 3.1 The North East MSA Area is hereby designated as the area to which the Scheme relates as shown on the map which is set out at Annex 2 for illustration purposes¹.

4 Entry into Local Service Contracts

- 4.1 The date on which a Local Service Contract to provide a Local Service may first be entered into shall be [30 March 2029].²
- 4.2 The minimum period that is to expire between the date on which a Local Service Contract is entered into and the provision of a Local Service under that Local Service Contract shall be a period of six (6) months³.

¹ Section 123H(2)(a).

² Section 123H(2)(c).

³ Section 123H(2)(d)

- 4.3 The date on which a Local Service may first be provided under a Local Service Contract shall be [30 September 2029].

5 Services under Local Service Contracts⁴

- 5.1 The Local Services that are intended to be provided under Local Service Contracts are all Local Services that are operated in the North East MSA Area other than:
- (a) any Local Service which is excepted from regulation arising because of the Scheme as set out in article 6⁵; or
 - (b) any Local Service which:
 - (i) operates 50% or more of its total timetabled route outside the North East MSA Area; or
 - (ii) is procured by a neighbouring local transport authority.

6 Exceptions from the Scheme

- 6.1 The following Local Services shall be excepted from regulation arising because of the Scheme:
- (a) any Local Service specified in Annex 1, which shall be excepted from regulation arising because of the Scheme throughout the operation of the Scheme.

7 Scheme facilities

- 7.1 The additional facilities that the North East MSA consider appropriate to provide in the North East MSA Area are:
- (a) such depots as may facilitate the letting of the Local Service Contracts; and
 - (b) such bus systems as may facilitate the letting of the Local Service Contracts.

8 Plan for consulting on operation of the Scheme

- 8.1 The North East MSA will consult:

- (a) Transport Focus

and the North East MSA may consult other organisations and persons, as the North East MSA thinks fit.

⁴ As set out in the franchising scheme assessment prepared by the North East MSA, certain categories of Local Services will not be franchised services or exempt from the Scheme, but operators of such Local Services may apply to the North East MSA for the grant of a Service Permit in accordance with the North East MSA's Service Permit policy to enable such services to operate in the North East MSA Area. Section 5.4.43 of the commercial case lists the categories of Local Services which the North East MSA intends to allow operation of in accordance with its Service Permit policy. Any Local Service which is intended to be provided under a Local Service Contract in accordance with article 5.1 may also apply for a Service Permit to enable operation of such service in the North East MSA Area up until the effective time of the first Local Service Contract in which such Local Service is specified. Article 5.1(b) deals with cross-boundary services which will not be exempt, but which may apply for a Service Permit to enable operation of such services in the North East MSA Area.

⁵ Section 123H(2)(b).

- 8.2 The purpose of any consultation undertaken in accordance with this article 8 is to seek the views of the users of Local Services on how well the Scheme is working⁶. The North East MSA will consult in accordance with this article 8 within a period of 36 months from the date set out in article 4.3 and at least at a frequency of every 36 months thereafter.
- 8.3 Any consultations carried out in accordance with this article 8 shall last for such period of time as the North East MSA thinks fit so as to ensure that those organisations and persons described in article 8.1 have sufficient time to respond.
- 8.4 The North East MSA will make available to the public its response to any consultation carried out in accordance with this article 8.

9 Variation and Revocation of the Enhanced Partnership

- 9.1 Immediately after the dates on which subsections (2) and (3) of section 123J of the *2000 Act* apply to the Franchising Scheme Area, the EP Plan and the EP Scheme shall be revoked in respect of the Franchising Scheme Area.⁷

THE MAYOR OF THE NORTH EAST

[Note: Date to be inserted]

⁶ Section 123A(9).

⁷ Section 123H(6)(a).

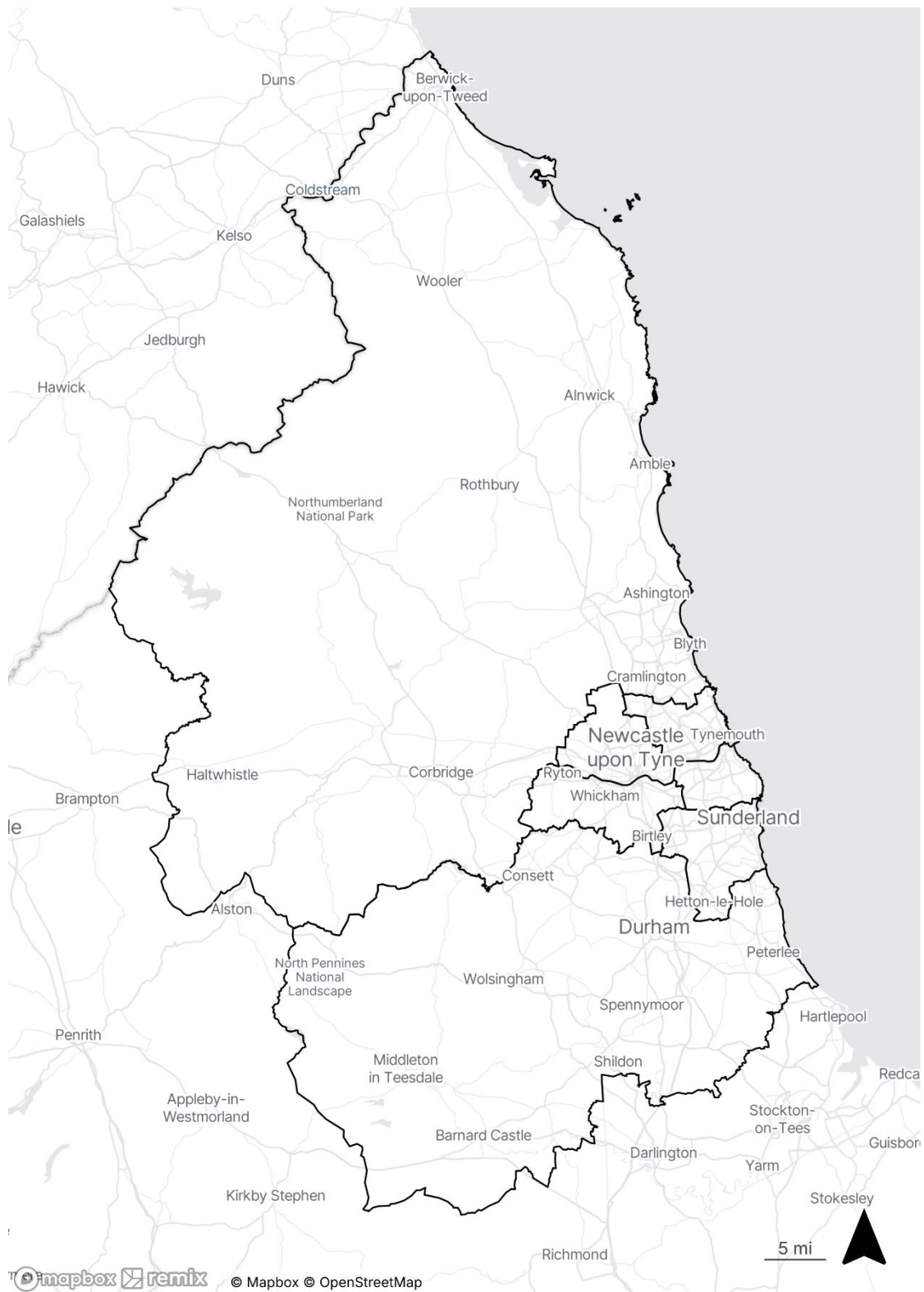
Annex 1 - Excepted Services⁸ (article 6.1(a))

- 1 The following Local Services shall be excepted from regulation arising because of the Scheme throughout the operation of the Scheme (as further set out below, as applicable):
 - 1.1 a Scholars' Service;
 - 1.2 a Local Service providing transport for pupils with special educational needs and disabilities that live within the Franchising Scheme Area to and/or from schools or other placements within or outside the Franchising Scheme Area which does not provide transport to the general public;
 - 1.3 a Local Service provided where a ferry service has been temporarily interrupted;
 - 1.4 a Local Service which is required due to a temporary road closure within the Franchising Scheme Area.

⁸ Section 22 community transport services have not been expressly exempted from this Scheme as these are automatically exempted (see s123J(5)(b) of the Transport Act 2000 and The Public Service Vehicles (Registration of Local Services) (Franchising Schemes Transitional Provisions and Amendments) (England) Regulations 2018 which defines these as exempt services). Section 19 services do not need to be exempted from this Scheme as these are not Local Services (see section 2(4)(b) of the Transport Act 1985).

Replacement rail and tram services are automatically exempt from this Scheme in accordance with section 123J(8) of the Transport Act 2000, and so rail and Metro services have not been included in this Annex 1.

Annex 2 - North East Bus Franchising Scheme Area



Franchising Scheme Assessment:

Appendix B – Statutory guidance requirements

March 2026

Strategic Case

The guidance requires authorities to set out whether – and if so how, the extent to which and how quickly – the options would contribute to the implementation of their local transport plan policies and any other of their published and adopted policies that affect local bus services. This guidance requirement has been addressed in three sections of the strategic case:
• Section 6 draws out the link between the strategic objectives for bus reform and the North East Local Transport Plan,
• Section 11 sets out the extent to which each of the chosen delivery options would contribute to the achievement of the strategic objectives for bus reform.
• Sections 9 and 10 also discuss how the chosen delivery options work towards delivering specific LTP policy ambitions.
The guidance requires authorities to explain how the options contribute to the overall ‘transport offer’ to local people – including how local bus services integrate with other types of transport such as light or heavy rail, DRT and services provided, for example, under Section 19 and 22 of the Transport Act 1985 and community car services. Sections 9.4 and 10.4 discuss how local bus services integrate with other types of public transport available in the region under each delivery option. One of the strategic objectives for bus reform is to place buses at the heart of the integrated transport network. Section 11.2 then discusses each chosen delivery option’s ability to deliver the outcomes associated with this objective while Section 11.8 presents a RAG rating of how well-suited both delivery options are when it comes to delivering these outcomes.
The guidance requires authorities to refer to information about local demographics and bus passenger surveys to explain why it considers that its proposal is needed. Section 3 discusses the relationship between the region’s demography, economy, geography and its local bus services while Section 4.3 discusses how current perceptions of the regional bus network have motivated this proposal.
The guidance also requires authorities to explain for each option how, it will help achieve improvements to their bus services with the expected funding that would be provided by the LTA, including for each option:
• the overall approach to service planning, including the extent to which services will be integrated with other modes and timetables co-ordinated where appropriate - Sections 9.4 and 10.4 discuss the overall approach to service planning under the proposed franchising scheme and the enhanced partnership respectively, One of the strategic objectives for bus reform is to place buses at the heart of the integrated transport network. Section 11.2 discusses each chosen delivery option’s ability to deliver the outcomes associated with this objective while Section 11.8 presents a RAG rating of how well-suited both delivery options are when it comes to delivering these outcomes.
• what bus reliability / time-saving measures are already in place or the authority (or relevant local highway authority) will implement (with implementation dates) and how they are expected to impact journey times - Sections 9.4 and 10.4 also discuss bus priority infrastructure under the proposed franchising scheme and the enhanced partnership respectively with Appendix C presenting a full list of such planned interventions that are expected to be delivered regardless of the chosen delivery option,
• the approach to and level of fares - Sections 9.3 and 10.3 discuss the fares and ticketing ambition under the proposed franchising scheme and the enhanced partnership respectively,

whether multi-modal/multi-operator fares will be available and, if so by when and how widely - Sections 9.3 and 10.3 discuss the availability of multi-modal and multi-operator fares under the proposed franchising scheme and the enhanced partnership respectively,
the technologies expected to be used to sell tickets (for examples, smart card, contactless, mobile etc) and whether cash will be accepted on-bus - Sections 9.3 and 10.3 contain a discussion of such matters for the proposed franchising scheme and the existing enhanced partnership respectively,
whether any DRT or other road transport services will be provided - This guidance requirement has been addressed with a subsection on DRT in Sections 9.4 and 10.4 for the proposed franchising scheme and the enhanced partnership respectively,
the nature, quality and consistency of network identity and branding - This has been covered in Sections 9.2 and Section 10.2 for the proposed franchising scheme and the enhanced partnership respectively,
the nature, quality and consistency of information (such as network diagrams) to be provided at bus stops and on bus and real time data - This has been covered in Sections 9.2 and Section 10.2 for the proposed franchising scheme and the enhanced partnership respectively. Section 4.3 of the commercial case also provides information that addresses this guidance requirement,
how often timetable changes will be made and what exceptions to the standard are acceptable - Sections 9.4 of the proposed franchising scheme and Section 10.4 of the enhanced partnership address this guidance requirement,
customer service standards - including redress arrangements and delivery of a passengers' charter - This has been addressed in Sections 9.2 and 10.2 of the proposed franchising scheme and enhanced partnership respectively,
the levels of accessibility at bus stops and bus stations - Sections 9.2, 9.5 of the proposed franchising scheme and section 10.5 of the enhanced partnership address this guidance requirement,
the strategy to decarbonise their bus fleet, including how and when emissions reductions will be delivered - for example, providing a target for the proportion of the fleet that will be zero emission by a given year - This is addressed in sections 9.6 and 10.6 of the proposed franchising scheme and the enhanced partnership respectively,
the extent to which measures to improve accessibility of services, such as audio and visual information, next stop announcements and an additional wheelchair space, will be available across the network - This is addressed across Sections 9.5 and 10.5 in the proposed franchising scheme and the existing enhanced partnership respectively.
The guidance also requires the MSA to list its relevant local neighbouring authorities and consider at a high level the extent to which each option would help in (or otherwise impact upon) the delivery of relevant parts of their plans to improve bus services. Section 2.10 demonstrates that the MSA has considered the relevant parts of their plans to improve bus services. Section 9.9 addresses this guidance requirement by providing a high-level summary of our engagement with the relevant neighbouring authorities.
The guidance also requires an FSA to consider at a high level:
the range of franchising options the authority considered - however, there is no requirement on the LTA to consider a range of franchising options or any franchising option that would not, in their opinion, deliver their objectives. Section 8 ('Outline and

short-listing of delivery options available to the North East MSA') addresses this guidance requirement and Section 9 outlines the intended franchising model,
• which one (or more) of these options is preferred and is examined in detail in the remainder of the assessment and why - Section 8 ('Outline and short-listing of delivery options available to the North East MSA') addresses this guidance requirement and Section 9 outlines the intended franchising model,
• the currently available EP, including setting out what improvements are proposed for inclusion in it - Section 8 ('Outline and short-listing of delivery options available to the North East MSA') addresses this guidance requirement and Section 10 outlines the current EP.

Economic Case

The authority should consider the options in terms of impacts on wider society by assessing the economic, social and environmental costs and benefits, rather than solely focussing on the transport impacts of the different options. Section 7 provides the approach to the analysis of economic, social and environmental impacts in line with the FSA and wider DfT guidance. Sections 8-11 cover the impacts on the economy, society, environment and public accounts respectively. Section 12 presents the appraisal outputs including NPV and BCR.
This section of the authority's assessment should explain the impacts of the options on different groups in society. This should include new and existing passengers, the authority, wider society and bus operators – with both the potential impacts on incumbent operators and the potential benefits to new entrants considered. Impacts on new and existing passengers are covered in sections 8 and 10. The impact on the incumbent and potential new entrant operators is summarised in section 8. This is for all operators. More detail on operators is presented in the Financial Case.
Particular consideration should be given to small and medium sized operators, and the potential impacts of the options on that group. Raw SMOs data was gathered from appropriate sources. Inference was applied when needed to populate the DRM dimensions (e.g. ticket types). Assumed proposed mileage cuts (global network changes) do not impact SMOs, who tend to operate specific local routes. Assumed a minimum 0.25 PVR (bus fleet) for very low frequency bus services. This information is presented in more detail in Section 8 and the Model Specification Report (Appendix D) which taken together addresses this guidance requirement.
Similarly, particular consideration should be given to the impacts of the options on passengers in neighbouring areas that could be affected by the changes. Some cross-boundary services which are franchised under the proposed franchising scheme are included in the Demand and Revenue Model (DRM) and the whole assessment. These represent 2% of the routes included in the assessment. This information is presented in more detail in the Model Specification Report (Appendix D) which addresses this guidance requirement.
An authority should include in this section an assessment of local operators that they consider to be small and medium sized. SMOs are included in the DRM base year. SMO is any operator in the DRM except Arriva Durham, Arriva Northumberland, Go North East and Stagecoach North East (SMOs represent less than 1% patronage share). The same level of assessment is done for all operators. These considerations have been incorporated into the DRM and are set out in more detail in the Model Specification Report (Appendix D) which taken together addresses this guidance requirement.
An authority should also take account of the overall nature of their market, the operator's fleet size and consider the turnover of the operators – where necessary including its parent structures – as a whole. The DRM includes all the operators, fleet size and routes. With regards to network cuts, these are relevant only to large operators as it is recognised that SMOs are serving specific routes which are not easy to amend. This is set out in more detail in the Model Specification Report (Appendix D) which alongside the DRM addresses this guidance requirement.
The authority should also assess the likely impacts of the transition period of both options, particularly on the speed at which bus service improvements can be delivered for passengers. Phasing factors are applied in the Franchising scenario as follows: Year 1 2029/30 (19%) Year 2 2030/31 (53%)

Year 3 2031/32 (86%) Year 4 2032/33 (100%) The factors are applied to soft measures and direct demand uplifts (except for the ENCTS cohort age change policy). This information is presented in more detail in Section 4.4 which addresses this guidance requirement.
In assessing the impacts of the options, the authority should consider the distribution of benefits, costs and risks between different groups in using a franchising model. A high-level qualitative distributional impacts assessment has been undertaken against the eight distributional impacts indicators where different impacts may apply. This information is presented in more detail in Section 12.5 which addresses this guidance requirement.
With respect to franchising proposals, the authority should ensure they have considered the impact on bus users – and the speed at which they will receive benefits from the measure. Impacts on new and existing passengers are covered in sections 8 and 10. These will follow the phasing of implementation and noting that the differentiation in network and fares will be more notable in the first 10 years.
With respect to franchising proposals, the authority should ensure they have considered fare-box revenue – whether a gross cost or net cost franchising model is being proposed – this would need to take into account as far as possible any remaining impacts of the COVID-19 pandemic on farebox revenue. A gross-cost contract arrangement is proposed. The base demand is from 2024-25 with the COVID-19 impacts to be considered minimal. This information is set out in more detail in Section 6 which addresses this guidance requirement.
The authority should provide operating costs – such as costs for leasing assets, staff, training, marketing and branding. Section 5 provides the outline of costs included and section 11 the impact on public accounts and thus the operating costs being part of the Present Value of Costs (PVC). More information is provided in the Financial Case.
The authority should provide capital costs – such as investments in depots or buses or bus priority schemes. Section 6 provides the outline of capital and implementation costs included and section 11 the impact on public accounts and thus the capital costs being part of the PVC.
The authority should provide bidding and administration costs – cost to operators to bid for contracts, and authorities to manage the franchise bidding process, and any costs that the operation of partnership arrangements would incur for all parties. Section 6 provides the outline of costs included and section 11 the impact on public accounts and thus the operating costs being part of the PVC. More information is provided in the Financial Case.
The authority should provide implementation costs – including additional staff required, for authorities, operators and elsewhere in the system, or expert advice to put the scheme into practice. Section 6 provides the outline of capital and implementation costs included and section 11 the impact on public accounts and thus the Capital Costs being part of the Present Value Costs. More information is provided in the Financial case.
The authority should provide operator margins – based on evidence from existing franchising and contractual arrangements. This would need to take into account any remaining effects from the COVID-19 pandemic (e.g. on the farebox) and whether margins are likely to change for other reasons e.g. between the first and subsequent franchise periods. Section 6 provides the outline of the operator margins included and section 11 the impact on public accounts and thus the operator margins being part of the PVC. Sensitivity tests are undertaken for the operator margin as defined in section 7 and reported in section 12. More information is provided in the Financial Case.

The authority should provide a clear outline of environmental impacts – such as changes in air quality due to changes in congestion, service levels or zero emission buses. Environmental impacts are covered in sections 9 and 12. These will follow the phasing of implementation and noting that the differentiation in network is what is driving the MECs and thus the quantified and monetised impacts. The fleet impacts are assumed to be the same in both EP and franchising.
With respect to the EP proposal in particular, the authority should ensure that it has considered the costs of administering bus registrations and the ongoing management costs for the authority and for local bus operators. Section 5 provides the outline of ongoing and maintenance costs included and section 11 the impact on public accounts and thus the operating costs being part of the PVC. More information is provided in the Financial Case.
With respect to the EP proposal in particular, the authority should ensure that it has considered – under an EP with ‘route’ level requirements, LTAs are required to take on responsibility for registering bus services. LTAs can, even without route requirements, choose to take on the registration function if they wish. Section 6 provides the outline of EP costs included and section 11 the impact on public accounts and thus the EP costs considered in the PVC. More information is provided in the Financial Case.
All significant assumptions used in the economic and financial cases should be documented as the assessment is developed – identifying the evidence on which they are based where possible. Sections 2 to 7 document the assumptions used in the appraisal. These sections are supported by a Model Specification Report (Appendix D)
Since franchising is intended to be a long-term intervention, the authority should think carefully about the most suitable appraisal period for assessing the impacts of the options and should explain its decision in the assessment documentation. The assessment should focus on a chosen appraisal period but should also indicate clearly whether there is anticipated to be any substantive change in outcomes in the years immediately following the end of that chosen appraisal period. The appraisal period is covered in sections 3 (DRM) and 7 (Economic appraisal). For many transport schemes, a 60-year appraisal period is standard, capturing the long-term value of infrastructure before it would require full renewal. However, for bus reform, there is no single major infrastructure investment dictating the appraisal period. The primary investment cost for MSA and public funding relates to the bus system. Accordingly, a monetised appraisal period of 30 years has been adopted, forecasting horizon from a base year of 2024/25, a scheme opening year of 2029/30 to a final forecast year of 2058/59. The DRM therefore presents outputs for the base year 2024/25 (according to outturn demand and revenue) and forecasts for the period 2025/26 to 2058/59. The appraisal period of 30 years is a period chosen by all other mayoral areas in their FSA.
The authority should then look to present the net present value of each option, derived from the present value of the costs and benefits of each option. Section 12 includes the NPV on the Analysis of Monetised Costs and Benefits (AMCB) table with explanation around them.
The authority should also perform appropriate sensitivity tests, to provide a range of results around the options, to account for uncertainty and potential over-optimism. Section 7 includes the 7 sensitivity tests outlined with the results and analysis being presented in section 12.
The Green and Aqua Books should only be used where they cover issues that are relevant to topics covered by the assessment. They should only be used as a reference source. Across Sections 2 to 7, the Green and Aqua Books have been used appropriately and proportionately to complement the FSA guidance.

Financial Case

The DfT franchising guidance necessitates a thorough evaluation of the financial implications associated with each option to ascertain their affordability and fundability. This includes:
Assessment of the net cost of each option to the public sector, considering all financial costs and benefits that may arise which has been done in section 5 for current EP and in section 6 under franchising,
Affordability analysis, featuring a year-by-year evaluation of costs, income, and budget which has been performed in section 5 for current EP and in section 6 under franchising,
Detailed capital and revenue requirements for the various options throughout their lifespan. The analysis pertaining to this requirement is detailed in section 5 for the current EP and in section 6.5 concerning franchising. Both assessments cover the time period from the date of this FSA through the first franchised services going live in September 2029 through the 30-year appraisal period to the end of FY58/59.
An assessment of the impact of options on the income, expenditure, and balance sheet of the MSA and local authorities in the EP case and the DB in the franchising case.
An evaluation of any implementation costs linked to the different options. Refer to section 5 for the analysis of this requirement as it pertains to the current EP, and section 6 for insights related to franchising.
Comprehensive details regarding funding sources, including any borrowing requirements and arrangements for the MSA. The analysis of this requirement is done in section 5 for the current EP and in section 7, which covers franchising.
An overview of financial risks and the sensitivity of key assumptions and forecasts. The detailed analysis regarding this requirement is located in section 5 for the current EP and in section 6, which discusses franchising.
To ensure alignment with the economic case, the financial case includes an assessment of the reference case (or “status quo”) for the purpose of public sector comparator, in accordance with Green Book guidance. In the North East, this has been deemed to be the EP that is presently in place.
Franchising guidance explains that the financial case should outline whether the North East MSA would be able to afford to make and operate the scheme under a set of reasonable and clearly documented assumptions and in particular that an authority should consider the financial implications of franchising against the EP option, not only with respect to the initial introduction of the arrangements but also factoring in the ongoing management and operation.
Authorities are required to delineate the capital and revenue requirements for the various options throughout the appraisal period, along with an assessment of how these options would affect the balance sheet, income, and expenditure accounts of the franchising authority. Any need for external or additional funding or financing must be clearly articulated, accompanied by an explanation of how such funding will be secured and/or paid for.
In developing the financial case for the assessment, an authority or authorities should ensure they have considered:
Whether the options would necessitate capital expenditure, such as for the acquisition of depots, buses, or other infrastructure. For the current EP, this is discussed in section 5.4 and for franchising, it is addressed in section 6.3,

Whether the options would entail revenue expenditure, such as for additional staffing, in particular, the costs associated with the TUPE transfer of staff and their pension protection, where applicable. This is covered in the management case.
How devolved Bus Service Operators Grant (BSOG) funding will be utilised (see section 5 for current EP and section 7.1.1 for franchising),
The impact on the financial aspects of bus operations, including but not limited to farebox revenue (see section 5 for current EP and section 6 for franchising), BSOG, operating costs, capital expenditure, implementation costs (all costs for current EP are mentioned in Table 6 and Table 11 for franchising), and operator margin is mentioned in sections 4.1 and 6.2.3.
Guidance mandates an evaluation of the long-term financial sustainability of the options, especially concerning franchising. Specifically, the financial case component of the assessment should include:
A year-by-year cost analysis, categorised by capital and resource expenditure, for the authority or authorities (see section 5.2 for the current EP and 6 for franchising),
A year-by-year income forecast for the authority, if applicable (for instance, if a gross cost franchise is proposed). This has been analysed under the section 5 for the current EP and section 7 for franchising,
Whether the option necessitates additional borrowing by the authority, and if so, the interest assumptions and repayment arrangements that have been applied. Borrowing is solely applicable to the franchising option. For a comprehensive overview of the borrowing arrangement, refer to section 6.3,
summary of the key financial risks (see section 6.4), particularly concerning any forecast income to the authority, including quantified impacts and high-level mitigation strategies,
A sensitivity analysis that reflects the range of financial risks. This is done in section in 5.7 for current EP, and section 6.4 under franchising.

Commercial Case

The commercial case should describe:
how the local service contracts will be structured commercially and work in practice to deliver the outcomes and outputs that the strategic case says that the franchising option(s) will achieve - Section 2 (Commercial Objectives) of the commercial case describes the link between commercial objectives and strategic objectives and Section 5 describes the commercial model of the proposed franchising scheme. Section 5.10 uses a RAG rating to demonstrate the extent to which franchising will deliver these commercial objectives,
the approach planned towards procuring the local service contracts - Section 5.6 ('Procurement and Transition') of the commercial case addresses this guidance requirement,
the key commercial risks, their potential impacts and how they would be mitigated and managed - The 'Revenue Risk', 'Cost Risk', and 'Safety Risk' subsections of Section 5.5 ('Contract Structure') address this guidance requirement,
the geographical area or areas the franchise will cover including whether sub-areas are proposed and how they will be phased in over time and whether the franchising scheme will exist alongside an EP or cover all of the authority's geographical area - Section 5.1 ('Key features of the proposed franchising model') directs the reader to Section 7 of the Strategic Case which addresses this guidance requirement,
whether any services or types of service will be exempted from the scheme - Section 5.4 ('Network') addresses this guidance requirement,
how local service contracts and service permits will be implemented - Various subsections within Section 5 ('Commercial assessment and proposed model for franchising') address this guidance requirement (Section 5.5 – Contract Structure, Section 5.2 – Asset Strategy, Section 5.6 – Procurement and Transition) with the service permit regime subsection within Section 5.4 ('Network') discussing service permit implementation,
how the authority will facilitate the involvement of small and medium sized operators, bearing in mind the need to ensure competition for the first and subsequent rounds of procurement - This is addressed in Section 5.7 ('Facilitation of SMO involvement'),
the number and scale of local service contracts planned - including whether they will be route by route, by sub-areas or one contract for all the services - This requirement is addressed in the packaging strategy subsection within Section 5.6 ('Procurement and Transition'),
the intended length of local service contracts - This requirement is addressed in the Contract Length subsection within Section 5.5 ('Contract Structure'),
how the authority will facilitate cross-boundary services to deliver relevant outcomes and targets in both authorities' areas - The Approach to Cross-boundary Services subsection within Section 5.4 ('Network') addresses this guidance requirement,
how the service permit system will be used to enabled cross-boundary (and if relevant other) services to operate, including the conditions expected to be attached to permits - The Service Permit Regime subsection in Section 5.4 ('Network') addresses this guidance requirement,
how services will be integrated with other modes - Various subsections ('Timetabling', 'Fares and Ticketing', 'Branding', and 'Passenger Information') of Section 5.3

(‘Passenger Experience’) discuss how bus services will be integrated with other modes of transportation as part of an integrated transport network,
• how any operational cost savings from measures to improve bus reliability/ journey times are reflected in the contract and reinvested in the network - The bus priority infrastructure subsection of Section 5.4 (‘Network’) addresses this guidance requirement,
• how revenue risk will be handled in local service contracts - The revenue risk subsection of Section 5.5 (‘Contract Structure’) addresses this guidance requirement,
• what standards, outputs and outcomes (if any) will be incentivised through penalties or additional payments in local service contracts. Authorities should consider any approach to incentivisation across a wide range of outcomes including customer service, vehicle cleanliness, proportion of services operated, information, redress and punctuality. They should also consider the potential for their approach to create perverse incentives if they decide to focus heavily on one specific issue - The Performance Regime subsection of Section 5.5 (‘Contract Structure’) addresses this guidance requirement,
• how staff transfer arrangements and the provision of a broadly comparable pension scheme will be addressed, and any other significant staff-related provisions intended to be included - The People and HR subsection of Section 5.5 (‘Contract Structure’) addresses this guidance requirement.
• how contractual mechanisms will allow for enhancement of services and other improvements for passengers over time in a cost-effective manner. Section 5 address this guidance requirement, including the performance regime, ability to make changes to routes/services, and ability to make other changes.
• the commercial arrangements for the provision of vehicles and respective roles or the authority and service provider, including any arrangements for transfer of vehicles at the end of local service contracts - The Vehicle Provision and Specification subsection of Section 5.2 (‘Asset Strategy’) addresses this guidance requirement,
• any vehicle standards that will be set in local service contracts for some or all services both initially and over time - including for type and size of vehicle, emissions (including if zero emission for new buses) and on-board facilities - The Vehicle Provision and Specification subsection of Section 5.2 (‘Asset Strategy’) addresses this guidance requirement,
• any other key contractual arrangements pertaining to vehicle provision that the authority envisages including in local service contracts besides the two points mentioned immediately above - The Vehicle Provision and Specification subsection of Section 5.2 (‘Asset Strategy’) addresses this guidance requirement,
• any commercial or other considerations that are relevant to the transition period (including existing or planned arrangements under an EP and before franchising is introduced) that will seek to ensure that services to passengers are protected during that period - The transition strategy subsection in Section 5.6 (‘Procurement and Transition’) addresses this requirement,
• how the LTA intends to ensure sufficient depots and charging infrastructure is available, including (if relevant) how they will be transferred at the end of local service contracts - The Depot Provision subsection of Section 5.2 (‘Asset Strategy’) addresses this requirement,

the approach to staff pay and conditions - as part of developing this, LTAs should engage with employer representatives, including the trade unions - The People and HR subsection of Section 5.5 ('Contract Structure') addresses this guidance requirement,
a summary of the extent to which existing local operators and/or new entrants are expected to bid for local services contracts - Section 5.9 ('Market Testing') addresses this guidance requirement,
any actions (such as the provisions of permanent or temporary depot facilities) that the authority is taking or intends to take to increase market appetite - Section 5.8 ('Actions to support market appetite and competition for local service contracts') addresses this guidance requirement,
the approach to procuring the initial service contracts, including the procurement route to be used, timescales involved and how the involvement of SMEs will be encouraged - Section 5.6 ('Procurement and Transition'), 5.7 ('Opportunities for SMO involvement') and Section 5.8 ('Actions to support market appetite and competition for local service contracts') address this guidance requirement,
what market testing has been undertaken and the conclusions drawn from it - particularly in relation to the competitiveness of the procurement process - Section 5.9 ('Market Testing') addresses this guidance requirement,
the overall confidence the authority has in being able to secure initial local service contracts which deliver the outcomes and outputs intended within the financial and commercial terms envisaged in the assessment and why it has reached this conclusion - Section 5.9 ('Market Testing') addresses this guidance requirement,
how the authority will ensure that there is strong competition for the second and subsequent procurement of local service contracts - Section 5.8 ('Actions to support market appetite and competition for local service contracts') addresses this guidance requirement,
its strategy for procuring new contracts while giving careful consideration to the balance between cost and quality in franchise assessment – Section 5.6 ('Procurement and Transition') addresses this guidance requirement.

Management Case

The guidance advises authorities to use this case to focus on the practicalities of moving from a deregulated to a franchised network and how the LTA will deliver on the responsibilities that come with being a franchising authority with full control of the bus offer to passengers. Particularly, the guidance requires:
the approach to staff pay and conditions - as part of developing this, LTAs should engage with employer representatives, including the trade unions - This has been addressed in 3.5.21 'Staff Conditions and TUPE transfers' and 3.5.27 'Pensions' subsections of Section 3.5 (Delivery of bus service improvements through local service contracts),
how fares and ticketing will operate including anticipated changes to fares over the life of the contract - This has been addressed in the 'Fares and Ticketing' subsection of Section 3.5 (Delivery of bus service improvements through local service contracts),
what ticketing or fares systems are required and whether they will be procured or delivered through local service contracts and if not how they will be secured and provided - This has been addressed in Section 4.18 ('Fares and Ticketing') of 'Transitional change and mobilisation' section (Section 4),
whether, when and how multi-modal fares will be incorporated into contractual arrangements - This has been addressed in the 'Fares and Ticketing' subsection of Section 3.5 (Delivery of bus service improvements through local service contracts),
whether operators are currently compliant with the Bus Open Data Digital Service (BODDS) and if not, how the LTA will ensure that they become compliant - This has been addressed in the 'Data Requirements' (5.6) and the 'Process Overview' (5.3) subsections of the broader 'Performance and Benefits Management Section' (Section 5),
how network identity and branding requirements will be delivered consistently - the respective roles of operator(s) and the authority in information provision including the requirements (on and off-bus) to be included in local service contracts - This has been addressed through the subsections on 'network identity and branding' and 'customer information and service' in Section 3.5 (Delivery of bus service improvements through local service contracts),
the respective roles of operator(s) and the authority in customer service (including redress arrangements) - This has been addressed through the subsection on 'customer information and service' in Section 3.5 (Delivery of bus service improvements through local service contracts),
any facilities that the holders of local service contracts are expected to provide or operate (such as depots or bus stations) and the terms - This has been addressed through the subsection on asset provision in Section 3.5 (Delivery of bus service improvements through local service contracts),
how timetables will be set and changed - This has been addressed through the subsection on timetable setting and change in Section 3.5 (Delivery of bus service improvements through local service contracts),
what data operators of local service contracts will be expected to provide to the authority, including to monitor progress against BSIP and longer-term objectives - This has been addressed through Section 5.6 (Data Requirements) in the broader Performance and Benefits Management section,

what training bus drivers would be expected to complete including in relation to safety and disability awareness and how this will be implemented through local service contracts - The subsection on ‘driver training’ in Section 3.5 (Delivery of bus service improvements through local service contracts) addresses this guidance requirement,
The guidance also requires the MSA to set out how it intends to manage the transition process from the current system to a franchised one. It also instructs authorities to develop contingency plans for providing replacement services should operators stop running their services before the introduction of the franchising scheme and any other plans they may have put in place to manage those risks. Section 4 (Transitional Change and Mobilisation) addresses this guidance requirement and has a subsection (Operational Continuity – Section 4.16) which looks specifically at contingency plans.
The guidance also requires the management case to set out:
how the LTA staff will obtain the skills to implement and then manage the franchised network. Table 3 (‘Competencies required by the DB to deliver the proposed franchising scheme’) in Section 3 (‘Steady-state management of the proposed franchising scheme’) addresses this guidance requirement.
the resources needed for transition – this includes whether additional specialist staff or advice will be required. If additional staff are required, this should include the numbers and costs. The cost of procurement and contract management processes, if any, that are required for the successful introduction and ongoing management of franchising - Section 3.4 (Resource to deliver the proposed franchising scheme) sets out the additional resources required for the ongoing management of franchising. Sections 4.3 (Establishing the proposed franchising scheme) and 4.4 (Transition to franchising) sets out the costs of procurement and contract management associated with the introduction of franchising. The costs associated with the ongoing management of franchising are set out in the financial case.
How the franchised network will be managed – this should include how the network will be reviewed and the strategy for implementing the outcomes set out in the LTA’s BSIP – with particular emphasis on bus priority and delivering reliability and journey time improvements for buses. This is separate to the skillset question raised above. Section 6.3 (‘Franchising’) within the Network Change section addresses this guidance requirement by providing us with a sense of how the franchised network will be reviewed. Section 5.4 – 5.6 within the Performance and Benefits Management section also addresses this guidance requirement by providing us with the strategy for ensuring that the outcomes set out in the LTA’s LTP are realised.
How success will be measured – mostly covered in the franchising scheme, but here should also include bus passenger surveys either commissioned by the LTA or by other bodies such as Transport Focus. This is addressed in the Performance and Benefits Management Section (Section 5).

Franchising Scheme Assessment:

Appendix C – List of scheme interventions

March 2026

The North East is home to a significant amount of bus priority infrastructure, including bus lanes and traffic light priority systems. In addition to these operational measures, further schemes which are anticipated to reduce journey times for bus passengers are expected to be implemented as shown in Table 1 below.

Table 1: List of planned bus priority infrastructure

Sub-programme	Schemes	Scheme promoter	Estimated construction date
BPI1	Central Motorway Corridor	Newcastle City Council	TBC
BPI1	Westgate Road Corridor	Newcastle City Council	TBC
BPI1	Wallsend Corridor (Newcastle City Council)	Newcastle City Council	Q2 2026/7
BPI1	Coast Road (North Tyneside)-Cobalt	North Tyneside Council	Q1 2026/27
BPI1	Dunston Corridor (Redheugh Bridge junction)	Gateshead Council	Q4 2025/6
BPI1	Bensham corridor (Cuthbert Street)	Gateshead Council	Q1 2026/27
BPI1	Old Durham Road (Bluebell Crescent Junction)	Gateshead Council	Q1 2026/27
BPI1	A183 Chester Road	Sunderland City Council	Q4 2025/6
BPI1	A690 Durham Rd	Sunderland City Council	Q4 2025/6
BPI1	South Shields- Sunderland Corridor (A1018 Sunderland Rd)	South Tyneside Council	In delivery
BPI1	South Shields- Newcastle Corridor (Boldon Whitney Way)	South Tyneside Council	Q2 2026/7
BPI2	South Shields- Newcastle Corridor (Sunderland Road)	Gateshead Council	TBC 2026/27
BPI1	Leam Lane A195 Southbound	Gateshead Council	Q4 2025/6
BPI1	Cramlington (Dudley Lane)	Northumberland County Council	TBC 2026/27
BPI1	A167 Durham Road (Coundon Gate)	Durham County Council	Q2 2026/27
BPI1	Gosforth Corridor	Newcastle City Council	TBC 2026/27
BPI2	A177 Bus Priority Measures	Durham County Council	TBC 2026/27
BPI2	A690 Bus Priority Measures	Durham County Council	Q4 2025/6
BPI2	Lambton Street/High Street	Gateshead Council	TBC 2026/27
BPI2	Leam Lane Lingey Lane (A195 Bus Lane)	Gateshead Council	TBC 2026/27
BPI2	A191 Junction	North Tyneside Council	Q2 2026/27
BPI2	A188/A189 (West Moor)	North Tyneside Council	Q2 2026/27
ITS	Intelligent Transport Systems	Newcastle City Council	In delivery

Franchising Scheme Assessment:

Appendix D – Model Specification Report

March 2026

1. Introduction

1.1. Background

1.1.1. The North East Mayoral Strategic Authority (the MSA) is undertaking a Bus Franchising Scheme Assessment (FSA) in accordance with Section 123B(3) of the Transport Act 2000. This assessment must determine whether the proposed franchising scheme would represent value for money (VfM). The two options under consideration are:

- **Enhanced Partnership (EP):** This is the reference case, reflecting the continuation of existing legal and operational arrangements between the MSA and local bus operators. It captures what is realistically deliverable through current partnership powers and consensus-building, in the absence of further regulatory change.
- **Franchising:** This model involves the MSA adopting statutory powers to plan, specify, and procure local bus services through a competitive tendering process. Franchising would see the MSA, through its Delivery Body (DB), set route patterns, fares, service standards, and deploy integrated branding and customer experience across the regional network.

1.1.2. To support the analysis required for the assessment, a Demand and Revenue Model (DRM) has been developed to forecast future bus demand and revenue over time and the implications of interventions relating to franchising in the North East.

1.2. Model overview

1.2.1. The DRM is part of a suite of models being used in the assessment. It works alongside a financial model that examines operating costs, revenues and profits in the bus industry. Outputs from both the DRM and financial model feed into the Cost Benefit Analysis (CBA) that calculates welfare benefits and wider economic impacts (discussed in more detail in the economic case).

1.2.2. The DRM is an Excel-based model which forecasts changes from a base year patronage level according to changes in a set of forecasting variables. It uses a combination of elasticities which explain how sensitive bus patronage is to each of these variables, and explicit demand impacts taken from other sources.

1.3. Report Structure

1.3.1. The focus of this Model Specification Report is to describe the DRM inputs, functionality and the forecasting methodology. The structure of this report is as follows:

1. Introduction
2. Modelling approach
3. Model inputs and dimensions
4. Forecasting inputs and model levers
5. Model outputs

6. Quality Assurance

2. Modelling approach

2.1. Introduction

2.1.1. The DRM is a tool that forecasts changes in bus patronage and revenue, using demand elasticities and external inputs. Together with the financial model, its outputs inform the wider cost-benefit assessment.

2.1.2. This section describes the main functionalities of the DRM, the financial model, and the Cost-Benefit Analysis, and explains how these tools are interconnected.

2.2. Demand and Revenue Model

2.2.1. The DRM starts from the base year of 2024/25 financial year and generates forecasts of bus demand over a 30-year forecasting horizon from an opening year of 2029/30 financial year to a final forecast year of 2058/2059 financial year. The forecasts are based on a number of user inputs including exogenous forecasts, competing mode forecasts, changes in fares, network mileage changes and soft measures. The demand forecasts are used to generate farebox revenue forecasts by applying average fares per trip.

2.2.2. The farebox revenue is calculated based on the demand forecast multiplied by the average fare per trip as below:

$$\text{Demand forecast} \times \text{Fares per trip} = \text{Farebox revenue forecast}$$

2.2.3. The model is in Excel format and pivots from an observed base situation using elasticities (Appendix 1 – Elasticities) rather than generating new absolute forecasts in each year. Forecasts for years in between are calculated by interpolation between the starting year and the forecast year.

2.2.4. The DRM provides separate forecasts for:

- The current Enhanced Partnership scenario (reference case)
- The franchising scheme option.

2.2.5. It is important for the DRM to establish a realistic reference case position with service levels financially viable for operators, informed by interaction between the DRM and the financial model.

2.3. Financial model

2.3.1. The DRM works alongside the financial model that calculates costs, revenues and profits for each scenario.

2.3.2. Outputs from the DRM are passed to the financial model for each set of forecasts. The outputs of the financial model in terms of operator margin (EP) or authority surplus or deficit (franchising) are examined to determine the appropriateness of the fares and network assumptions applied in the DRM. Outputs also pass to the CBA model which calculates benefits based on the difference between the EP forecast, and the franchising forecast.

2.3.3. The financial model uses the following DRM outputs:

- Total patronage
- Concessionary patronage
- Farebox revenue (2023/24 prices)
- Fleet (PVR)
- Kilometres (live + dead)
- Hours (live + dead)

2.3.4. The financial model then forecasts cash flow statements to assess the affordability of different options for the MSA. More detail on the financial model is provided in Section 4 of the financial case.

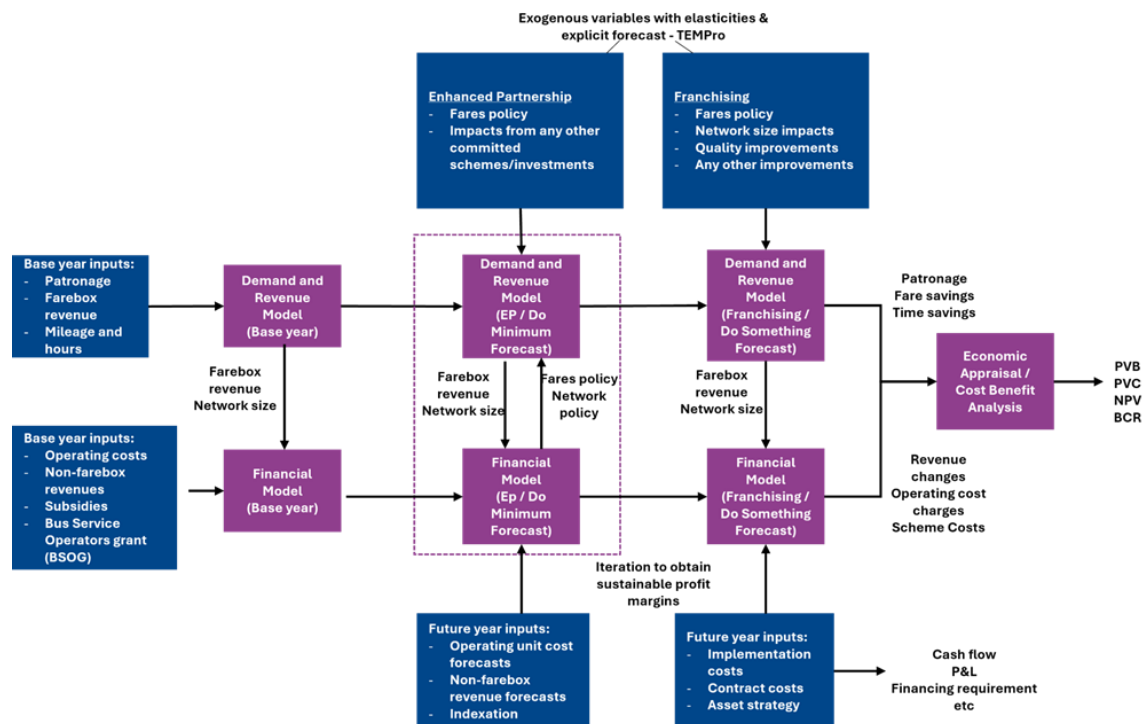
2.3.5. Revenue and costs from the financial model will pass to the CBA tool.

2.4. Cost-benefit analysis

2.4.1. The CBA tool is used to compare the outputs of two different scenarios (a reference and a franchising case), calculate the user and non-user benefits and convert these into the correct units as specified in DfT's Transport Analysis Guidance (TAG). The benefits will be compared against the scheme costs provided by the financial model to calculate value for money metrics.

2.4.2. An overview of the overall model system is shown in Figure 1.

Figure 1: Model system overview



3. Model inputs and dimensions

3.1. Introduction

3.1.1. Multiple data sources were used to compile the model inputs. The data sources can be summarised as follows:

- Operator and partner data including patronage, revenue, network size.
- CitySwift journey time metrics including average passenger journey times, bus punctuality, bus reliability.

3.1.2. The data were processed for use as inputs in the model and they were categorised into different dimensions including:

- Operator
- Service or group of services
- Location type (urban, semi-rural, rural)
- User groups and ticket types

3.1.3. The degree of spatial detail of the data in the DRM model is by financial year, bus service and ticket type. For the three large operators (i.e. Go North East, Arriva and Stagecoach North East), we included the dimension of the payment type option (card and other). This level of spatial disaggregation was determined to fulfil the requirements of this study given the available data. Additionally, the model incorporated five aggregated dimensions (bus operator, frequent-infrequent service, urban-rural classification, primary local authority district and journey purpose).

3.1.4. This section outlines the sources of data used and explains the steps followed to process and prepare the data for use in the model. It also details how the data were categorised into the relevant model dimensions and provides a summary of the 2024/25 base year inputs for patronage and revenue.

3.2. Operator and partner data

3.2.1. Comprehensive data were requested in April 2025 from all major bus operators and small-to-medium operators (SMOs) in the North East region. The data were requested for the financial years 2022/23, 2023/24, 2024/25.

3.2.2. The requested datasets included:

- Patronage: Annual number of trips for each service broken down by ticket type.
- Farebox revenue: Annual on-bus and off-bus farebox revenue figures for each service broken down by ticket type.
- Operational metrics: operating hours (live and dead), travelled kilometres (live and dead) and Peak Vehicle Requirement (PVR/ fleet size).
- Data were received from the following operators:

3.2.3. Large operators

- Arriva Durham
- Arriva Northumbria
- Go North East (GNE)
- Stagecoach North East

3.2.4. Small - medium operators (SMOs)

- Gateshead Central Taxis (GCT)
- Hodgsons
- JH Coaches
- L&G
- Northstar
- Peter Hogg
- Phoenix/ Liberty Coaches
- Stanley Travel
- Station Taxis
- Telfords
- Weardale
- Woods
- Wright Brothers

3.2.5. SMO data were obtained from the following partners:

- Durham
- Nexus
- Northumberland

3.2.6. All operator and partner data were reviewed for accuracy. Any erroneous entries, such as negative patronage values resulting from ticket cancellations, were removed to ensure a consistent and reliable dataset.

3.2.7. Due to some gaps in large operator submissions, some proxies and assumptions were applied as follows:

Arriva Durham and Arriva Northumbria

- Data received for calendar year 2024 instead of financial year 2024/25; January–March 2024 was assumed to match January–March 2025.

- Ticket type distributions were inconsistently reported in two datasets. The distribution from the secondary dataset was used to allocate ticket type shares in the original dataset.

Stagecoach North East

- Off-bus revenue not provided; assumed to be proportional to GNE's off-bus revenue.

3.2.8. Some SMOs did not provide any data. For these, proxy patronage, revenue, PVR, and mileage were estimated based on subsidy payments from the MSA, and ticket type splits were inferred from data already available in the model. The affected operators are:

- Border Buses
- Glen Valley
- Stagecoach North West

3.2.9. Many services were missing PVR and mileage data. For these services, ratios of mileage to service distance were developed and applied to fill in the missing values.

3.2.10. The base year for all operators was set for 2024/25. This year was selected to ensure the most reliable representation of prevailing demand and is the latest year of available data excluding Arriva data. As mentioned, Arriva data covers the calendar year 2024, however 2023/24 was not suitable due to extended Go North East strike action.

3.2.11. After processing the data and generating proxy values where necessary, the final cleaned datasets were prepared as inputs for the base year model.

3.2.12. One SMO operator was not included in the modelling, Ferryhill Village Travel. Data was not provided, and therefore, its services, 945 and 952, were not modelled. As mentioned above, SMOs Border Buses, Glen Valley and Stagecoach North West did have detailed operator data, and therefore, their patronage and revenue were aggregated at operator level. In addition to that, there were some infrequent bus services without 2024/25 data available (e.g. GNE services 819 to 829), those were mainly school/college services and not included in the modelling.

3.3. CitySwift data

3.3.1. CitySwift bus journey time dataset was provided by service and included average bus route end to end travel times, labelled as journey times, and data on bus punctuality encoded as the percentage of bus services that were 'on time'.

3.3.2. Only punctuality data was provided for Stagecoach operated services.

3.3.3. The provided journey times were the times for the bus journey, i.e. the start to end journey time of the routes. The DRM, and subsequent economic analysis, required an average journey time for passengers on board the bus.

3.3.4. For Stagecoach operated services, equivalent bus journey times were sourced from operators timetables as published on the Nexus website¹.

3.3.5. In order to estimate an average onboard passenger journey time, the following assumptions were made:

- Identify whether the bus is a through city centre bus or a terminate in the city centre bus
- If the service terminates in the city and is not an “X” or Express bus, then factor the route journey time by 50%
- If the service goes through the city centre and is not an “X”, then factor the route journey time by 25%
- If the service terminates in the city and is an “X” or Express bus, then factor the route journey time by 66%
- The above assumptions were done for bus routes where the annual patronage was $\geq 100,000$ passengers, called the processed bus routes. This subset of bus routes represented between 94% Go North East, and 98% Stagecoach total passengers.
- An average journey time was calculated for the processed bus routes by operator and an average across all operators. This average journey time was 22.25 minutes and was applied to all the routes with fewer than 100,000 passengers.

3.3.6. The rationale for the assumptions was that for “X” and Express buses passengers are likely travelling further on the bus services.

3.3.7. The remaining assumption is that passengers are on the service for half the route, but for those routes that go through the centre, we assume passengers are primarily travelling to the city centre and therefore are onboard for a quarter of the route.

3.3.8. The outcome by operator is provided below:

Table 1: Average passenger journey time (by operator)

Operator	Unweighted average journey time (mins)	% of total patronage (services $>100,000$ passengers)	Average journey time – weighted by passengers (mins)
Go North East	26.00	94.2%	27.19
Stagecoach – South Shields	15.95	98.0%	14.39
Stagecoach - Sunderland	13.54	97.6%	12.43
Stagecoach - Newcastle	16.14	98.3%	15.61

¹ “[Bus timetables](#)”. Nexus. 2025.

Arriva Durham	21.15	97.8%	21.78
Arriva Northumbria	28.12	97.7%	29.26

3.3.9. The weighted average of journey time was calculated by using the base patronage.

3.3.10. Several “spot checks” were performed on services with the results plausible and the table above reflects the urban nature of Stagecoach services, and more rural / longer distance nature of Go North East and Arriva services.

3.3.11. The "spot checks" were performed against a couple of selected services based on local experience of the bus network. Services on the Byker to West End corridors were checked to ensure that the assumed passenger journey time was more than the scheduled time to get from Byker to the City Centre, similarly services from Blyth to Newcastle (X10/X11) were checked to ensure that the passenger duration would place the average passenger in the Cramlington to Newcastle time range. This was necessary because there was no available data on the duration of passenger trips.

3.3.12. For soft measures, the average (unweighted) 22.25 minute average journey time was input for all services. The value was used alongside with the journey time elasticity for the bus network as a whole rather than for individual services.

3.4. Services

3.4.1. The operator and partner datasets were disaggregated by services. Services within the MSA boundary have been included in the model. This includes the following local authorities:

- Newcastle upon Tyne
- Gateshead
- North Tyneside
- South Tyneside
- Sunderland
- County Durham
- Northumberland

3.4.2. A filtering process was used to ensure that the model only included relevant services, based on a list provided to the project team. This list identified which routes fall within the legal and operational scope of the proposed bus franchising scheme. Services that were outside the MSA boundary or did not meet the franchising criteria were excluded from the model.

3.4.3. The model also includes services that cross the MSA boundary, provided these services are classified as “in scope” for bus franchising.

3.5. Location type

3.5.1. A detailed spatial matrix was created to classify each bus service according to its corresponding local authority district (LAD). This classification relied on the 2021 Rural-Urban Classification for Local Authority Districts², as defined by the government’s official statistics. For each service, the route length operating within each LAD was calculated. The service was then assigned to the LAD in which it operated the longest distance.

3.5.2. Based on the government’s rural-urban classification for that LAD, each service was further categorised as:

- Urban
- Semi-rural
- Rural

3.5.3. The LAD classification is as below:

² “[2021 Rural Urban Classification](#)”. Office for National Statistics. 2025.

Table 2: Local authority district classification

LAD	District	Class
County Durham	Chester-le-Street	Semi-Rural
County Durham	Derwentside	Semi-Rural
County Durham	Durham	Semi-Rural
County Durham	Easington	Semi-Rural
County Durham	Sedgefield	Semi-Rural
County Durham	Teesdale	Rural
County Durham	Wear Valley	Rural
Gateshead	Gateshead	Urban
Newcastle upon Tyne	Newcastle upon Tyne	Urban
North Tyneside	North Tyneside	Urban
Northumberland	Alnwick	Rural
Northumberland	Berwick-upon-Tweed	Rural
Northumberland	Blyth Valley	Semi-Rural
Northumberland	Castle Morpeth	Rural
Northumberland	Tynedale	Rural
Northumberland	Wansbeck	Semi-Rural
South Tyneside	South Tyneside	Urban
Sunderland	Sunderland	Urban

3.6. Ticket type

3.6.1. A large number of detailed ticket types were provided in the operator patronage and revenue data. These were aggregated to one of the user groups and ticket types listed below to produce a concise and consistent set of ticket types to be used in the model.

3.6.2. The full list of user groups, ticket types and the journey purpose per ticket type used in the model is as follows:

Table 3: Ticket categorisation and journey purpose

User group	Ticket type	Journey purpose
Adult	Adult Daily Multi-operator	All purposes
Adult	Adult Daily - Operator own	All purposes
Adult	Adult Return	All purposes
Adult	Adult Single	All purposes
Adult	Adult Seasonal	Commuting
Adult	Adult Weekly	Commuting
Child	Child Daily Multi-operator	All purposes
Child	Child Daily - Operator own	All purposes
Child	Child Return	All purposes
Child	Child Single	All purposes
Young person	Young Person	All purposes
Scholar	Scholars	Commuting
Concessionary	Concessions Free	Leisure
Concessionary	Concessions Payable	Leisure
Other	Other	All purposes

3.7. Base data summary

- 3.7.1. As previously described, the 2024/25 financial year was selected as the base year for all operators. This year was chosen because it provides the most up-to-date and reliable reflection of current bus demand and represents the latest period for which data were available.
- 3.7.2. Patronage totals were calculated for all in-scope services. These figures were further disaggregated by service and ticket type to provide a detailed breakdown of passenger numbers across the network.
- 3.7.3. Concessionary patronage was specifically identified using the trips recorded under the “Concessions Free” ticket type, allowing for accurate representation of journeys made by eligible concessionary passengers.
- 3.7.4. Farebox revenue for each service and ticket type was determined by multiplying the number of trips (patronage) by the average fare for the relevant ticket and operator. To

ensure consistency with the financial model, all revenue values were converted to 2023/24 prices by applying an RPI deflator.

- 3.7.5. The revenue data provided by operators excluded off-bus revenue, which was obtained separately in an aggregate form, i.e. not specific to a ticket or service. This off-bus revenue was allocated to ticket types based on the number of trips allocated to an off-bus payment type in the operator data.
- 3.7.6. In addition to patronage and revenue, key operational metrics were compiled for the base year. For each service, fleet size (PVR), total kilometres travelled, and operating hours were calculated to provide a comprehensive view of the network's scale and performance.
- 3.7.7. A complete summary of all base year data inputs for all operators and services used in the model for 2024/25 is presented below, providing the foundation for subsequent analysis and forecasting.

Table 4: Base year 2024/25 data summary

Measure	2024/25 total values
Patronage (number of trips)	112,722,810
Concessionary patronage (number of trips)	33,401,138
Farebox revenue (2023/24 prices)	£112,393,948
Off-bus revenue (2023/24 prices)	£21,767,028
PVR (number of buses)	1,031
Kilometres (live & dead)	94,313,000
Hours (live & dead)	3,896,746

4. Forecasting inputs and model levers

4.1. Introduction

- 4.1.1. This chapter describes the main forecasting inputs and model levers used in the DRM. It provides an overview of how each input—such as population, households, car ownership, employment and economic growth projections (exogenous factors), fare levels, journey times, service mileage, soft measures, congestion and competing transport modes—affects future projections of bus demand and revenue within the model.
- 4.1.2. The section details how these variables are incorporated, the functional form of the model, and the key assumptions underlying each lever. By understanding these inputs and how they interact, the chapter sets out the basis for how the DRM forecasts changes under different scenarios throughout the modelling period.

4.2. Demand model functional form

- 4.2.1. The DRM forecasts change in demand and resulting farebox revenue over time based on changes in several explanatory variables as detailed in the following sections.
- 4.2.2. Exogenous demand changes due to demographic impacts have been driven by factors from DfT's National Trip End Model (NTEM) which were applied to the base year demand.
- 4.2.3. Demand changes in response to fare and Generalised Journey Time (GJT) changes are driven by elasticities which explain how sensitive bus demand is to these variables.
- 4.2.4. Some other external impacts have been represented via explicit demand uplifts or reductions, for example the impact of other infrastructure schemes like the Northumberland line rail extension.
- 4.2.5. The DRM does not apply cross-price elasticities between bus ticket types. Those elasticities measure how the demand for one ticket type (e.g. single adult ticket) changes in response to a price change in another ticket type (e.g. adult seasons ticket). This functionality was not added to the model requirements, and it is rarely validated in the transport demand models. They are usually based on stated preferences of the passengers, and the sensitivity of the values is often questioned (Dunkerley et al., 2018).
- 4.2.6. The forecast year demand is calculated by pivoting from the base year demand and applying any changes specified in the model. The demand model functional form is as follows:

$$D_f^{ST} = D_b^{ST} \times E_f^{ST} \times \left(\frac{F_f^{ST}}{F_b^{ST}} \right)^{\alpha_{fare}} \times \left(\frac{GJT_f^S}{GJT_b^S} \right)^{\alpha_{GJT}} \times \left(\frac{CM_f}{CM_b} \right)^{\alpha_{CM}} \times Y_f^T + Z_f^T$$

Where:

D_f^{ST} is the demand in the forecast year for service S and ticket type T;

D_b^{ST} is the demand in the base year for service S and ticket type T;

E_f^{ST}	is a growth factor from base year b to forecast year f due to exogenous factors derived from NTEM which will vary by geography and ticket type;
F_f^{ST}	is the fare in the forecast year for service S and ticket type T;
F_b^{ST}	is the fare in the base year for service S and ticket type T;
GJT_f^{ST}	is the average generalised journey time in the forecast year by bus for service S and ticket type T;
GJT_b^{ST}	is the average generalised journey time in the base year by bus for service S and ticket type T;
CM_f	are a set of competing mode variables (car travel costs/journey times and competing PT fares) for the forecast year;
CM_b	are a set of competing mode variables (car travel costs/journey times and competing PT fares) for the base year;
Y_f^T	is a factor for ticket type T to be applied to bus demand due to external influences not otherwise modelled, for example impacts of new infrastructure or policy
Z_f^T	is an additive absolute impact on bus demand for ticket type T to be applied due to external influences not otherwise modelled, for example impacts of new infrastructure or policy
α^{fare}	is the elasticity of bus demand to changes in fare;
α^{GJT}	is the elasticity of bus demand to GJT;
α^{CM}	is the elasticity of bus demand to competing mode variables.

4.3. Model years

4.3.1. The model starts from a base year of 2024/25 and forecasts an opening year of 2029/30 (FY01) and a final year of 2058/59 (FY30).

4.3.2. It also includes single forecast years FY02, FY03, FY04, FY10, FY11, FY16, FY17, FY21 and FY22 and uses linear interpolation to produce forecasts for the years in-between.

4.4. Exogenous factors

4.4.1. The DRM is required to represent the impacts of changes in exogenous variables on bus demand, including:

- Population and households
- Employment and economic growth (GDP)
- Car ownership

- 4.4.2. To represent these impacts, the DRM takes input growth factors between the base year and the forecast year from DfT's Trip End Model Presentation Program (TEMPro software version 8.1). TEMPro is a DfT standard industry tool that estimates demand growth (or decline), using data from the National Trip End Model (NTEM Core Scenario version 8.0).
- 4.4.3. TEMPro forecasts a decline in bus patronage over time due to exogenous factors. This is because, despite a forecast increase in population and employment (which would, all else equal, drive an increase in demand), car ownership and income are forecast to increase which has a negative impact on bus demand.
- 4.4.4. It is important to note that TEMPro only represents the impacts of exogenous influences on demand, and assumes all other endogenous factors such as fares, journey times, bus infrastructure and competing mode influences remain unchanged. The influences of these variables are modelled via other mechanisms in the DRM.
- 4.4.5. The TEMPro growth factors by local authority district and trip purpose that have been used in the model are presented below.

Table 5: TEMPro growth factors³

Local Authority District	2023 to 2025			2023 to 2029			2023 to 2059		
	Commuting	Business	Leisure	Commuting	Business	Leisure	Commuting	Business	Leisure
Hartlepool	0.99	0.99	0.99	0.97	0.96	0.96	0.77	0.83	0.84
Middlesbrough	0.99	0.99	0.99	0.97	0.96	0.96	0.80	0.80	0.82
Redcar and Cleveland	0.99	0.99	0.99	0.97	0.96	0.96	0.80	0.81	0.83
Stockton-on-Tees	0.99	0.99	0.99	0.97	0.97	0.97	0.80	0.84	0.85
County Durham	0.99	0.99	0.99	0.97	0.96	0.96	0.83	0.82	0.84
Darlington	0.99	0.99	0.99	0.96	0.97	0.97	0.77	0.87	0.87
Northumberland	0.99	0.99	0.99	0.96	0.96	0.97	0.80	0.86	0.88
Gateshead	0.99	0.99	0.99	0.97	0.96	0.96	0.78	0.82	0.83
Newcastle upon Tyne	0.99	0.99	0.99	0.99	0.97	0.97	0.85	0.86	0.88
North Tyneside	0.99	0.99	0.99	0.98	0.97	0.97	0.84	0.90	0.91
South Tyneside	0.99	0.99	0.99	0.97	0.96	0.96	0.81	0.85	0.85
Sunderland	0.99	0.99	0.99	0.96	0.96	0.96	0.77	0.80	0.81

³ Absolute totals Future Year & Base Year (2023): Future year / Base year = Growth factor (Total trip productions) for Average Day

4.5. Competing modes

4.5.1. The DRM responds to input changes in the following competing mode variables:

- Competing public transport fares (Metro/ Rail fares);
- Car fuel/ operating costs; and
- Congestion/ Car journey times

4.5.2. The change in competing public transport fares have been determined via discussion with the MSA to be RPI+1% (as it stands currently). However, under the franchising scenario, the Metro fares change has been set to be consistent with bus fares over the appraisal period. Elasticities are typically for a change in fare relative to RPI, so the assumption of setting the same fare change would have no influence on bus and Metro demand over the appraisal period.

4.5.3. Car operating cost forecasts have been obtained from the TAG Databook detailed in Table 6 below, these show a reduction in cost over time due to the shift to more fuel efficient and electric vehicles, which will lead to a reduction in bus demand over time. The source for this analysis has been the NTMv2R run for the core scenario of the National Road Traffic Projections 2022.

4.5.4. Changes of car congestion levels, and so, changes of car journey times are not applied to all bus passengers. The impacts of car congestion were only applied to 15% of bus passengers who have car availability⁴.

Table 6: TAG Table M 4.2.2a – Car costs indexed to 2010/11 (non-London)

Year	Retail Price Index (RPI) based
2024/25	70
2025/26	67
2026/27	65
2027/28	63
2028/29	61
2029/30	58
2030/31	55
2031/32	53
2032/33	51
2033/34	49
2034/35	47
2035/36	46

⁴ 2018 Tyneside Survey.

2036/37	44
2037/38	43
2038/39	42
2039/40	41
2040/41	40
2041/42	39
2042/43	38
2043/44	37
2044/45	37
2045/46	36
2046/47	36
2047/48	35
2048/49	35
2049/50	35
2050/51	35
2051/52	35
2052/53	36
2053/54	36
2054/55	36
2055/56	36
2056/57	36
2057/58	36
2058/59	36

4.5.5. Car journey time forecasts have been obtained from the DfT's Road Traffic Projections⁵. This data predicts an 8% reduction in car speeds between 2025 and 2060.

4.6. Bus fares

4.6.1. Changes in fares result in a demand change by applying fare elasticities.

4.6.2. Fare changes have been specified as a percentage change above RPI relative to the base for each ticket type category.

⁵ "[National road traffic projections](#)". Department for Transport. 2022.

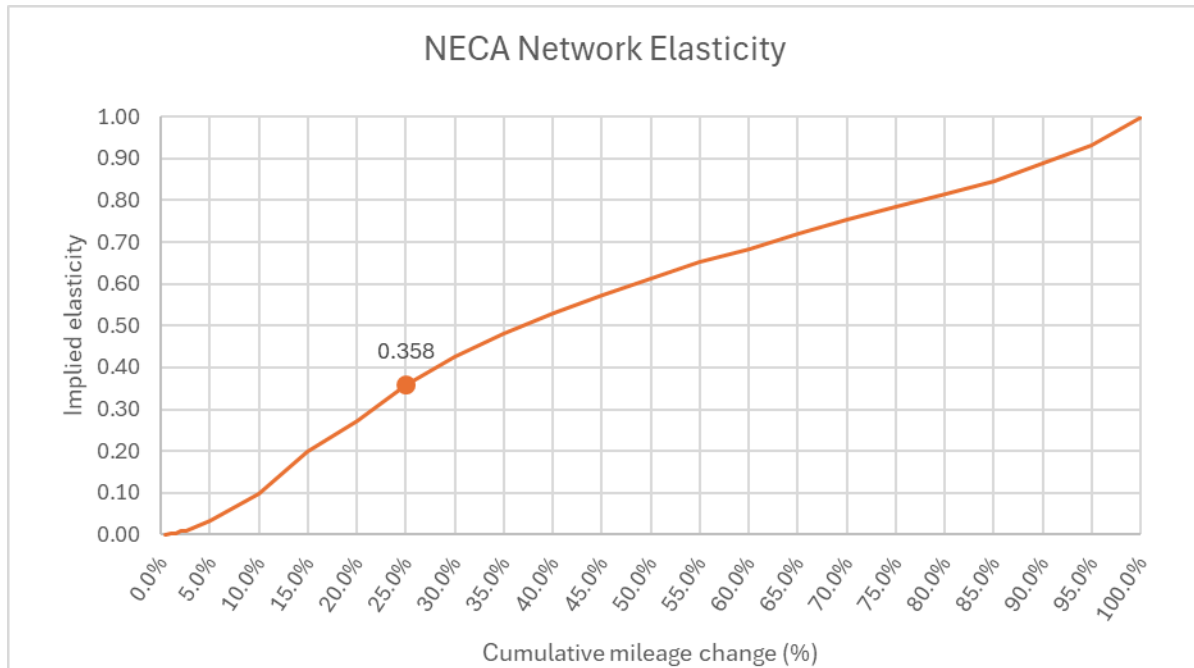
- 4.6.3. For the reference case model runs, fares have been specified as RPI+2%. For franchising model runs, fares have been specified as RPI+0% for the first 10 years (2029/30-2038/39), and then RPI+2% afterwards.
- 4.6.4. For the reference case, this includes changes relating to planned BSIP interventions, whilst for franchising it includes broader changes, e.g. simplifying the range of daily, weekly and four-weekly tickets to a smaller range of tickets.
- 4.6.5. The observed Metro fare evasion in the area is 4% and TfGM also assumes 4% across all modes pre fare protection and fare simplification. For the reference case, the same proportion was assumed. However, for the franchising case, a reduction of 2% was assumed after fare protection and fare simplification measures taking place, and therefore, a revenue uplift of 2% was applied.

4.7. Network changes

- 4.7.1. The model allows the user to specify service level mileage changes to drive a demand response via a service kilometre elasticity. Any changes flow through to changes in overall operating kilometres, hours and PVR which will feed back to the financial model and impact on operating costs.
- 4.7.2. The estimation of the bus demand impacts of lesser network follows the elasticity approach. The DRM allows the user to specify a global percentage change in total service kilometres per annum for each service. This functionality is designed predominantly for representing network cuts where the exact detail of the changes is not known.
- 4.7.3. A bespoke method (called population approach) was developed to examine the relationships between mileage cuts and patronage of the least popular services, instead of using a bus service km elasticity from the literature because it is probably more suitable for additional mileage and very popular routes. It built up cumulative mileage and patronage from a list of services ordered in increasing popularity (see Figure 2).
- 4.7.4. This method is composed of the following steps:
- Combine patronage by service and the mileage by service from the DRM;
 - Order services by patronage per mile of service as a proxy for popularity;
 - Calculate cumulative patronage affected for cumulative mileage cuts, e.g. if the least popular 1% of mileage is cut, what percentage of patronage does this effect;
 - Derive relationship between cumulative mileage cut and cumulative patronage affected; and
 - Use this relationship in the DRM to say what % of patronage affected – DRM assumes all affected large operators' trips are lost.
- 4.7.5. As a result, a service km elasticity of 0.358 was used in the DRM using the point of 25% cumulative network change, which is the average over the appraisal period. The in-vehicle-time (IVT) equivalent was derived using a reverse conversion using the difference in the cumulative network reduction between the EP and franchising, the average IVT of 22.25

minutes and an IVT elasticity of -0.6. The impacts on network changes have only been applied to large operator services (Arriva Durham, Arriva Northumberland, Go North East and Stagecoach North East), and therefore, SMO services have not been impacted.

Figure 2: Cumulative network change vs Implied Network Elasticity



4.7.6. In addition, the DRM has an IVT change by service which allows the user to specify journey time improvements due to specific network changes. These inputs drive a demand response via a GJT elasticity.

4.8. Bus journey time – congestion

4.8.1. The DRM allows a separate annual trend in bus journey times, as opposed to car journey time, to reflect the impacts of congestion. The change in journey times result in a demand response in the DRM by applying the GJT elasticity.

4.8.2. The change in journey time has a direct impact on the total vehicle hours and fleet size, which are passed to the financial model to calculate operating costs. These are assumed to change in proportion to the bus journey time index, i.e. if bus journey time increases on average 5%, then PVR and vehicle hours will also increase 5%. It should be noted that this does not affect the total vehicle kilometres, which are assumed to remain fixed whilst the time increases. In other words, the average bus speed reduces due to the increased congestion.

4.8.3. Bus journey time forecasts have been obtained from the DfT's Road Traffic Projections⁶. This data predicts an 12.49% reduction in bus speeds between 2025 and 2060.

4.9. Service quality / Soft measures

4.9.1. Improvements to service quality (also known as soft measures) have been specified by entering the number of minutes of generalised journey time (GJT) saved as a result of these improvements. Improvements can be specified in the model for each year and ticket type.

4.9.2. TAG⁷ provides values in generalised minutes for the following interventions:

- Audio announcements
- CCTV at bus stops
- CCTV on buses
- Climate control
- New bus shelters
- New bus with low floor
- New interchange facilities
- On-screen displays
- RTPI (at bus stops)
- Simplified ticketing

4.9.3. The change in GJT will drive a demand response via a GJT elasticity.

4.9.4. The model forecast includes assumptions about simplified ticketing, suggesting 0.84 minutes of savings for bus users, except for concession tickets.

4.9.5. The DRM includes a measure to capture the benefits for bus passengers of being able to use any bus service, rather than being limited to a single operator, following the introduction of franchising. With franchising, all passengers will have access to all bus services, which can lead to reduced wait times, faster journeys, and a greater selection of routes and destinations. These interoperability benefits are reflected as time savings of 0.3 minutes for bus users and are applied specifically to daily and season ticket holders. This value is as a result of applying an estimated 7.6 pence per trip, and a Value of Time (VoT) of 25.8 pence per minute based on the TfGM Interoperability Study.

4.10. Direct demand factors

4.10.1. The DRM has an interface to allow specific known impacts on bus patronage to be represented. This requires the user to specify an absolute number of additional bus trips that are expected in any given year, and this is added across all ticket types and operators

⁶ "[National road traffic projections](#)". Department for Transport. 2022.

⁷ Table M 3.2.1: Segmented values of soft bus interventions.

in the same proportion, i.e. all entries in the DRM are increased or reduced by the same proportion. The user is also able to apply a percentage uplift or reduction if that is known rather than an absolute figure.

- 4.10.2. The interface is designed to account for one off events or interventions which are not modelled via any of the other levers in the model, ideally where the impact has been calculated elsewhere as part of a separate exercise.
- 4.10.3. The measures included in the direct demand factors along with their sources are detail in Table 7 below:

Table 7: Exogenous and endogenous demand drivers

Demand Drivers		Source	Enhanced Partnership	Franchising
Exogenous	Population and demographics, employment, economic growth / income, car ownership.	TEMPro NTEM	Direct demand impact applicable under both options. Exercise detailed in Model Specification Report	
	Bus time (impact of congestion)	Change in travel time: DfT National Road Traffic Projections (2022) for North East region for A roads Bus demand elasticity: -1.1 (Bus fare and journey time elasticities and diversion factors for all modes - A rapid evidence assessment, Dunkerley RAND Europe and SYSTRA, 2018)	Elasticity-based demand impact applicable under both options.	
	Competing mode: Car cost	Change in car costs: TAG Databook M4.2.2a (Car cost series: Non-London core) Bus demand cross-elasticity: 0.19 (Review and meta-analysis of inter-modal cross-elasticity evidence, Wardman, Fearnley et al, 2018)	Elasticity-based demand impact applicable under both options.	
	Competing mode: Car time	Change in travel time: DfT National Road Traffic Projections (2022) for North East region for A roads Bus demand cross-elasticity: 0.63 (Review and meta-analysis of inter-modal cross-elasticity evidence, Wardman, Fearnley et al, 2018)	Elasticity-based demand impact applicable under both options.	
	Competing mode: Metro cost	Change in Metro fare: As per bus fares increases. Bus demand cross-elasticity: 0.2 (Review and meta-analysis of inter-modal cross-elasticity evidence, Wardman, Fearnley et al, 2018)	Elasticity-based demand impact applicable under both options to bus routes within 400 metres of a Metro station where competition exists for at least 20% of the length of the bus service.	

	Competing mode: Northumberland Line	OBC Northumberland Line demand forecasts (AECOM, 2019): 564,000 (2025) and 1,160,000 (2039) PDFHv6 Table B2.7 Rail diversion factor from bus (Interurban 10%-20%)	Impact applicable under both options. Bus abstraction: -84,600 in 2025/26 rising to -174,000 in 2038/39. No further demand growth assumed after 2039.			
	Regulatory and policy baseline	ENCTS pension age	-5% reduction in demand of concessionary free tickets – phased into two years 2026/27 & 2027/28 Assumption of 20% recovery of concessionary free travel lost into adult tickets.		-5% reduction in demand of concessionary free tickets – phased into two years 2026/27 & 2027/28 Assumption of 20% recovery of concessionary free travel lost into adult tickets.	
Endogenous	Network	Exercise detailed in Model Specification Report	Year EP		Year Franchising	
			2025/26 – 2028/29	-3.0% p.a.	2025/26 – 2028/29	-3.0% p.a.
			2029/30 – 2033/34	-3.0% p.a.	2029/30 – 2033/34	0.0% p.a.
			2034/35 – 2038/39	-3.0% p.a.	2034/35 – 2038/39	0.0% p.a.
			2039/40 – 2041/42	-3.0% p.a.	2039/40 – 2041/42	-3.0% p.a.
			2042/43 – 2058/59	-2.0% p.a.	2042/43 – 2058/59	-2.0% p.a.
	Fares	Exercise detailed in Model Specification Report	Year EP		Year Franchising	
			2025/26 – 2028/29	RPI +2.0% p.a.	2025/26 – 2028/29	RPI +2.0% p.a.
			2029/30 – 2033/34	RPI +2.0% p.a.	2029/30 – 2033/34	RPI 0.0% p.a.
			2034/35 – 2038/39	RPI +2.0% p.a.	2034/35 – 2038/39	RPI 0.0% p.a.
			2039/40 – 2058/59	RPI +2.0% p.a.	2039/40 – 2058/59	RPI +2.0% p.a.

	Ticketing simplification	GJT saving: 0.3 min (TfGM Interoperability Study) Bus demand elasticity: -1.1 (Bus fare and journey time elasticities and diversion factors for all modes - A rapid evidence assessment, Dunkerley RAND Europe and SYSTRA, 2018)	N/A	Elasticity-based demand impact applicable to daily and season tickets
	Branding & marketing	Marketing and the British Bus Industry (Enoch and Potter 2002) - provides hard evidence as to the benefits of marketing bus services properly, suggesting that patronage gains of around 5-7% should be possible, even without major investment or legislative change.	N/A	Branding – +5% all demand (1.6 min of GJT) Marketing – +1% demand (0.34 min of GJT)
	Passenger information	TAG Databook M3.2.1, DfT) + further studies as provided in the Assumptions Log.	N/A	+0.5% all demand (0.17 min of GJT).
	Punctuality & reliability	Department for Transport — "The Impact of Punctuality on Bus Passenger Numbers" (2014, Atkins for DfT) The Impact of Congestion on Bus Passengers (Prof David Begg, Greener Journeys).	N/A	+1% all demand (0.34 min of GJT)
	Bus programmes	North East Bus Service Improvement Plan: Bus Priority Corridor Improvements (Tranches 1 & 2) (North East MSA) Bus Stop Improvements: Programme Level Full Business Case (North East MSA)	Bus priority: +2% uplift assumed across all demand. Bus stops: +2% uplift assumed across all demand	Bus priority: +2% assumed across all demand Bus stops: +2% uplift assumed across all demand

4.11. Northumberland line impact

4.11.1. The Northumberland Rail Line is likely to abstract bus trips from the corridor it competes in, so it has been included in the model as a demand impact. The number of bus trips lost has been estimated by multiplying the forecast number of rail trips on the line by a bus diversion factor. These trips have been deducted from the relevant services on the corridor. More detail below:

- OBC T2 demand forecasts (AECOM, 2019): 564,000 (2025) and 1,160,000 (2039)
- PDFHv6 Table B2.7 Rail diversion factor from bus (Interurban 10%-20%)
- No further demand growth after 2039

4.12. Forecasting factors summary

4.12.1. A summary of the values used for the forecasting factors for the EP, and the franchising case is presented below:

Table 8: Forecasting factors summary

Factors	Enhanced Partnership	Franchising		
Phasing for soft factors and direct demand uplifts (branding, bus schemes/ programmes, etc.)	No phasing	Year 1 2029/30 (19%) Year 2 2030/31 (53%) Year 3 2031/32 (86%) Year 4 2032/33 (100%)		
Exogenous (population, employment, car ownership)	Based on TEMPro growth factors	Based on TEMPro growth factors		
In-vehicle time	0	0		
Car costs	RPI based	RPI based		
Bus passengers with car availability	15%	15%		
Rail fare	RPI +1%	RPI + 1%		
Metro fare	RPI +1%	2025-2029: RPI +1% 2029-2039: RPI 2039-2059: RPI +2%		
Car time	8.26% reduction in speeds between 2025 and 2060	8.26% reduction in speeds between 2025 and 2060		
Bus time	12.49% reduction in speeds between 2025 and 2060	12.49% reduction in speeds between 2025 and 2060		
Fare evasion	4%	2%		
Fares	2025/26 – 2028/29: RPI +2.0% p.a 2029/30 – 2033/34: RPI +2.0% p.a 2034/35 – 2038/39: RPI +2.0% p.a 2039/40 – 2058/59: RPI +2.0% p.a	2025/26 – 2028/29: RPI +2.0% p.a 2029/30 – 2033/34: RPI +0% p.a 2034/35 – 2038/39: RPI +0% p.a 2039/40 – 2058/59: RPI +2.0% p.a		
ENCTS age cohort change	-5% reduction in demand of concessionary free tickets 20% recovery of concessionary free travel lost into adult tickets.	-5% reduction in demand of concessionary free tickets 20% recovery of concessionary free travel lost into adult tickets.		
Mileage	YearEPYearFranchising			
	2025/26 – 2028/29	-3.0% p.a.	2025/26 – 2028/29	-3.0% p.a.
	2029/30 – 2033/34	-3.0% p.a.	2029/30 – 2033/34	0.0% p.a.
	2034/35 – 2038/39	-3.0% p.a.	2034/35 – 2038/39	0.0% p.a.

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		2039/40 – 2041/42	-3.0% p.a.	2039/40 – 2041/42	-3.0% p.a.
		2042/43 – 2058/59	-2.0% p.a.	2042/43 – 2058/59	-2.0% p.a.
Soft measures	Simplified ticketing	0		0.84 minutes savings	
	Interoperability	0		0.30 minutes savings	
Direct Demand uplifts	Passenger information	0		0.5% demand uplift	
	Branding	0		5% demand uplift	
	Punctuality and reliability	0		1% demand uplift	
	Marketing	0		1% demand uplift	
	Bus programmes	Priorities 2% demand uplift Stops 2% demand uplift		Priorities 2% demand uplift Stops 2% demand uplift	
Northumberland line		Bus abstraction -84,600 (2025/26) -174,000 (from 2038/39)		Bus abstraction -84,600 (2025/26) -174,000 (from 2038/39)	

5. Model outputs

5.1. Introduction

- 5.1.1. This section presents the outputs of the DRM for both the reference case (EP) and the franchising case.
- 5.1.2. It outlines the key forecasting outputs generated by the DRM, describes how these outputs integrate with other models, and provides a summary of the forecast data for the year 2058/59.

5.2. Raw outputs

- 5.2.1. The DRM has been run using the base year data for 2024/25 alongside the forecasting inputs and levers to generate projections for both the reference case (EP) and the franchising case for the forecasting years from opening year 2029/30 to forecast year +30 years 2058/59.
- 5.2.2. For each scenario and year, the DRM forecasts:
- Bus patronage by service, ticket type and operator.
 - Concessionary patronage by service and operator.
 - Farebox revenue (2023/24) by service, ticket type and operator.
 - Total bus kilometres, bus hours and fleet size (PVR) for each operator.
- 5.2.3. The interface to the financial model includes all the above outputs and produces costs for the cost benefit tool.
- 5.2.4. The interface to the CBA model includes the difference in patronage, revenue, journey time and fare between the reference case and the franchising case to allow the tool to calculate user benefits. Scheme costs pass into the tool from the financial model.

5.3. Forecast year data summary

- 5.3.1. A summary of the forecast year data for all operators and services by scenario for 2058/59 is presented below.

Table 9: 2058/59 (FY30) data summary

Measure	Enhanced Partnership	Franchising case	Difference	% Difference
Patronage (number of trips)	47,805,026	63,490,102	15,685,076	33%
Concessionary patronage (number of trips)	19,215,364	22,936,863	3,721,499	19%
Farebox revenue (2023/24 prices)	£78,646,007	£93,627,946	14,981,939	19%
PVR (number of buses)	513	648	135	26%
Kilometres (live & dead)	45,740,000	58,400,000	12,660,000	28%
Hours (live & dead)	2,249,391	2,802,090	552,699	25%

5.3.2. The waterfall graphs below illustrate the impact of each forecasting factor on patronage for the forecast year in both the EP and franchising scenarios. The forecasting factors are:

- Exogenous factor – Population growth, car ownership levels, employment (same impact for both the EP and franchising)
- In-Vehicle Time factor – total improvement in bus journey time, e.g. due to potential bus journey-time improvement measures (nil)
- Competing factor - Car Costs – the impact of changing prices associated with car usage and hence mode shift (same impact for both the EP and franchising)
- Competing factor - Rail fare – the impact of changing prices associated with rail usage and hence mode shift (nil)
- Competing factor - Metro fare – the impact of changing prices associated with metro usage and hence mode shift
- Competing factor - Car time - the impact of changing travel time in a car (e.g. due to congestion)
- Competing factor - Bus time – the impact of changing travel time for buses (e.g. due to congestion)
- Fare factor – impact of fares increases on passengers who choose another mode or do not travel.
- Mileage – impact of changing the network size on patronage.

- Soft factors – currently - interoperability time savings, simplified ticketing
- Direct Demand Uplifts including branding / reliability / passenger information – impact of improved customer experience on passenger numbers
- Northumberland Line – impact of the Northumberland line (same impact for both the EP and franchising)

Figure 3: Waterfall graph – Enhanced Partnership patronage

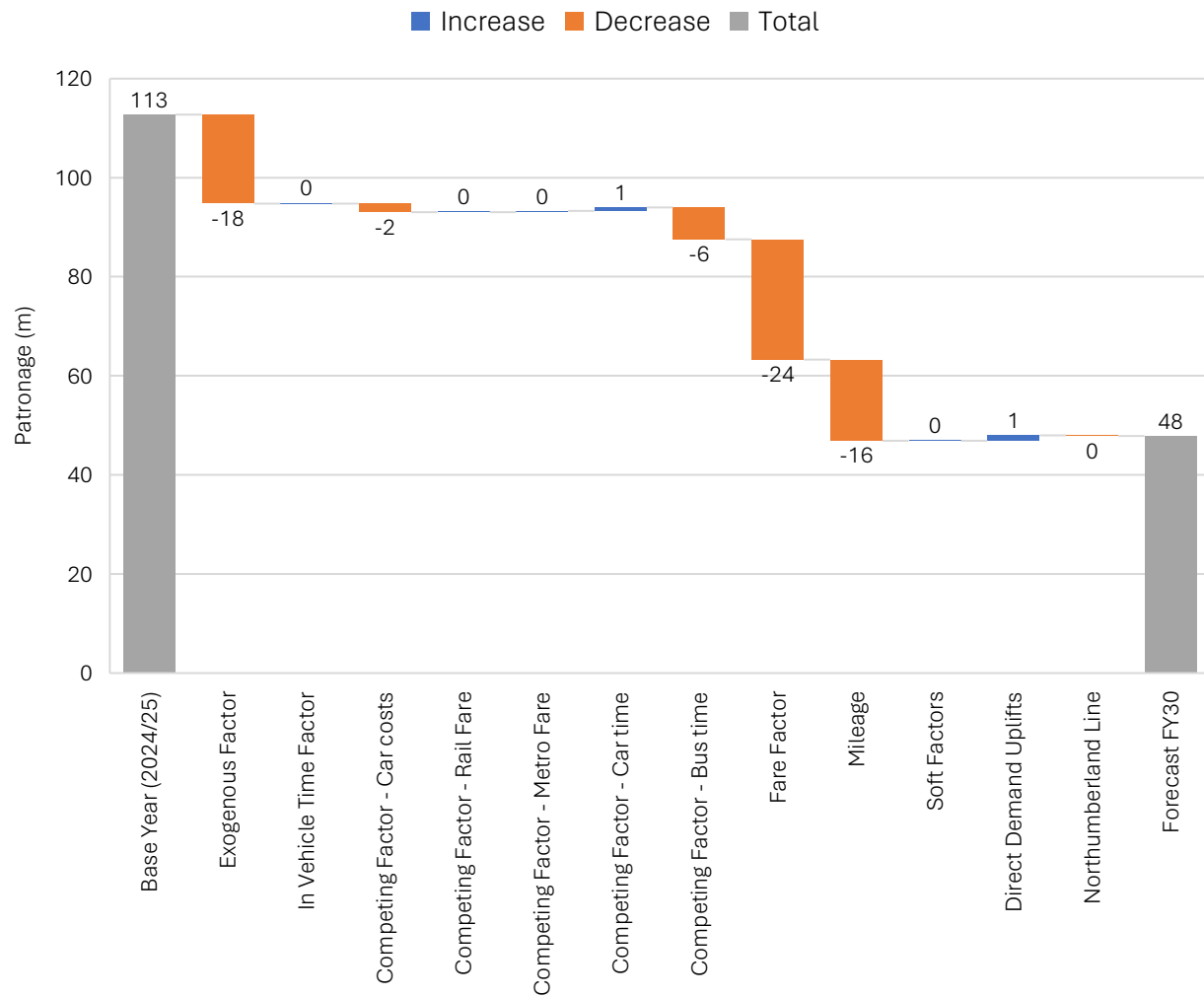
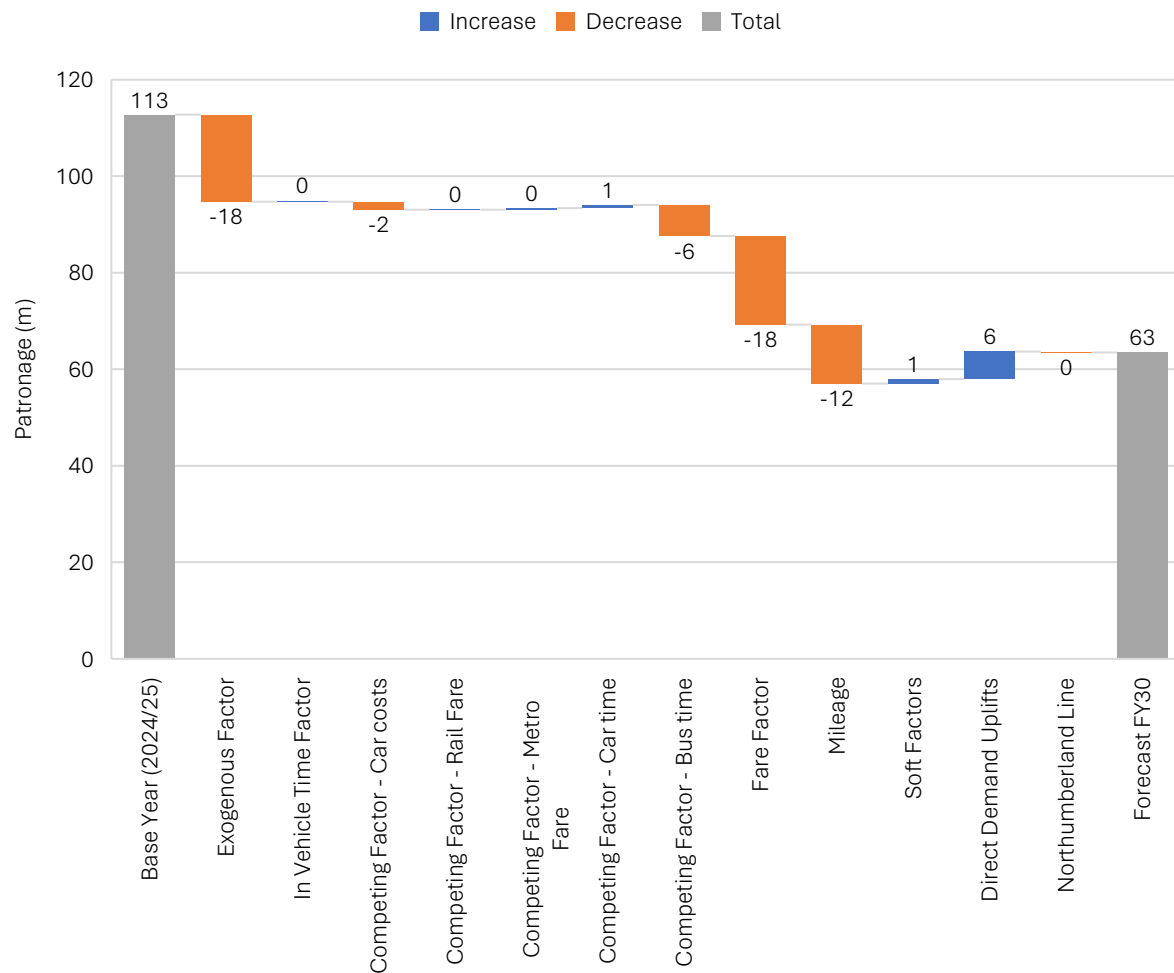


Figure 4: Waterfall graph – Franchising case patronage



6. Quality assurance

- 6.1.1. The quality assurance undertaken on the DRM and associated data inputs is documented in the separate Quality Assurance Report.

Appendix 1 – Elasticities

Location type	Ticket type	Type	Factor	Demand elasticity
Any	Adult Single	Endogenous	Fare	-0.800
Any	Adult Daily MSA Wide	Endogenous	Fare	-0.800
Any	Adult Daily Local	Endogenous	Fare	-0.800
Any	Adult Return	Endogenous	Fare	-0.800
Any	Adult Daily Multi-op	Endogenous	Fare	-0.650
Any	Adult Daily Op own	Endogenous	Fare	-0.650
Urban	Scholars	Endogenous	Fare	-0.650
Semi-rural	Scholars	Endogenous	Fare	-0.750
Rural	Scholars	Endogenous	Fare	-0.850
Urban	Adult Weekly	Endogenous	Fare	-0.650
Semi-rural	Adult Weekly	Endogenous	Fare	-0.750
Rural	Adult Weekly	Endogenous	Fare	-0.850
Any	Child Daily MSA Wide	Endogenous	Fare	-0.800
Urban	Concessions Free	Endogenous	Fare	0.000
Semi-rural	Concessions Free	Endogenous	Fare	0.000
Rural	Concessions Free	Endogenous	Fare	0.000
Any	Other	Endogenous	Fare	-0.800
Any	Child Daily Local	Endogenous	Fare	-0.800
Any	Child Return	Endogenous	Fare	-0.800
Any	Child Single	Endogenous	Fare	-0.800
Any	Child Daily Op own	Endogenous	Fare	-0.800
Any	Child Daily Multi-op	Endogenous	Fare	-0.800
Urban	Concessions Payable	Endogenous	Fare	0.000
Semi-rural	Concessions Payable	Endogenous	Fare	0.000

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Rural	Concessions Payable	Endogenous	Fare	0.000
Urban	Adult Seasonal	Endogenous	Fare	-0.650
Semi-rural	Adult Seasonal	Endogenous	Fare	-0.750
Rural	Adult Seasonal	Endogenous	Fare	-0.850
Any	Young Person	Endogenous	Fare	-0.800
Any	Adult Daily Op own	Endogenous	IVT	-0.600
Any	Adult Daily Multi-op	Endogenous	IVT	-0.600
Any	Adult Return	Endogenous	IVT	-0.600
Any	Adult Seasonal	Endogenous	IVT	-0.650
Any	Adult Single	Endogenous	IVT	-0.600
Any	Adult Weekly	Endogenous	IVT	-0.650
Any	Child Daily Op own	Endogenous	IVT	-0.600
Any	Child Daily Multi-op	Endogenous	IVT	-0.600
Any	Child Return	Endogenous	IVT	-0.600
Any	Child Single	Endogenous	IVT	-0.600
Any	Concessions Free	Endogenous	IVT	-0.550
Any	Concessions Payable	Endogenous	IVT	-0.550
Any	Other	Endogenous	IVT	-0.600
Any	Young Person	Endogenous	IVT	-0.600
Any	Scholars	Endogenous	IVT	-0.600
Urban	Any	Competing Modes	Car Costs	0.190
Semi-rural	Any	Competing Modes	Car Costs	0.190
Rural	Any	Competing Modes	Car Costs	0.190
Urban	Any	Competing Modes	Car time	0.630
Semi-rural	Any	Competing Modes	Car time	0.630
Rural	Any	Competing Modes	Car time	0.630
Urban	Any	Competing Modes	Rail fare	0.280

Appendix D - Model Specification Report - Economic Case

March 2026

Semi-rural	Any	Competing Modes	Rail fare	0.280
Rural	Any	Competing Modes	Rail fare	0.000
Urban	Any	Competing Modes	Metro fare	0.200
Semi-rural	Any	Competing Modes	Metro fare	0.200
Rural	Any	Competing Modes	Metro fare	0.000
Any	Any	Mileage	Patronage	0.358
Any	Any	Mileage	Patronage	0.358
Urban	Any	Competing Modes	Rail fare	0.280
Semi-rural	Any	Competing Modes	Rail fare	0.280
Rural	Any	Competing Modes	Rail fare	0.000
Any	Any	Mileage	Patronage	0.358
Any	Any	Mileage	Patronage	0.358

Franchising Scheme Assessment:

Appendix E – Summary of commercial responsibilities

March 2026

Summary comparison of commercial responsibilities under the EP and franchising

Item	EP	Franchising
Asset strategy		
Vehicle provision and specification	Operators provide vehicles. Nexus/DCC/NCC specify vehicle standards for secured services	Assumed to be provided by operators with an RVM, to an 'industry standard' specification. Further testing and analysis will take place to finalise approach
Depot provision	Operators provide depot facilities for all services	The MSA/DB leases strategic depots to operators for large-sized contracts. Operators provide depots for small contracts
Bus stations, stops and shelters	Stations, stops and shelters are owned by a variety of private and public sector organisations	Stations, stops and shelters are owned by a variety of private and public sector organisations
ITS	Most ITS owned by operators and procured to their own specifications, but public sector owns AVL chips	DB sets detailed specification for passenger-facing ITS and output-based specification for other systems. Some ITS owned by the DB.
Passenger experience		
Fares and ticketing	Operators determine fares and ticketing products independently. MSA can subsidise / introduce new products, subject to commercial negotiation	Single simplified fares and ticketing offer across the franchised network; fare levels are set by Cabinet
Branding	Operators brand services with their own liveries; additional 'Travel North East' logo present as one logo among many	Single brand applied to bus services as part of the Angel Network, operators may display logo at specified places on vehicles
Marketing	Operators market their own services – some network-wide promotion through the EP	DB markets network as a whole, with potential operator input
Timetabling	Operators design timetables for commercial services	Significant DB involvement in timetables – either by setting parameters for operators or specifying full timetables.
Passenger Information	Operators have own websites and apps, with plans for a supplemental Nexus website and app. Nexus/DCC/NCC provide paper timetables	DB owns passenger information, providing a single application and website plus unified branding for paper timetables

Network		
Network planning and design	Size and shape of the commercial network ultimately determined by operators; Nexus/DCC/NCC can procure unprofitable services as secured services	DB determines the size and shape of the network, based on the funding allocation agreed by Cabinet. Enhanced opportunities for cross-subsidy and community input into decisions
Bus priority infrastructure	Highways authorities plan and install priority infrastructure where there is a will and need to do so; all schemes in delivery plan assumed to be delivered	Highways authorities plan and install priority infrastructure where there is a will and need to do so; all schemes in delivery plan assumed to be delivered
Risk allocation		
Revenue risk	Operators take direct revenue risk, aiming to reach target profit margins. Public sector indirectly exposed through pressure to secure services	MSA ultimately holds revenue risk, which is managed by the DB
Cost risk	Operators responsible for cost risk – indexation mechanisms included in some, but not all, secured service contracts	Operators responsible for most cost risk. DB responsible for inflation risk with indexation mechanisms in contracts
Safety risk	Operators responsible for safety of vehicles and passengers	Operators operationally responsible for safety – DB strategic oversight for anti-social behaviour and violence against women and girls

Franchising Scheme Assessment:

Appendix F – Market testing summary report

March 2026

1. Overview

1.1. Purpose

1.1.1. On 8 August 2024, the North East MSA (hereafter referred to as the MSA) published notice of its intention to prepare an assessment of a proposed bus franchising scheme (FS) in accordance with section 123B and section 123C(4) of the Transport Act 2000. This assessment includes a robust market testing exercise in accordance with legislation and guidance and this paper sets out the steps the MSA has taken in regards to market testing and the outcomes from this engagement.

1.1.2. Under the applicable franchising statutory guidance¹, an authority must have regard to the following requirements:

1.1.2.1. The authority should explain - *“what market testing the authority has undertaken - particularly in relation to the competitiveness of the procurement process” and “the overall confidence the authority has in being able to secure initial local service contracts which deliver the outcomes and outputs intended within the financial and commercial terms envisaged in the assessment and why it has reached this conclusion”.*

1.1.2.2. This guidance links to the requirement under Section 123B(3)(f) of the 2000 Act *“The assessment must also include consideration of— (f)the extent to which the authority or authorities are likely to be able to secure that local services are operated under local service contracts.”*

1.1.3. Market testing during the FSA development has therefore assisted the authority in gathering robust evidence of these requirements, in particular by:

- Demonstrating the market for operators competitively tendering for bus franchising contracts; and
- Testing the key principles of the commercial model with operators so that operator views could be fully taken into account in developing the final commercial model reflected in the FSA.

1.2. Document structure

1.2.1. This report is structured as follows:

- Section 1. Overview
- Section 2. Results
- Section 3. Summary of Market Testing

1.3. Overview of the exercise

¹ [Setting up a bus franchising scheme](#). Department for Transport. 2026.

- 1.3.1. Over October and November 2025, the MSA, conducted a market testing exercise in relation to the future delivery of franchised bus services in the North East MSA area. This paper sets out a summary of the materials shared, the responses from operators and the conclusions made as a result of responses received.
- 1.3.2. Operators were emailed over the course of October to inform them of the upcoming sessions and materials before these were shared at the dates provided in
- 1.3.3. Table 1. Operators were invited to two sessions held over Microsoft Teams and were provided with (1) a briefing note which set out the commercial parameters and (2) a questionnaire to provide feedback on the commercial model.

Table 1: Key market testing dates

Issuance of materials	31 st October 2025
Briefing sessions	30 th October 2025 12:00-13:00 and 4 th November 2025 16:00-17:00
1-1 meetings	7 th November 2025 – 28 th November 2025
Questionnaire response period	31 st October 2025 – 14 th November 2025

- 1.3.4. Materials shared with operators included:
- A note which set out the MSA's current proposed approach to how a franchise model may be structured in the North East, that was intended to assist operators to fill in the accompanying questionnaire.
 - A set of slides which was presented at the briefing sessions and summarised the note.
 - A questionnaire for the operators with separate sections for small and medium sized packages.

1.4. Engagement

- 1.4.1. The levels of engagement during the market testing process is presented in Table 2 below. An incumbent operator is defined as an organisation that operates local bus services within the MSA geography (whether these are commercial or secured services).

Table 2: Engagement Statistics

Status	Contacted	Briefing session attendees	1-1 sessions	Questionnaire responses
Incumbent	32 organisations	16 representatives, 11 organisations	4	5
Non incumbent	17 organisations	16 representatives, 10 organisations	5	7
Not an operator	3	2 representatives, 2 organisations	1	1
Total	52 organisations	34 representatives, 23 organisations	10	13

1.4.2. Whilst the same opportunities have been offered to all operators, engagement levels amongst SMOs has been lower than the engagement with larger operators. This can be partly explained by non-incumbent large operators participating in this exercise, whilst SMOs are seen as largely incumbent.

1.4.3. 29 SMOs were contacted, of which 7 attended a briefing session, 3 submitted a questionnaire and 2 requested a 1-1 session.

2. Results

2.1. Introduction

- 2.1.1. In this section of the report, each element of the commercial model will be presented with the MSA's initial proposed position, feedback from the operators and the MSA's concluding position.
- 2.1.2. The questionnaire was split between small and medium packages with variations to the questions asked between small and medium package size. Operators were asked to answer all sections they were interested in.
- 2.1.3. All elements of the commercial case were presented, however questions not asked on all elements such as bus stops & shelters, passenger information and safety risk. These elements were shared to ensure that operators had full oversight of the commercial model however it was not considered pertinent to ask specific questions on these aspects. The MSA wanted to ensure that the length of the questionnaire was suitable and as operators were able to request 1-1 session to discuss anything and there were open questions in the questionnaire, should any operator have an issue with the aforementioned elements they had the facilities to do so. As no operators did raise any queries on these elements, it has been assumed that operators engaged with have no comments regarding these specific elements of the commercial model.

2.2. Procurement

Procurement Strategy

Proposition shared with operators

- 2.2.1. The proposed approach is to use "Medium"-sized packages which can be served by grouping 2 or more 'strategic' depots, plus "small" packages targeted at SMOs. There are currently 5 groupings of depots proposed resulting in 5 medium-sized packages with a PVR between approximately 110 and 190.

Operator Response

- 2.2.2. There were no objections to the MSA's proposed approach. The MSA received feedback on specifics to consider, namely lessons learned from other Franchising schemes.
- Be mindful of other MSA's procurement windows,
 - Keep it simple,
 - Be clear what asking for

MSA Conclusion

- 2.2.3. The MSA does not propose any changes to the current position on the procurement strategy but will refer to the detailed feedback should the decision to franchise be made.

Packaging Strategy

Proposition shared with operators

2.2.4. The MSA is proposing medium sized packages with a PVR between approximately 110 and 190 and small packages each with a PVR between 1 and 13. This position was informed by outputs of market testing exercises in other MSAs, which indicated that a minimum PVR of 100 is required for packages to be attractive for large operators. The MSA is considering the possibility of permitting the option of ‘group bids’ - being able to bid for multiple services as one bid, alongside individual bids – for small packages.

2.2.5. Operators were asked what size they would interested in for small package sizes (1-5, 6-10, 11-15, 16-20, 21-29 busses) and for medium packages (51-100, 101-150, 151-200, 201+). This was to gain a deeper understanding of what package sizes would be attractive.

Operator Response

2.2.6. There was interest in packages of all size with most operators stating they would be interested packages of all sizes (within their chosen small or medium preference).

2.2.7. Some non-incumbent operators interested in the medium packages stated that they would be more interested in the larger packages as it is easier to be competitive on price. This is owing to them being a new entrant, either to the North East or UK bus market.

2.2.8. All who are interested in small would be interested in group bids with no further specific detail provided.

2.2.9. There was some confusion over the naming, as what the North East MSA has referred to as “medium” packages other MSAs have referred to as “large”.

MSA Conclusion

2.2.10. The MSA has taken the decision to rename “medium” packages to “large” to avoid confusion, the “small” packages will not change. The MSA does not propose other changes to the current position on, or size of, packages; and further feedback received will be considered when determining the specific packages in future. All subsequent references to package sizes will use the terminology “large” and “small”.

Transition Strategy

Proposition shared with operators

2.2.11. With respect to the timescales, an accelerated implementation with three tranches of procurement is preferred. The programme envisages the decision on whether to make a franchising scheme being taken in early 2027. It then provides for 2 years 8 months for mobilisation, transition and implementation with the services in the first tranche to launch in September 2029. This would then provide for two further tranches to launch at approximately annual intervals, in September 2030 and September 2031.

Operator Response

2.2.12. No operators objected to the proposals, however it was noted by a small number of operators that due to the increase in MSAs moving towards franchising, therefore there is a risk that procurement timescales overlap, and the operators may become stretched. The MSA was recommended to consider other MSAs timescales to ensure the MSA draws as much interest from the market as possible

MSA Conclusion

2.2.13. The MSA does not propose any changes to the current position on the transition strategy and will consider the feedback mentioned above.

Phasing Strategy

Proposition shared with operators

2.2.14. The phasing approach for reprocurement of contracts after the initial round of contracts are in place envisages staggered procurement due to workforce and other resource requirements, this will target long-term deliverability and achieving high quality procurement standards. The initial contracts will be shorter than the steady-state contracts, following the initial procurement, the long term state will be roughly one round of procurement per year

Operator Response

2.2.15. Many operators supported the MSA's approach to annual intervals between procurement. Operators stated that the approach is in line with other MSAs, is reasonable and has been proven to draw interest from the market. Staging the contracts was described as 'desirable' by one operator. Some operators did not comment on the transition strategy and no operators objected to the proposals.

MSA Conclusion

2.2.16. The MSA does not propose any changes to the current position on the phasing strategy.

Contract Length

Proposition shared with operators

2.2.17. Medium term (roughly 7-8 year) contracts preferred for both large and small packages as a maximum length. This is so the guaranteed term is shorter, e.g. 5-6 years, subject to the outcome of this market testing and subsequent market engagement. This may differ for the initial round of contracts.

Operator Response

2.2.18. Operators were happy with the proposal with some operators stating a preference for 7-8 years, typically a 5-6 year core term with 1-2 year extensions. This is due to reduced cost and increased security for the operators and is in line with existing terms across the UK bus market.

2.2.19. Some operators noted extensions could be a performance-based incentive.

MSA Conclusion

2.2.20. The MSA does not propose any changes to the current position on the contract lengths or extension. Performance-based extensions would mean that extensions are not exercisable at the MSA's sole discretion, conflicting with the ability to plan a regular cycle of re-procurement exercises as described above.

2.3. Assets

Depots & Charging/Fuelling Infrastructure

Proposition shared with operators

2.3.1. It is proposed that the public sector will take ownership of strategic depots, with operators responsible for day-to-day management and maintenance of strategic depot sites. The scope of what falls within "day-to-day" maintenance and its specification is being carefully considered. These will serve the large sized packages.

2.3.2. Smaller packages will be served by depots which the operators will have to provide.

Operator Response

2.3.3. The majority of operators agreed with this proposal, however some of those interested in small packages recommending that the MSA consider the use of strategic depots for smaller operators.

MSA Conclusion

2.3.4. The MSA does not propose any changes to the current position on depot ownership and will consider the wider feedback that was provided surrounding day to day maintenance and the use of strategic depots.

Vehicles Specifications and Ownership

Proposition shared with operators

2.3.5. The MSA expects operators to provide vehicles to a specification set by the MSA.

Operator Response

2.3.6. Throughout the Market Testing, the MSA received feedback from all non-incumbent operators that they would prefer an authority owned approach, however with a Residual Value Mechanism (RVM) in place was an acceptable second preference. Many operators stated that they would struggle to raise the capital necessary to purchase fleet to enter the North East bus market and that the risks associated with this (lack of protection against stranded assets) would raise their bid price.

MSA Conclusion

2.3.7. Following the market testing, the MSA engaged with legal consultants and specialist technical advisors to discuss the complexities surrounding changing the position on fleet.

2.3.8. A final position will be determined based on this additional analysis, but an assumed position is necessary for the purposes of the FSA. As described above, operators are unlikely to accept an operator-ownership model without an RVM but – while they would prefer DB ownership – see operator-ownership with an RVM as a viable option. This approach retains the principles of the initially preferred operator-ownership approach. The FSA therefore assumes operators provide vehicles with an RVM in place.

ITS and data

Proposition shared with operators

2.3.9. The MSA will take a hybrid, system-based approach to specification (and possibly ownership) of different ITS systems.

2.3.10. A system-by-system review has been carried out and is summarised below:

MSA Ownership:

- Automatic vehicle location (AVL): On-board systems that monitor and report bus locations in real-time, supporting priority infrastructure, service management and passenger information.

Operator Ownership:

- Electronic Ticket Machines (ETMs): A system that issues, validate and record tickets and smartcard payments. In order to deliver the Fares and Ticketing objectives, the MSA would provide a detailed specification.
- Audio-visual announcements (AVA): Provides on-board next-stop (and potentially other information) through audio messages and display screens.
- Driver communications: Enables contact between drivers and control centres for operational updates and emergency support.
- Wi-Fi: Provides on-board internet access for passengers.
- Driver monitoring software: Tracks driver behaviour (such as speed and braking) to improve safety, efficiency and passenger comfort.

Operator Response

2.3.11. For ETMs, there was a clear market preference for public ownership over detailed specification, this is in line with other areas who have directly procured the machines to ensure integration. The rationale provided by operators was that as the MSA will control the fares and tickets sold, the ownership of the ETMs are best placed with the MSA. The MSA would have to specify the ETM which may result in a stranded asset for the operator. This approach is also in line with the approach taken by other MSAs.

MSA Conclusion

2.3.12. As a result of the feedback and further consideration, the MSA has changed their position and the MSA is assumed to own the ETMs. This will hold a similar cost implication as machines which don't integrate would need to be replaced with costs assumed to be

passed on via service fees. Further consideration of the full implications of DB ownership, including contract management and risk, will need consideration for transition and implementation, as the previous assumption was that ETMs will be owned and procured by the DB to its specification.

Bus stations, stops & shelters

Proposition shared with operators

2.3.13. The current state model is preferred (where bus stations are typically owned and managed by the respective local authority (or Nexus) and shelters are funded and maintained by the respective local authority or parish council), with potential for MSA acquisition of operator-owned stations.

Operator Response

2.3.14. The questionnaire did not contain any questions on bus stations, stops & shelters and it was not raised by operators throughout the market testing exercise.

MSA Conclusion

2.3.15. The MSA does not propose any changes to the current position on bus stations, stops & shelters.

2.4. Commercial Parameters

Fares and Ticketing

Proposition shared with operators

2.4.1. The MSA will determine the products to be sold across the network and propose prices for such products, subject to approval by the MSA Cabinet due to the relationship between fares and public finances.

Operator Response

2.4.2. Operators agreed with the MSA taking ownership of setting the fares and the ticketing options. Some operators stated nothing further than agreeing with the position, the remaining operators provided rationale for their agreement. This rationale was broadly consistent between operators and included reasons such as this being the position taken by other MSAs, the MSA is taking the revenue risk so therefore should take ownership of fares and this allows the MSA to manage multi-modal and cross-border fare schemes to deliver a better customer experience. Some operators suggested that the MSA should utilise the operators experience in this area when setting fares to avoid issues such as the drivers having to carry an excess of 5p or 10p coins.

MSA Conclusion

2.4.3. The MSA does not propose any changes to the current position on fares and ticketing and will draw upon the operator's experience and feedback as outlined in Table 3.

Brand

Proposition shared with operators

- 2.4.4. The Local Transport Plan commits to implementing a unified brand to support an integrated transport network and improve passenger outcomes. As such, responsibility sits most appropriately with public sector. Therefore, there will be a single public sector specified core brand with operator sub-brand identity (e.g. operator logo).

Operator Response

- 2.4.5. Operators agreed that branding sits best with the MSA, some operators provided feedback that simple branding (limited colours and simple logos) with respect to the livery of the buses is preferred due to ease of upkeep and reduced costs.

MSA Conclusion

- 2.4.6. The MSA does not propose any changes to the current position on branding.

Marketing

Proposition shared with operators

- 2.4.7. The MSA will own the core marketing, but with certain / targeted input from operators.

Operator Response

- 2.4.8. The questionnaire did not contain any questions on marketing, and it was not raised by operators throughout the market testing exercise.

MSA Conclusion

- 2.4.9. The MSA does not propose any changes to the current position on marketing.

Timetable

Proposition shared with operators

- 2.4.10. The MSA will provide parameters for the timetable (inc. first/last, relevant interchanges / timing point). Operators will then develop the timetable in response, with MSA signing these off.

Operator Response

- 2.4.11. Some operators have indicated a preference for delivery body (DB) provision of timetable for large packages as well as small to allow accurate evaluation of bids, with responses largely equally split on this point. The majority would like some input into timetabling.
- 2.4.12. Operators cited their experience at building timetables, their knowledge in the area with respect to the network, punctuality and reliability and where improvements can be made. Some operators also stated that allowing the operator the ability to produce the time table through the procurement process will help differentiate between operators. However, it is

worth noting that some operators encouraged the MSA not to make drastic changes to the network as it will result in difficulties measuring the performance.

MSA Conclusion

2.4.13. This is expected to have a minor impact on the assessment given the relatively minor financial implication of changing this position.

2.4.14. Further consideration is therefore required to determine and define the approach taken, but any change is assumed to have a minor impact on the assessment as the financial implication would be limited.

Network Planning and Design

Proposition shared with operators

2.4.15. The MSA will lead on network planning and design with operator input. Allowing operator input through the contract change procedure is being considered.

Operator Response

2.4.16. The questionnaire did not contain any questions on network planning and design, however some operators raised concerns that if there is too much change to the network at the start of franchising it poses risks surrounding the ability to measure performance and uncertainty around what is feasible during the bidding process.

MSA Conclusion

2.4.17. The MSA does not propose any changes to the current position on network planning and design as the current position will ensure that the MSA can utilise the operators experience and consider the feedback provided.

People/ Human Resources (HR)

Proposition shared with operators

2.4.18. The MSA will provide operators with a high-level specification as part of the tendering process which will specify a small number of specific roles, primarily around how the operator interfaces with the DB.

2.4.19. Operators are expected to have expertise in stipulating staffing models appropriate in response to the policy / service demands. Importance recognised of ensuring the contract contains robust rights for the MSA to enforce performance and address the risk of under-staffing by operators.

2.4.20. This will therefore be a Policy-based specification, with operators responsible for hiring the number of staff needed to comply, plus potential to specify certain requirements for key roles. The specification will need to be proportional to the contract size, e.g. reduced requirements for SMOs.

Operator Response

2.4.21. The questionnaire did not contain any questions on people and human resources. Whilst some operators did raise the topic in the 1-1 sessions, there were no concerns raised about the proposed approach following the discussions and reassurance from the MSA that TUPE arrangements will be in place.

MSA Conclusion

2.4.22. The MSA does not propose any changes to the current position on people and HR.

Passenger Information

Proposition shared with operators

2.4.23. Customers across the region having a single source of information is considered critical to delivering the best passenger experience. Therefore, all passenger information across the bus network will be provided by the MSA. However, it is recognised that inclusion of operator obligations in franchise agreements may be required should operators have a role in the delivery of this information. Operators' cooperation will be required for lost property and day-to-day operational queries.

Operator Response

2.4.24. The questionnaire did not contain any questions on passenger information, and it was not raised by operators throughout the market testing exercise.

MSA Conclusion

2.4.25. The MSA does not propose any changes to the current position on passenger information.

2.5. Commercial Risk Allocation

Revenue and patronage risk

Proposition shared with operators

2.5.1. It is proposed that the MSA is to hold key revenue levers such as marketing, fares and ticketing, and branding. As such, it is appropriate that revenue risk remains with the public sector with the MSA taking the revenue/patronage risk.

Operator Response

2.5.2. Operators agreed that the MSA is best placed to own this risk as this is the established best practice as seen in London and Manchester. Some operators have recommended that the MSA should leverage the operators experience in this field where possible.

MSA Conclusion

2.5.3. The MSA does not propose any changes to the current position on revenue and patronage risk.

Operational & Service Risk (Performance Regime)

Proposition shared with operators

2.5.4. Incentivising Operational Performance is considered critical given passenger priorities are that the network is consistently punctual and reliable. Therefore, there will be an operational performance regime with financial incentives.

Operator Response

2.5.5. Operators agreed with the use of a performance regime and provided feedback and lessons learned from other franchising models.

MSA Conclusion

2.5.6. The MSA does not propose any changes to the current position on the performance regime and will consider the feedback received during the development of the regime.

Safety Risk

Proposition shared with operators

2.5.7. Safety is considered to be a core operator responsibility, with little precedent for transfer to the public sector. MSA oversight of operator safety will not duplicate the work of government agencies responsible for monitoring and enforcing legislative compliance. It also does not absolve operators of their responsibility.

2.5.8. Operators would remain responsible for the day-to-day management of anti-social behaviour/security. This would include attendance at the Safer Transport Group and provision of data/intelligence.

Operator Response

2.5.9. The questionnaire did not contain any questions on safety, and it was not raised by operators throughout the market testing exercise.

MSA Conclusion

2.5.10. The MSA does not propose any changes to the current position on safety.

Cost Risk

Proposition shared with operators

2.5.11. This will be an operator risk as operators are best able to manage and control operational costs, with the exception of inflation. The MSA will take the indexation risk.

Operator Response

2.5.12. Operators agreed that the operators are best placed to own the cost risk and this was the approach they expected given the other MSAs position. Some operators did provide further feedback such as proposing that the MSA takes inflation risk using indices such as AWE, DERV, and CPI.

MSA Conclusion

2.5.13. The MSA does not propose any changes to the current position on cost risk.

3. Summary of Market Testing

- 3.1.1. In summary, the market testing exercise was an invaluable exercise whereby the MSA has gained a range of insights and feedback that will be used to ensure a robust and marketable franchising scheme. On the whole, the commercial case was well received, with positive support for franchising in the North East.
- 3.1.2. Three elements of the commercial case were raised by operators as areas where a different approach was suggested by some participants. The changes to timetable and ticket machines are assumed to have a minor impact on the assessment given the relatively minor financial implication of changing these positions. The initial assumption on fleet has been revised to incorporate an RVM in response to market testing, which is assessed as not having a significant impact on the assessment.
- 3.1.3. Each element of the commercial model which was presented to operators for comment during the market testing has been presented in Table 3 below.

Table 3: Summary of changes and feedback

Element of commercial model	Changes proposed (yes/no)	Detailed feedback received for further consideration
Procurement Strategy	No	Yes
Packaging Strategy	Yes	Yes
Transition Strategy	No	Yes
Phasing Strategy	No	Yes
Contract Length	No	No
Depots & Charging/Fuelling Infrastructure	No	Yes
Vehicles Specifications and Ownership	Yes	Yes
ITS and data	Yes	Yes
Bus stations, stops & shelters	No	No
Fares and Ticketing	No	Yes
Brand	No	No
Marketing	No	No
Timetable	Yes	Yes
Network Planning & Design	No	Yes
People/ Human Resources (HR)	No	No

Element of commercial model	Changes proposed (yes/no)	Detailed feedback received for further consideration
Passenger Information	No	No
Revenue and patronage risk	No	No
Operational & Service Risk (Performance Regime)	No	Yes
Safety Risk	No	No
Cost Risk	No	No

3.1.4. Following the high levels of engagement and positive and constructive feedback during market testing exercise, the MSA has confidence that there would be a competitive market for franchising in the North East. Furthermore, the MSA has confidence that it will be possible to secure local service contracts which deliver the outcomes and outputs intended within the financial and commercial terms envisaged in the assessment.

Franchising Scheme Assessment:

Appendix G – Income and expenditure tables

March 2026

Current EP income (nominal)

Income (£million)	FY24/ 25	FY25/ 26	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY34/ 35	FY35/ 36	FY36/ 37	FY37/ 38	FY38/ 39	FY39/ 40	FY40/ 41	FY41/ 42	FY42/ 43	FY43/ 44	FY44/ 45	FY45/ 46	FY46/ 47	FY47/ 48	FY48/ 49	FY49/ 50	FY50/ 51	FY51/ 52	FY52/ 53	FY53/ 54	FY54/ 55	FY55/ 56	FY56/ 57	FY57/ 58	FY58/ 59
Farebox Revenue	116.1	118.3	120.5	122.7	124.7	126.7	128.9	131.0	132.2	132.8	133.4	133.9	134.4	134.9	135.3	135.9	137.1	138.3	139.4	140.6	141.7	143.1	144.7	146.2	147.8	149.4	151.4	153.5	155.6	157.7	159.9	162.0	164.2	166.4	168.7
ENCTS Revenue	49.5	51.3	52.4	53.5	54.4	55.4	57.3	59.3	60.9	62.3	63.7	65.1	66.5	67.9	69.4	70.9	72.9	74.9	77.0	79.1	81.2	83.5	86.0	88.6	91.2	93.9	96.9	100.0	103.2	106.5	109.9	113.4	117.1	120.8	124.6
DfT Grant Income	12.4	12.8	13.0	13.3	13.6	13.8	14.1	14.4	14.7	15.0	15.3	15.6	15.9	16.2	16.5	16.9	17.2	17.5	17.9	18.3	18.6	19.0	19.4	19.8	20.2	20.6	21.0	21.4	21.8	22.2	22.7	23.1	23.6	24.1	24.6
Other Revenue	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.4
BSIP & LA Secured Services Subsidy	50.4	52.5	54.1	55.7	57.3	58.9	60.1	61.3	62.5	63.8	65.0	66.3	67.7	69.0	70.4	71.8	73.2	74.7	76.2	77.7	79.3	80.9	82.5	84.1	85.8	87.5	89.3	91.1	92.9	94.7	96.6	98.6	100.5	102.6	104.6
Total	229.6	236.1	241.3	246.5	251.3	256.1	261.7	267.4	271.7	275.3	278.8	282.4	286.0	289.6	293.2	297.1	302.1	307.1	312.2	317.4	322.6	328.3	334.4	340.6	346.9	353.4	360.6	368.0	375.6	383.4	391.3	399.4	407.7	416.2	424.9

All figures are in nominal prices unless stated otherwise.

Current EP expenditure (nominal)

Expenditure (£million)	FY24/ 25	FY25/ 26	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY34/ 35	FY35/ 36	FY36/ 37	FY37/ 38	FY38/ 39	FY39/ 40	FY40/ 41	FY41/ 42	FY42/ 43	FY43/ 44	FY44/ 45	FY45/ 46	FY46/ 47	FY47/ 48	FY48/ 49	FY49/ 50	FY50/ 51	FY51/ 52	FY52/ 53	FY53/ 54	FY54/ 55	FY55/ 56	FY56/ 57	FY57/ 58	FY58/ 59
Operator Costs	231.2	237.0	240.1	243.5	246.6	250.0	252.5	254.8	257.4	260.1	262.9	265.8	268.6	271.6	274.8	278.0	281.4	284.7	289.8	295.0	300.2	305.6	311.1	316.7	322.5	328.4	334.5	340.6	347.0	353.6	360.2	367.0	374.1	381.2	388.5
BSOG	10.7	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.8	10.9	10.9	10.9	10.9	10.9	10.9	11.0	11.0	11.0	11.1	11.3	11.4	11.5	11.6	11.8	11.9	12.0	12.2	12.3	12.4	12.6	12.7	12.9	13.0	13.2	13.4
Net Operator Costs	220.5	226.2	229.3	232.7	235.8	239.2	241.6	244.0	246.6	249.3	252.0	254.9	257.7	260.7	263.9	267.1	270.4	273.7	278.7	283.7	288.8	294.1	299.5	305.0	310.7	316.3	322.3	328.3	334.5	341.0	347.5	354.1	361.1	368.0	375.2
CA Costs - paid as incurred	-	-	1.3	1.3	1.1	1.1	1.2	1.2	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	1.9	2.0	2.0
Total Costs	220.5	226.2	230.6	234.0	237.0	240.3	242.8	245.2	247.8	250.5	253.3	256.2	259.0	262.0	265.2	268.5	271.8	275.2	280.1	285.2	290.3	295.6	301.1	306.6	312.3	318.0	324.0	330.1	336.3	342.8	349.3	356.0	363.0	370.0	377.2

Franchising income (nominal)

Income (£million)	FY24/ 25	FY25/ 26	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/3 4	FY34/ 35	FY35/ 36	FY36/ 37	FY37/ 38	FY38/ 39	FY39/ 40	FY40/ 41	FY41/ 42	FY42/ 43	FY43/ 44	FY44/ 45	FY45/ 46	FY46/ 47	FY47/ 48	FY48/ 49	FY49/ 50	FY50/ 51	FY51/ 52	FY52/ 53	FY53/ 54	FY54/ 55	FY55/ 56	FY56/ 57	FY57/ 58	FY58/ 59
Farebox Revenue	116.1	118.3	120.5	122.7	124.7	132.3	139.9	147.5	151.7	153.2	154.7	156.3	157.8	159.4	160.9	161.6	163.0	164.4	165.8	167.2	168.5	170.2	172.1	174.0	175.9	177.8	180.2	182.7	185.2	187.7	190.3	192.9	195.5	198.1	200.8
ENCTS Revenue	49.5	51.3	52.4	53.5	54.4	55.5	58.2	60.9	62.4	63.1	63.7	64.4	65.0	65.7	66.3	67.8	69.7	71.6	73.5	75.5	77.6	79.8	82.2	84.6	87.1	89.6	92.5	95.4	98.5	101.7	104.9	108.2	111.7	115.2	118.9
DfT Grant Income	12.4	12.8	13.0	13.3	13.6	13.8	14.1	14.4	14.7	15.0	15.3	15.6	15.9	16.2	16.5	16.9	17.2	17.5	17.9	18.3	18.6	19.0	19.4	19.8	20.2	20.6	21.0	21.4	21.8	22.2	22.7	23.1	23.6	24.1	24.6
Other Revenue	1.2	1.2	1.3	1.3	1.3	1.3	1.4	1.4	1.4	1.5	1.5	1.5	1.5	1.6	1.6	1.6	1.7	1.7	1.7	1.8	1.8	1.8	1.9	1.9	2.0	2.0	2.0	2.1	2.1	2.2	2.2	2.2	2.3	2.3	2.4
BSIP & LA Secured Services Subsidy	50.4	52.5	54.1	55.7	57.3	58.9	60.1	61.3	62.5	63.8	65.0	66.3	67.7	69.0	70.4	71.8	73.2	74.7	76.2	77.7	79.3	80.9	82.5	84.1	85.8	87.5	89.3	91.1	92.9	94.7	96.6	98.6	100.5	102.6	104.6
Total Revenue	229.6	236.1	241.3	246.5	251.3	261.9	273.6	285.5	292.7	296.4	300.2	304.1	307.9	311.8	315.8	319.7	324.8	329.9	335.2	340.4	345.8	351.7	358.0	364.3	370.8	377.5	384.9	392.6	400.5	408.5	416.7	425.1	433.6	442.3	451.2

All figures are in nominal prices unless stated otherwise.

Franchising expenditure (nominal)

Expenditure (£million)	FY24/ 25	FY25/ 26	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY34/ 35	FY35/ 36	FY36/ 37	FY37/ 38	FY38/ 39	FY39/ 40	FY40/ 41	FY41/ 42	FY42/ 43	FY43/ 44	FY44/ 45	FY45/ 46	FY46/ 47	FY47/ 48	FY48/ 49	FY49/ 50	FY50/ 51	FY51/ 52	FY52/ 53	FY53/ 54	FY54/ 55	FY55/ 56	FY56/ 57	FY57/ 58	FY58/ 59
Operator Costs	231.2	237.0	240.2	243.5	246.7	254.6	261.7	269.0	276.6	284.3	292.3	300.5	308.9	317.5	326.4	329.5	332.7	336.0	341.3	346.9	352.5	358.3	364.2	370.2	376.4	382.7	389.2	395.8	402.6	409.4	416.5	423.8	431.2	438.8	446.6
Margin	-	-	-	-	-	2.6	7.3	12.2	14.6	15.0	15.4	15.8	16.3	16.7	17.2	17.3	17.5	17.7	18.0	18.3	18.6	18.9	19.2	19.5	19.8	20.1	20.5	20.8	21.2	21.5	21.9	22.3	22.7	23.1	23.5
BSOG	10.7	10.8	10.8	10.8	10.8	11.1	11.4	11.7	12.1	12.4	12.7	13.1	13.5	13.8	14.2	14.2	14.3	14.3	14.4	14.6	14.7	14.9	15.0	15.2	15.3	15.5	15.6	15.8	16.0	16.2	16.3	16.5	16.7	16.9	17.0
Net Operator Costs	220.5	226.2	229.4	232.7	235.9	246.1	257.6	269.5	279.1	286.9	294.9	303.2	311.7	320.4	329.4	332.6	335.9	339.4	344.9	350.6	356.3	362.3	368.3	374.5	380.9	387.4	394.0	400.8	407.8	414.8	422.1	429.6	437.3	445.1	453.0
CA Costs - financed	-	-	-	-	-	0.1	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.6	0.6	0.6	0.7	0.7	0.7	0.8	0.8	0.9	0.9	1.0	1.0	1.1
CA Costs - paid as incurred	-	-	1.3	2.3	2.9	8.5	9.1	9.5	4.4	4.5	3.1	3.1	3.2	3.2	3.3	3.4	3.4	3.5	3.6	3.7	3.7	3.8	3.9	4.0	4.0	4.1	4.2	4.3	4.4	4.5	4.5	4.6	4.7	4.8	4.9
Interest Expense	-	-	-	-	-	0.5	1.1	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.5	1.5	1.5	1.5	1.5	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.2	1.2	1.1	1.1	1.1	1.0	1.0	0.9	0.8
Contingency	-	-	27.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Costs	220.5	226.2	257.8	235.0	238.8	255.2	267.9	280.9	285.4	293.3	299.9	308.2	316.8	325.6	334.6	337.9	341.3	344.8	350.4	356.1	362.0	368.0	374.1	380.4	386.8	393.4	400.1	407.0	414.0	421.2	428.6	436.2	443.9	451.8	459.9

All figures are in nominal prices unless stated otherwise.

Franchising summary (nominal)

Summary (£million)	FY26/ 27	FY27/ 28	FY28/ 29	FY29/ 30	FY30/ 31	FY31/ 32	FY32/ 33	FY33/ 34	FY34/ 35	FY35/ 36	FY36/ 37	FY37/ 38	FY38/ 39	FY39/ 40	FY40/ 41	FY41/ 42	FY42/ 43	FY43/ 44	FY44/ 45	FY45/ 46	FY46/ 47	FY47/ 48	FY48/ 49	FY49/ 50	FY50/ 51	FY51/ 52	FY52/ 53	FY53/ 54	FY54/ 55	FY55/ 56	FY56/ 57	FY57/ 58	FY58/ 59
Investment needed for Franchising	28,412	2,308	2,854	8,153	5,321	(658)	(7,297)	(3,160)	(337)	4,151	8,838	13,730	18,836	18,169	16,481	14,866	15,242	15,687	16,192	16,302	16,167	16,063	15,976	15,940	15,170	14,358	13,545	12,696	11,866	11,099	10,277	9,462	8,632
Cumulative Investment needed for Franchising	28,412	30,720	33,573	41,727	47,048	46,390	39,093	35,933	35,596	39,747	48,584	62,314	81,150	99,320	115,801	130,667	145,909	161,596	177,788	194,090	210,258	226,321	242,297	258,237	273,408	287,766	301,311	314,007	325,872	336,971	347,248	356,710	365,341

All figures are in nominal prices unless stated otherwise.